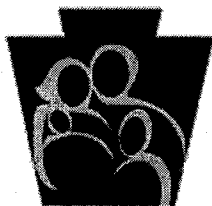


**Testimony on  
the Auditor General's Reviews of Department of Public Welfare Programs**

**Estelle B. Richman, Secretary**

**Senate Public Health and Welfare and Republican Policy Committees**

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**pennsylvania**  
DEPARTMENT OF PUBLIC WELFARE

Good morning Chairwoman Vance, Chairman Hughes, Chairman Erickson, committee members and staff. I am Estelle Richman, Secretary of the Department of Public Welfare. Thank you for the opportunity to testify today regarding Auditor General Wagner's reviews of certain Department programs.

## **OVERVIEW**

As you will hear today, we have taken significant steps to tighten our processes to prevent fraud and abuse, beginning when an application is submitted. Each one of these applications undergoes more than a dozen different electronic checks to make sure that only those meeting all requirements are approved for benefits.

As mandated by state and federal law, only U.S. citizens and lawfully admitted immigrants are eligible for benefits. Those applying must provide proof that they are a citizen of the United States or has a lawful immigration status. In most cases, that proof is in the form of a birth certificate; however, the federal government has established a list of acceptable documents and we follow that list to the letter. Applicants must also prove their identity, typically by producing a Pennsylvania drivers' license, and a Social Security number.

Next, we check client information against in-state, out-of-state and national databases. We are using the best available data matching tools to determine if the person applying for benefits has other sources of income in Pennsylvania or in other states. We complete basic checks to make sure that individuals are not applying under a deceased person's name or are not involved with the criminal justice system. I would like to enter the list of the standard crosschecks an applicant must pass before receiving benefits into the record.

1. Wages as reported to Pennsylvania's Department of Labor and Industry;
2. Wages as reported to the federal Internal Revenue Service (IRS);
3. Employment in another state through the National New Hires database;
4. Public benefits collected in other states and the Veterans Administration through the Public Assistance Reporting Information System (PARIS);
5. Supplemental Security Income (SSI) from the federal government including payments to aged, blind and disabled people;
6. Other government benefits including Social Security disability benefits;

7. Unemployment Compensation claims filed with the Pennsylvania Department of Labor and Industry;
8. Unearned income such as dividends and capital gains reported to the IRS;
9. Verification of Medicare buy-in benefits from the federal government;
10. Crosscheck with the federal deceased persons database to catch applications made in the name of persons no longer living;
11. Criminal justice databases including commonwealth Judicial Inquiry System and National Fleeing Felon information from the FBI;
12. PA Lottery winnings;
13. National New Hires database (to check if applicants are reporting income in other states);
14. Systematic Alien Verification for Entitlements Program (verifies immigration status of all immigrants who apply for cash assistance, food stamps or medical assistance).

I wanted to list the checks because some people have suggested that it is easy to sign up for public benefits. This is not the case. Many of us here today have probably received tax refunds from the IRS with far less scrutiny and electronic oversight than a single mother goes through to access health care for her children.

DPW is receiving national recognition for how we are using technology to make our operations more effective. In 2008, DPW won the Excellence in Human Services Technology award for its Workload Dashboard from an affiliate of the American Public Human Services Association. The dashboard makes it easier for managers and supervisors at the county, regional and headquarters levels to monitor the application process through a series of detailed management reports. DPW also implemented a comprehensive automated supervisory review process. Every caseworker has several randomly selected cases reviewed in their entirety each month and that data is entered into a database that allows management to review and analyze errors and to take actions to correct and prevent similar errors from occurring. Based on the findings from the review, managers target specific policy related cases for correctness, completeness and reinforcement of process.

The Department also conducts Quality Control reviews in accordance with federal requirements. Every year, Quality Control randomly selects and reviews a minimum of 7,925 cases, including:

- 2,400 Medicaid
- 2,000 Food Stamps
- 3,000 Cash – Temporary Assistance for Needy Families
- 525 Cash – General Assistance

The information gathered from these reviews is used to develop corrective actions and staff development plans to continually improve program integrity. The Department's strategy is to give caseworkers the tools they need, while maintaining an effective monitoring and corrective action plan.

In order to see how our system stacked up against other states, DPW hired a forensic accounting firm to review our internal controls for Medical Assistance and Cash Assistance. The team that completed the analysis had significant experience evaluating internal controls and included Certified Public Accountants, Certified Information Security Professionals, and a Certified Information Security Manager. At the end of their review, the forensic accountants concluded that "the Commonwealth and the Department of Public Welfare have in place numerous complementary controls...so that a sound control environment exists appropriate for the purpose of reducing to a minimum and acceptable risk the likelihood that financial assistance is granted to ineligible recipients through either unintentional errors or fraudulent acts against Medical and Cash Assistance."

There are two other systems within the Department dedicated to preventing fraud and abuse in the Medical Assistance program and, if a problem is identified, going after and recovering taxpayer dollars. DPW's Bureau of Program Integrity monitors provider fraud and abuse and is on track to collect over \$28 million this year -- the highest amount ever. In addition, with one of the county's top ten Third Party Liability agencies in the country, the Department collects approximately \$110 million in erroneous Medical Assistance payments and on the front end avoids paying over \$600 million on an annual basis.

I now want to turn to the three specific reports by the Auditor General. It will be clear from my testimony that I strongly disagree with the overall findings of two of the reports and that wherever a weakness in the system could be documented, the Department has taken action.

## **LIHEAP AUDIT**

The LIHEAP report was issued in June 2007 for transactions between 2000 and 2006. The Auditor General's office used data mining to identify 253,358 LIHEAP cases with "potential" errors. The most important word in that sentence is "potential." As it turned out, only 2,607 of these cases warranted further review – or about one percent of the cases originally identified. The Department followed up on every one of those cases and here are the actual results:

- Only 67 out of the original 253,358 cases had overpayments. These overpayments totaled \$23,209. DPW pursued recovery for all of these cases.
- Only 16 out of original 253,358 cases were referred to Office of Inspector General for investigation of fraud. These cases had payments totaling \$5,008.
- Only two cases actually ended up being prosecuted for actual fraud.

In short, there is a big difference between potential fraud and actual outcomes. Over 99.9 percent of the applications that were flagged as potential fraud in the original report were in fact paid out correctly. The majority of the cases that we reviewed turned out to be related to data entry errors like transposing digits on a social security number or a widow getting a LIHEAP grant to pay a utility bill that was still in her deceased husband's name.

I also want to note that last summer, Philadelphia District Attorney Lynne Abraham announced indictments against 18 individuals, including city and state workers, related to the LIHEAP program. We appreciate the good work of the District Attorney and the Office of Inspector General in this case. While it is disheartening that public employees would attempt to abuse the system, in this case, the checks worked. The Department referred this fraud scheme to the Inspector General's office and they, in turn, referred it to the District Attorney for criminal charges. We believe that with very few exceptions, DPW employees are good stewards of the programs they represent. This is evidenced by the fact that this entire investigation began because a supervisor in the Philadelphia County Assistance Office recognized the fraud during the supervisory review process and immediately reported it. While we obviously don't condone the criminal acts, this is exactly how the system is intended to work.

As I mentioned earlier, the original audit covered the period between 2000 and 2006. Since this time, the Department has taken steps to strengthen controls on the LIHEAP program.

We implemented a new computer system for LIHEAP that automatically checks social security numbers through the Social Security Administration and that runs LIHEAP applications through all of the same eligibility checks that I described earlier. This means that applications where the social security number cannot be verified by the federal government or does not match other documentation will not be approved. This brings the LIHEAP application process to the same high standard for eligibility determination as the other benefit programs. We have also set up a robust monitoring system that uses an outside forensic accounting firm to monitor the largest counties and crisis contractors.

### **MEDICAL ASSISTANCE ELIGIBILITY ERRORS**

Last January, the Auditor General released his findings about the Medical Assistance program eligibility determinations between 2005 and 2008. He reviewed about 1,600 cases over a three year period, or 533 a year. This represents about 0.04 percent (four one-hundredths of one percent) of the average caseload. The Department strongly disagrees with the finding that there is a 14 percent error rate. This conclusion is based on limited data and includes mistakes by the auditors. Further, the sample was not geographically representative and did not include all of the populations that we serve. Certain populations (namely, adults) were overrepresented and others (seniors and people with disabilities) were excluded entirely. It is not sound methodology to extrapolate from this small, non-random sample to the entire program. Unfortunately, that is exactly what happened.

The Department attempted to review all 1,600 cases. However, in 600 of the cases, DPW was unable determine if the finding was correct because not enough information was included in the report so that we could match the finding to a specific case record. In the remaining cases, we have identified a number of erroneous determinations by the auditors.

The most significant error is that the analysis assumes all errors have a monetary consequence. We found in 232 cases, the problem identified by the Auditor General's staff was actually an administrative error with no financial impact. For example, a family might have been enrolled in the wrong category code, but still be eligible for Medical Assistance in a different category with the exact same benefit package. This is an administrative error, and while we of course want to minimize any type of inaccuracy, this kind of error has no impact on the program or the budget.

We identified 216 instances affecting 91 cases where the auditors made one or more mistakes in how they applied the commonwealth's eligibility policy. Because of the relatively small sample, each one of these instances has a big impact on the overall findings. Examples of erroneous determinations include:

- The auditors incorrectly found a working parent with a disabled child who was earning \$8.94 an hour to be ineligible because the person could get health insurance at work within six months. The fact is, this parent was eligible for Extended Medical Coverage under state and federal law.
- In another case, the auditors incorrectly denied a person for not having citizenship and ID in the case file. The undocumented person turned out to be a child born in Pennsylvania less than a month before the audit, and before identity documents could be obtained.
- A case was cited at the Northampton County Assistance Office because citizenship and identity was not entered in the file at the first redetermination. The auditors failed to note that the person missed the redetermination because the office was closed due to a flood in the county. When the office reopened, the case was redetermined and the documentation was added to the file.

In programs as large as these, there will be errors, but errors do not equal fraud. Medical Assistance eligibility policy is very complex and it is understandable that there would be errors by the auditors. However, it is not fair to extrapolate to the entire Medical Assistance program based on this analysis.

While we did not agree with the Auditor General's methodology and analysis, we did agree with one of his recommendations. As a result, we have strengthened one of our electronic checks to identify if someone has an increase in income even if the employer has not changed. Previously we would only get an alert if the individual changed employers.

## **SPECIAL ALLOWANCES AUDIT**

The final report by the Auditor General concerns the Special Allowance program covering the period July 1, 2006 to December 31, 2007. Unlike the previous two audits, in this case we agree with many of the findings. In fact, we have been working for several years to tighten up the program and have already made significant changes that are not reflected in the audit.

Special allowances provide key supports like child care, transportation, books and tools for qualifying low income individuals so that they can reduce their reliance on cash assistance and supplemental nutrition assistance (formerly known as food stamps). The strategy of providing targeted supports such as special allowances is grounded in federal welfare reform and is codified in state law and regulations. Special allowances have been part of the commonwealth's effort to help families to achieve independence since the mid 1970s.

It should be clear that we did not write the regulations that govern the operation of the program, we inherited them. During the early years of the administration, it became apparent that the existing regulations had some major loopholes and did not provide sufficient controls. We monitored the program and what we saw did not constitute fraud per se as consumers and case workers were generally following existing program rules. The problem was that the rules themselves were too loose. We made several major changes to the program to tighten verification requirements and improve accountability. Child care is by far the largest expenditure, accounting for over three-quarters of special allowances spending, and was our top priority.

**Improving Accountability for Child Care Allowances: Implemented Child Care Unification (FY2006-07).** Child Care Unification was DPW's initiative to integrate services for all children, parents and providers participating in the child care subsidy program by having the local Child Care Information Services (CCIS) serve all families in the subsidized child care program. Prior to unification, families receiving TANF cash assistance received child care services through the local county assistance offices, not the CCIS. One of the major benefits of unification was that it established a vendor payment system so that the provider receives payment for child care services after they have been rendered. Prior to unification, the county assistance offices did not require payment agreements for providers and issued child care special allowances in advance to parents. With this system, the Department has greatly increased accountability and fiscal controls to maximize the use of dollars to serve families. Unification was fully implemented during fiscal year 2006-07.

**Improving Accountability for Clothing Allowances: Implemented PA Workwear (October 2007).** Eligible adults may receive an allowance for work or interview appropriate clothing to help them get a job. The old model was that the county assistance offices would issue cash payments to individuals to purchase clothing. In order to increase accountability, we

implemented a new model called PA Workwear that replaces payments to individuals with vouchers that can only be redeemed at our clothing vendor. With this new model, no cash changes hands and the vendor is accountable for reporting on every dollar. We began implementing PA Workwear in 2007 and it now reaches across 44 counties. In counties where we don't yet have PA Workwear, stronger enforcement of policies and better management oversight has resulted in a 38 percent reduction in costs for clothing allowances.

**Improving Accountability for Transportation Allowances (2008).** In January 2008, DPW stopped issuing recurring special allowances for transportation. This policy change was designed to ensure that only adults continuing to participate in training and other work activities and meeting program requirements receive an allowance. The county assistance offices must verify participation and will issue a monthly allowance only if the individual is participating as required. In September of 2008, we issued policy clarifications that a special allowance cannot be issued for a second vehicle in the household. While these measures are significant, the Department believes that other necessary changes will require updating the special allowance regulations.

**Special Allowance Policy Clarifications (August 2009).** The Department issued updated operations memos to improve verification and accountability and make sure that every county assistance office uses the same set of rules. Policy clarifications cover the following practices:

- ***Providing proof of need and verification after issuance*** - This policy reviews and clarifies the requirement to verify that the item or service being requested is **required** for participation in an approved activity or to obtain/maintain employment prior to issuing the allowance and emphasizing the requirement to confirm the appropriate expenditure through purchase receipts.
- ***Assuring that all available resources are explored prior to issuance*** - This policy clarifies that the county assistance office and contractor should ensure that department issued special allowances are a last resort and that the individual should explore the availability of all other resources prior to issuing a Special Allowance.
- ***Monitoring and control of Special Allowance process*** - This policy describes the protocol to be followed to ensure that there are appropriate and effective controls in place. New monitoring protocols were added beginning in June 2009.

- ***Special Allowance Management Plan*** - This policy outlines a procedure and provides a template for creating a special allowance plan regarding how county assistance offices and employment and training contractors will implement and oversee the issuance of special allowance benefits in their county. These plans will help to ensure that the offices and contractors have clear internal protocols in place regarding special allowance issuances and monitoring, including assurance that allowances are not duplicated between the county assistance office and employment and training agencies.

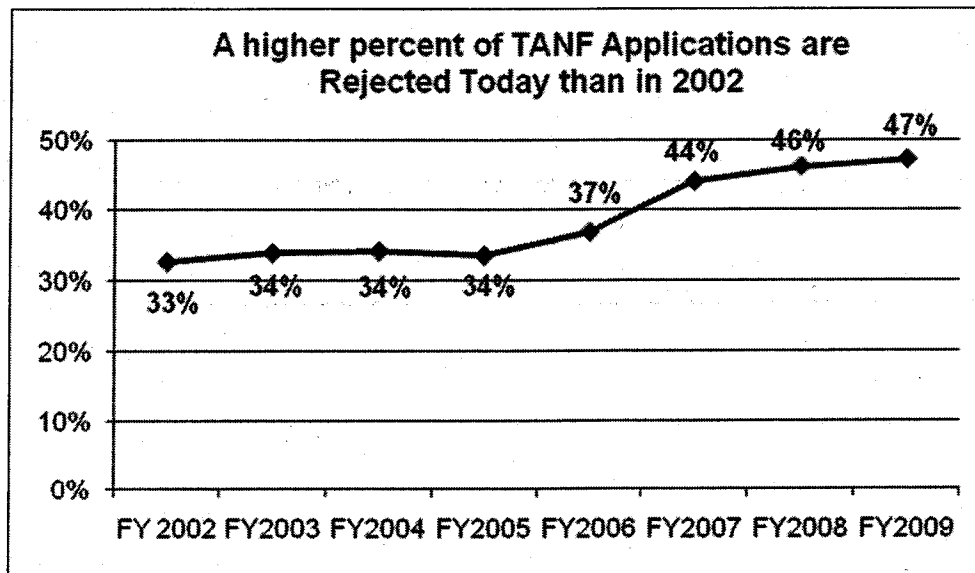
**Updating Special Allowance Regulations.** While updating the operations memos is a good step, it is one that can easily be undone and is not a substitute for updating the regulations. DPW submitted regulation #14-517 "Revisions to the Special Allowance for Supportive Services as a Final Omitted Rulemaking" on August 28, 2009. The Department wanted to move quickly on identified reforms and believed that it had the legal justification to use the expedited track. However, some legislators and stakeholders expressed concerns with this approach, and the Department withdrew this regulatory package on September 25, 2009 in order to allow for a more extensive comment period. The Department has since convened stakeholders to gather their input, and has made revisions based upon their comments and concerns. DPW will resubmit the package as draft proposed regulations.

## **CONCLUSION**

I have described the procedures that the Department uses to prevent fraud and abuse and have commented on the three reports issued by the Auditor General. I would like to conclude by responding to critics of the Department who assert that DPW does not care about fraud. Nothing could be further from the truth.

Think for a moment about what we have discussed here today. I have outlined dozens of checks that we make on every application and multiple reforms we made to the system as a whole. Each one of these changes required a planning process, implementation meetings, policy changes, system upgrades, and in most cases, continuous assessment and fine tuning to get it right. If DPW did not care about fraud and abuse, we would not have gone to the trouble to implement these reforms. It defies logic to claim that we are complacent when there has been so much activity going on at every level of the Department.

But if there is still any doubt in your mind, take a look at the data. If it were true, that DPW has a lax attitude about eligibility requirements under my watch, you would expect to see that we are rejecting fewer applications than in prior years. Exactly the opposite has occurred. The figure below shows the percentage of TANF applications that were rejected was stable for the first four years of the administration at about 34 percent and then has risen since fiscal year 2005 to about 47 percent. The fact that a higher percent of TANF application are rejected today than in 2002 is not consistent with the notion that there is a culture that tolerates fraud at DPW.



Thank you for this opportunity to testify today. I will take any questions you have at this time.