



STATE OF WASHINGTON

November 26, 2014

The Honorable Troy Kelley
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Kelley:

We appreciate the opportunity to review and respond to the State Auditor's Office performance audit report, "*Electronic Benefit Transfer Cards.*"

Program integrity is a high priority for the Department of Social and Health Services (DSHS). The department takes seriously its responsibility to protect taxpayer funds from fraud and abuse and is committed to accurately determining benefit eligibility and providing effective oversight of electronic benefit transfer (EBT) cards.

The department ensures effective oversight of its programs in a variety of ways, and those efforts are reflected in the results of this performance audit. For example, as the audit report reflects, through the first eight months of federal fiscal year 2014, Washington State ranked in the top five in the nation for its food assistance payment accuracy rate (99+ percent). The ranking is based on strict and consistent federal standards used to evaluate each state's performance in the area of food assistance payment accuracy.

In 2013, DSHS established a special unit to manage the Public Assistance Reporting Information System (PARIS) interface. This interface allows federal and state government agencies to access and share information about public assistance applicants and recipients, with the goal of identifying and preventing people from receiving benefits in multiple states. As of mid-November 2014, the PARIS interface had helped DSHS identify and avoid more than \$12.9 million in inappropriate benefits.

During the course of this audit, the State Auditor's Office selected 10 areas of review to determine if the department's controls over EBT cards and card user eligibility are effective. Following a comprehensive review of each of the 10 focus areas, the State Auditor's Office found it unnecessary to pursue the following six focus areas because it determined that adequate controls are in place:

- More than 60 days of exclusive out-of-state use of EBT card benefit.
- Clients using deceased person's Social Security number.
- Clients using an invalid Social Security number.
- Use of EBT cards at unallowable locations.
- Five or more EBT card benefit transactions within an hour.
- Use of whole EBT card benefit in one transaction.

The department's successes can be attributed to a wide range of controls established and applied through comprehensive and proactive policies, procedures and information technology systems. The department's success is also the result of its innovative and hard-working program, IT and investigative staffs.

While DSHS is proud of the work it has done to improve program integrity, it appreciates the auditors' suggested enhancements to controls over eligibility determination and administration of EBT cards. Auditors offered recommendations in four of the 10 focus areas:

- Client wages exceeding program eligibility limits.
- Clients with 65 percent or more of EBT card benefits spent out-of-state.
- EBT card benefits used after card holder's death.
- High number of client EBT card replacements.

We believe the attached response to the audit report, including specific responses in these four areas, further demonstrates DSHS' commitment to continue improving program oversight and administration.

We thank the State Auditor's Office staff. It is clear that many hours of work were performed during this audit, and we appreciate the collaborative nature in which it was conducted.

Sincerely,



Kevin W. Quigley, Secretary
Department of Social and Health Services



David Schumacher, Director
Office of Financial Management

cc: Joby Shimomura, Chief of Staff, Office of the Governor
Kelly Wicker, Deputy Chief of Staff, Office of the Governor
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This coordinated management response to the State Auditor’s Office (SAO) performance audit report received November 12, 2014, is provided by the Department of Social and Health Services (DSHS) and the Office of Financial Management.

SAO PERFORMANCE AUDIT OBJECTIVES:

The SAO sought to answer three questions:

1. Can DSHS improve its use of available data analysis tools to prevent and detect ineligible program participation and inaccurate benefit payments?
 2. Can DSHS improve its use of available data analysis tools to prevent and detect inappropriate EBT card use?
 3. Are there ways the Department’s Office of Fraud and Accountability (OFA) can help DSHS improve its oversight and program integrity?
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SAO Issue 1: Reviewing employer-reported wages would enable DSHS to identify recoverable benefits.

SAO Issue 2: Broadening its data analysis to identify more clients with high out-of-state card use, and requesting they contact DSHS to explain why this is so, would enable DSHS to stop benefits to more ineligible clients.

SAO Issue 3: More comprehensive cross-checks with the Social Security Administration would enable DSHS to discontinue benefits to some deceased clients sooner.

SAO Issue 4: DSHS can take another step that could potentially further reduce the number of replacements.

SAO Issue 5: DSHS should hire more OFA investigators.

SAO Issue 6: DSHS should empower OFA to further strengthen DSHS policies and procedures that prevent ineligible program participation.

SAO Issue 7: DSHS should measure outcomes associated with two types of OFA investigations to assure cost-effective use of these resources.

Before responding to the specific recommendations, DSHS thanks the SAO for this performance audit report on electronic benefit transfer (EBT) card use.

This report confirms DSHS’ commitment to program integrity and shows that improvements made in recent years are protecting taxpayer dollars from fraud and abuse.

For example, the audit found no instances in which DSHS paid benefits to household members using an invalid Social Security number, a significant decline in the number of replacement cards issued, and no transactions at prohibited locations.

Underpinning DSHS’ excellent track record is the fact that Washington ranked in the top five in the nation for its highest food assistance payment accuracy rate – 99.89 percent for the first eight

months of federal fiscal year 2014. This ranking from the U.S. Department of Agriculture is based on DSHS' strict and consistent compliance with federal standards and its innovative, hard-working staff in the Economic Services Administration and Office of Fraud and Accountability.

The department also appreciates the SAO recommendations to further enhance controls over eligibility determination processes and EBT card oversight. As detailed below, DSHS will continue to strengthen its practices and, in one instance, seek permission from the USDA in areas in which the federal agency must approve changes.

SAO identified a series of recommendations for DSHS' consideration.

SAO Recommendation 1: To recover benefits paid to clients who earned too much quarterly income, we recommend DSHS:

- a) Complete its investigation of the clients identified during the audit who had income that exceeded or likely exceeded eligibility limits.
- b) Review employer-reported wages submitted to the Employment Security Department for all program participants quarterly. Contact employers and conduct other investigative work to confirm overpayments. Submit referrals to the Office of Financial Recovery, which can establish benefit deductions for current clients and other types of payment recovery plans for former clients.
- c) Establish performance metrics for its overpayment recovery efforts, including those related to clients with high quarterly incomes. Use these measures to focus recovery efforts where it is most cost-effective. In assessing cost-effectiveness, consider that DSHS can keep 20 percent to 35 percent of the Supplemental Nutrition Assistance Program (SNAP) benefits it recovers (if caused by client error) and 50 percent of the TANF benefits.

STATE RESPONSE:

DSHS attempts to recover benefits inappropriately issued to clients earning more than program rules allow. As stated in the audit report, DSHS acknowledges that it paid clients benefits they would have not received if the clients had followed income reporting requirements, per [7 CFR § 273.12](#) and [45 CFR § 233.36](#).

- a) The Office of Fraud and Accountability (OFA) immediately investigated the cases identified in the audit, and has taken action on overpayments where appropriate. As of November 25, 2014, action has been taken on 18 of 20 cases, totaling nearly \$63,000. To date, two cases resulted in the client being disqualified from receiving benefits for a minimum of one year, and two more are being investigated as criminal cases. DSHS has requested and continues to pursue wage documentation from employers.
- b) DSHS follows federal policy ([7 CFR § 273.9](#) and [7 CFR § 273.12](#)) for verifying and budgeting income to determine appropriate benefits. Specifically, 7 CFR § 273.12 addresses requirements for clients to report status changes and allows the state to choose the simplified reporting option for making changes between certification periods. Washington has adopted simplified reporting rules that limit mandatory reporting of income to only those changes that would put household income above the gross income limit for the household size.

DSHS reviews clients' Employment Security Department (ESD) wage data to assist in determining eligibility when clients apply for initial or continued benefits. DSHS uses this data to assist with identifying potential overpayments and addressing discrepancies or questionable client-reported information.

ESD wage data lags by at least five months and cannot be treated as "verified" upon receipt. This means DSHS is required to verify this data with the client and employers before using it to make an eligibility determination.

- c) Limited resources require strategic prioritization of work. Performance metrics are an important part of prioritizing work and determining collections success. The department will establish performance metrics for its overpayment recovery efforts. In the near term, DSHS will identify and use a manual approach. When the Office of Financial Recovery's (OFR) information technology system is modernized, DSHS will develop and adopt automated tools. OFR is responsible for collecting debts owed to the department.

Action Steps and Time Frame

- OFA will review and process all appropriate overpayment cases provided by the SAO by December 31, 2014.
- OFR will convene a Client Overpayment Metric Work Group with a goal of developing and implementing performance metrics by May 31, 2015.

SAO Recommendation 2: To reduce payments to ineligible clients who live out of state, we recommend DSHS:

- a) Revise its computer filters to identify all clients who had 65 percent or more of their EBT card use out of state for two months. DSHS should immediately run these revised computer filters as it receives the weekly EBT transaction data from the bank.
- b) Send automated requests for contact to all households that have 65 percent or more of their card spending out of state for two consecutive months.*
- c) After providing a 10-day notice as required by SNAP program rules, discontinue benefits to those who do not respond to the requested contact, and to those whose response indicates they moved out of state. *

** DSHS should obtain USDA approval of these procedures before enacting them.*

STATE RESPONSE:

- a) Pursuant to federal law, out-of-state use, even if excessive, is permissible. Residency, however, is required. Federal policy [7 CFR § 273.3](#) restricts states from imposing durational residency requirements as a condition of eligibility. Also, [7CFR 274.8\(b\)\(10\)](#) addresses interoperability and clients' ability to redeem benefits in any state.

DSHS was unable to determine a strong and direct correlation between clients using 65 percent or more of their benefits out-of-state and a change in residency. Using a filter that does not control for border towns such as Vancouver, Walla Walla and Spokane — from where clients are likely to travel to a bordering state to shop — would likely trigger unnecessary and potentially inappropriate reviews by DSHS staff.

DSHS' practices include out-of-state use alerts that advise staff of cases that indicate a client may no longer live in Washington. DSHS uses several filters to reduce generating low-risk alerts. These filters eliminate alerts on closed cases, transactions occurring in border states where clients frequently shop, and transactions that indicate an out-of-state visit of fewer than 30 days.

DSHS controls for border town EBT activity when identifying potential ineligible program participation. Clients residing in border towns often shop in Oregon or Idaho for logical economic reasons such as lack of local, affordable grocery options or their preference to shop at large retailers, which may not be available in their own town. Clients may also live in Washington and work in another state. They may make purchases on their way home from work or during their lunch break.

DSHS also established a unit to manage the Public Assistance Reporting Information System (PARIS) interface in May 2013. This interface allows federal and state government agencies (including DSHS) to access and share information about public assistance benefit applicants and recipients with the goal of identifying, stopping and preventing the receipt of benefits in multiple states. **As of mid-November 2014, the PARIS interface and unit have helped the department identify and avoid more than \$12.9 million in inappropriate benefits.**

- b) If DSHS implemented the recommendation to send automated requests for contact, Washington could incur monetary penalties related to increased case and procedural errors due to incorrectly terminating SNAP cases. It would also increase the administrative staffing costs for SNAP and Temporary Assistance to Needy Families (TANF).
- c) If DSHS implemented the recommendation to discontinue benefits to those who do not respond to the request for contact, Washington could incur monetary penalties related to more case and procedural errors associated with incorrectly terminated SNAP cases. It would also increase the administrative staffing costs for SNAP and TANF.

Action Steps and Time Frame

- DSHS continually works to improve the tools and methodology it uses to detect and prevent ineligible program participation. The USDA recently recognized the department's effectiveness in detecting EBT card trafficking on social media and e-commerce sites by awarding it a \$751,000 grant to step up these efforts and provide more timely law enforcement response in these cases. The grant was awarded in October 2014 and activities will continue through October 2016.

SAO Recommendation 3: To minimize the benefits paid to deceased clients and to safeguard any unspent benefits, we recommend DSHS:

- a) Obtain the Social Security Master Death file to identify deaths that its current cross-matches are not finding. The Master Death file costs \$7,245 in the first year and \$2,730 annually thereafter.
- b) First check vital statistics maintained by the state Department of Health to confirm the accuracy of the death notices it receives from the Social Security Administration for clients who lived alone. Limit the 10-day adverse action letters to those whose death notice could not be confirmed by the DOH check.

- c) Obtain permission from USDA to sweep SNAP benefits immediately upon death when the deceased client lived alone. If it cannot obtain this permission, adopt the Oregon practice of immediately deactivating these benefit cards. Start exploring both possibilities with potential future EBT card vendors to identify those capable of accommodating these safeguards.

STATE RESPONSE:

- a) DSHS now has access to the Social Security Administration's (SSA) death data at no cost, but not through the Social Security Death Master File, which is a fee-for-service subscription. Staff check the SSA database when a client applies for benefits, completes an eligibility review and any other time action is taken on the case.

DSHS will explore process improvements prior to pursuing the master file. As part of process improvements, the department will change the way staff receive deceased client notifications, allowing them to take immediate action. The department will pursue an additional, ongoing cross-match with the SSA, ensuring that it has up-to-date death data.

- b) DSHS will implement the recommendation to check Department of Health vital statistic data to confirm the accuracy of death notices and send adverse action letters only to those whose death notice could not be confirmed by vital statistics.
- c) DSHS has applied for USDA approval to recover SNAP benefits immediately upon the death of an individual who lived alone. As of November 25, 2014, the department had not received a response from USDA.

The department's EBT contract will not be renewed. As part of the EBT request for proposals, DSHS will negotiate additional fraud prevention and detection services.

Action Steps and Time Frame

- DSHS will update procedures to require staff to manually check the SSA cross-match at eligibility review and mid-certification review by March 31, 2015.
- DSHS will check the Department of Health vital statistic data and limit adverse action letters to only those whose death notice could not be confirmed by vital statistics by March 31, 2015.
- DSHS will pursue an additional ongoing cross-match with SSA to ensure it has current death data by March 31, 2015.
- DSHS will pursue a quarterly Department of Health-verified death file for the purpose of discontinuing benefits to deceased individuals by June 30, 2015.
- DSHS will change the way staff receive deceased client notifications, allowing them to take immediate action by October 31, 2015.
- If the USDA grants permission to immediately recover benefits following the death of an individual who lived alone, DSHS will develop a *manual* process to do this by March 31, 2015.
- DSHS will work with the new EBT vendor (expected to begin work in January 2017) to *automate* this recovery of benefits by July 31, 2017.

SAO Recommendation 4: To potentially reduce fraud by reducing the number of EBT replacement cards even further, we recommend DSHS:

- a) Require clients who are not mentally ill and have requested eight or more replacement cards during a 12-month period to meet with caseworkers and explain why, before they are mailed another replacement. Over time, as clients change their behavior, lower this number to four replacement cards.
- b) Immediately conduct a FRED investigation of clients who received more than eight replacement cards in a 12-month period but won't explain why, or have explanations that indicate cards have been misused.

STATE RESPONSE:

DSHS already has reduced the number of replacement cards issued each year from 12,000 in 2012 to 5,000 in 2014. In response to specific recommendations:

- a) In collaboration with USDA/Food and Nutrition Service, the department will explore the possibility of requiring *all* clients who have requested eight or more replacement EBT cards within a 12-month period to meet with a DSHS worker to explain why they are requesting a replacement card before they are issued another card.

Federal policy [7 CFR 274.6\(b\)](#) requires states to make replacement EBT cards available for pickup, or to place the card in the mail, within two business days of the household notifying the state agency. Also, [7 CFR 274.6\(b\)\(5\)](#) states that when the client makes contact, the state agency will make the replacement EBT card available for pickup or place the card in the mail in accordance with §274.2(f) of this chapter within two business days following household contact with the state agency, regardless of whether an explanation was provided.

DSHS sends warning letters to households that have requested four or more EBT cards in a 12-month period. This letter advises clients of the penalties of trafficking and notifies them that their account is being monitored. Staff uses this letter in addition to other tools that monitor for suspicious activity to determine when a fraud referral is appropriate.

Delaying the delivery of EBT cards is a complex process that requires extensive programming in both the DSHS eligibility and the EBT vendor systems. The department's EBT vendor is not able to accommodate any system change requests as all available programming hours have been assigned to projects through January 2017, when the contract ends. The vendor has indicated it will not pursue a new contract with the state.

- b) OFA is reviewing EBT replacement cards to determine a meaningful threshold that represents an increased risk of EBT trafficking. It will use this information to prompt a Fraud Early Detection Program investigation.

Action Steps and Time Frame

- The new EBT vendor will be named in 2015 and undergo several months of orientation before officially beginning work by January 2017. DSHS will work with the new vendor to withhold excessive EBT replacement cards by January 2017.
- DSHS will require clients who have requested eight or more EBT replacement cards within a 12-month period to meet with a DSHS caseworker before they are issued another card by June 2017.

- DSHS will investigate individuals receiving eight or more replacement cards within a 12-month period by June 30, 2015, as that number indicates a high risk for potential EBT card trafficking.
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SAO Recommendation 5: To help improve its overall oversight and program integrity, we recommend DSHS:

- a) Hire more OFA investigators to help keep up with the increase in program beneficiaries.
- b) Use the added OFA investigators to support the audit's recommended data analysis to identify more ineligible program participants or overpayments to participants.
- c) Empower OFA to further strengthen DSHS policies and procedures that prevent ineligible program participation. These strengthened policies and procedures should require:
 - Standardized FRED investigation reports, which are used by caseworkers to determine whether benefits should be discontinued. A consistent format for these reports would make it easier for financial workers to use them when making these determinations.
 - Discussion and follow-up between financial workers and FRED investigators and how potential disagreements are addressed.
- d) Measure the outcomes associated with the two types of OFA investigations to assure cost-effective use of OFA resources. Use these measurements to assess whether it would be more cost-effective to perform fewer criminal investigations and more:
 - FRED investigations that help identify more ineligible clients and discontinue their benefits.
 - Improvement to DSHS policies and procedures to further reduce ineligible program participation and EBT card abuse.

STATE RESPONSE:

- a) DSHS agrees with this recommendation and will pursue directing or adding more resources to the activity.
- b) DSHS already uses data analytics to detect potential overpayments and will use any additional investigative staff to support these proactive efforts. The department is using Lean to develop additional investigative capabilities with its staff.
- c) DSHS encourages and supports collaboration on policies and procedures. One example is the partnership between ESA and OFA in creating and leading the Program Integrity Team. This team discusses and recommends improvements to DSHS policies and procedures to identify fraud and abuse (including ineligible program participation). While DSHS now has policies and procedures that prescribe worker actions related to potential fraud detection, referral and action, the department agrees collaborative process improvement efforts should continue.
- d) DSHS uses Lean management tools to ensure cost-effective use of state resources and to improve its investigative capacity. OFA is developing new case management system reports, to be in use by June 2015, to better track how resources are used.

Action Steps and Time Frame

- DSHS will develop and implement reports that document the OFA's cost-effective use of state resources by June 2015.
- DSHS will pursue directing or adding more resources to the activity by September 2015.