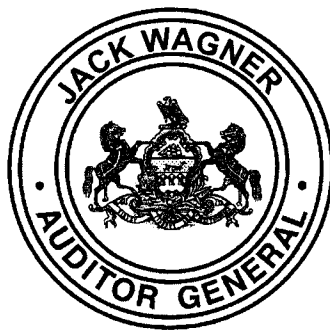


**TESTIMONY ON REDUCING WASTEFUL SPENDING
IN STATE GOVERNMENT**

**SENATE GOVERNMENT MANAGEMENT AND COST
STUDY COMMISSION**



Deputy Auditor General for Audits Thomas Marks

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Department of the Auditor General
Thomas Marks, Deputy Auditor General for Audits

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Good afternoon, Chairman Argall, Chairman Leach, and commission members. I am Thomas Marks, the Deputy Auditor General for Audits. Unfortunately, the Auditor General was unable to appear today because of a change to his schedule, so I will be presenting his testimony.

Thank you very much for the opportunity to appear before you today to discuss a number of recent reports by the Department of the Auditor General reports, whose recommendations, if implemented, can help reduce the costs of state government. During these difficult economic times, we must do all that we can to make every hard-earned tax dollar count. To that point, we would like to commend both of the chairmen and the members of this commission for working to reduce government waste.

As Pennsylvania's fiscal watchdog, the Department of the Auditor General is dedicated to finding and eliminating the waste, fraud and abuse of taxpayer dollars. In addition to state government, our auditors are in all 67 counties every day, auditing school districts, volunteer firefighters' relief associations, liquor stores, county welfare offices, and many other agencies and organizations that receive state money or federal funds that pass through state government.

We produce more than 5,000 audits each year, and they are available to the public at www.auditorgen.state.pa.us. In addition, our Office of the Taxpayer Advocate is available to help Pennsylvanians cut through bureaucratic red tape or to receive reports of waste, fraud or abuse. The toll-free number for the Taxpayer Advocate hotline is 1-800-922-8477.

The Department of the Auditor General is responsible for auditing the state's Medicaid program, which is administered by the Department of Public Welfare. In a series of reports issued beginning in December 2007, our department found widespread errors in the state's Medicaid program that are costing Pennsylvania taxpayers millions of dollars each year.

Medicaid, which is known in Pennsylvania as the Medical Assistance program, is a federal health care program for low income children and families, disabled individuals, elderly and chronically ill adults.

It is funded jointly by the state and the federal government, and is administered by DPW. For the 2008-09 fiscal year, the program received a total of \$14.4 billion in state and federal funds, with the state contributing \$6.7 billion of those funds. Federal regulations require states to ensure timely recipient eligibility determinations and proper issuance of Medicaid benefits.

Our auditors found that DPW, through its county assistance offices, failed to make proper eligibility determinations on Medicaid applications between January 2005 and January 2009. Specifically, we found errors in 14.7 percent of 13,225 Medicaid cases selected randomly from 567,984 Medicaid cases from 90 county assistance offices in 64 counties.

DPW challenged our finding and claimed an error rate of only 4 percent. We stand behind the results of our audits, meaning we believe that the 14.7-percent error rate is an accurate reflection of existing conditions within the Medicaid program. But even using DPW's figure, eliminating 4 percent of Medicaid errors would save Pennsylvania taxpayers \$320 million per year.

Many of the improper eligibility determinations were due to DPW's failure to perform semi-annual reviews and annual renewals when they were due. Consequently, information that would have deemed the recipient ineligible was not reviewed in a timely manner, and benefits continued to be paid.

Another eligibility problem that we found related to citizenship issues. Some recipients may have been U.S. citizens and, therefore, eligible for the program, but they did not have the proper documentation to prove it. I want to be clear: our goal is to save money by eliminating ineligible individuals from the program, not by cutting the program for those who are truly needy and eligible.

DPW's policy of reviewing certain income information at six- and 12-month intervals, rather than when this information becomes available on the state's data information system, contributed to improper eligibility determinations. The improper eligibility determinations occurred because recipients' increases in income placed them above the eligibility limits. We recommended that DPW require a review of these increases as soon as the information becomes available. The sooner DPW detects increases in income from ongoing employment, the sooner the recipient can be deemed ineligible and the improper payments can be stopped.

This is especially critical when the recipient is enrolled in a managed care organization to which DPW makes monthly capitation payments for recipients, regardless of whether they receive medical services. If a recipient is not in a managed care organization, DPW pays on a fee-for-service basis -- in other words, only when the recipient actually receives medical attention. Of the \$3.5 million in improper payments we uncovered, over \$3.2 million were monthly capitation payments made to managed-care organizations, which are in essence insurance companies.

Let me emphasize these improper payments are not going to Medicaid recipients -- they are going to insurance companies, regardless of whether or not care is actually provided.

DPW told us that it is trying to improve its eligibility determinations by updating its data information system and that it has secured the services of a forensic accounting firm to review its eligibility processes, including those regarding income determination. DPW has informed us it changed its policy of reviewing increases in income when the information becomes available, and we will look to verify this in our future follow-up audits.

Another DPW program that we recently audited is the Special Allowance Program, which provides financial assistance to unemployed Pennsylvanians enrolled in DPW's education and training program. In other words, it provides money for certain costs associated with recipients 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.

The Special Allowance Program is a necessary bridge to help Pennsylvanians move from welfare to employment. We support the program and its goals. Our intent in conducting this audit was not to kill or cripple it, but to make it work more efficiently, with less waste, so that more resources would be available to help more eligible people.

However, our special performance audit, released in August 2009, 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 many instances, there were insufficient receipts and other forms of documentation to prove that the allowances were legally permissible. Our audit focused on transactions in five counties. But based on our findings, we believe the problems in the Special Allowance Program were systemic, meaning they existed in assistance offices in every county in the commonwealth.

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

Our auditors also 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 excessive electronic benefit transfer card usage, including one person who received 99 EBT cards during the audit period.

While DPW management agreed with the audit findings and most of our 32 recommendations pertaining to special allowances, it was unwilling 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 county assistance office 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 which may have resulted in additional weaknesses or potential fraud and abuse related to participants' electronic benefit transfer card usage to go undetected.

The third and final issue I would like to discuss is our special report of the Department of General Services' management of the state's vehicle fleet, which found that the decentralized management of the fleet resulted in no accountability and incomplete records.

Our special report determined that DGS must exert greater control over its management of the state's fleet of 16,637 vehicles. Although DGS said that it had centralized management of the vehicle fleet, effective Jan. 5, 2009, it was a step that should have occurred long ago.

Auditors determined that, as of Oct. 31, 2008, 16,637 vehicles were operated by 51 state agencies, boards and commissions. Based on General Services' estimated annual cost of \$4,359 for acquisition, maintenance, fuel and insurance per vehicle, the state's total cost would be about \$72.5 million a year.

DGS is authorized under state law to purchase and supervise all state vehicles, but it failed to exert administrative control during the period examined by our auditors. General Services' decentralized management philosophy of permitting each agency, board and commission to set its own policy of which employees received cars and maintaining records led to different guidelines on assignment of vehicles, shoddy record-keeping, inadequate maintenance, unauthorized repairs and failure to fulfill General Services' request for information.

The net effect of these deficiencies was General Services' inability to ensure the responsible use of taxpayer dollars; repairs and higher maintenance costs due to driver abuse or neglect; and an overall absence of accountability and transparency.

We initiated a special performance audit of the state's vehicle fleet in June 2008; however, our auditors' inability to obtain sufficient documentation from DGS prevented completion of the audit. As a result, we issued a special report in January 2009 detailing our findings.

We had expected to obtain and audit expense records for state vehicles, but were told that DGS could provide little more than a list of 16,000-plus vehicles that included their make, model and license plate number. DGS could not provide valid, reliable data such as odometer readings for all cars, and names and job titles for all state employees with permanently assigned vehicles.

With the commonwealth facing a multibillion-dollar budget deficit, DGS must seize the wheel and take control of Pennsylvania's vehicle fleet, to save taxpayer dollars and to ensure the public that the privilege of operating a state vehicle is not being abused.

Although I have discussed just three audits the Department of the Auditor General has completed over the last few years, there are many more audits and recommendations, including eliminating the potential for fraud in the Low Income Home Energy Assistance Program and making the state's procurement process more competitive, that if implemented would provide the potential for significant additional savings.

In closing, we would again like to commend the chairmen and committee members for seeking to solutions cut waste in state government. I can assure you all that the Department of the Auditor General will continue to do all we can to the fight waste, fraud and abuse of state dollars. I would be happy to answer your questions.

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