Report of the Vermont State Auditor

DOUGLAS R. HOFFER
Vermont State Auditor

Department for Children and Families

Alleged Beneficiary Fraud Investigated, but Improper Payments Not Effectively Collected

September 12, 2016

Rpt. No. 16-05

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Dear Colleagues,

In fiscal year 2015, the Department for Children and Families' (DCF) Economic Services Division (ESD) distributed millions of dollars in benefits to, or on behalf of, low and moderate income Vermonters. These programs provide (1) help to families with children for their basic needs and services that support work and self-sufficiency (Reach Up program), (2) food assistance (3SquaresVT program), (3) home heating assistance (Seasonal Fuel Assistance program), and (4) emergency assistance (General Assistance program).

Because of the magnitude of these federal and state-funded programs, we decided to conduct an audit of how DCF was addressing the risk of beneficiary eligibility fraud. Our objectives were to: (1) determine whether and how DCF's ESD prevents and detects beneficiary eligibility fraud and (2) determine the extent to which claims are established, beneficiaries are disqualified, and improper payments are recovered for ESD programs.

We found that ESD's fraud unit prevented and detected beneficiary eligibility fraud by conducting investigations of potential fraudulent activity based on information contained in referrals from internal and external sources. The fraud unit documented its investigations, which generally met the unit's internal standard for timely completion. However, ESD did not have assurance that all allegations of fraud were reviewed as they did not record and track to resolution all allegations made by the public. Without such tracking, ESD management cannot be certain that the allegations were handled properly.

Between January 1, 2013 and April 21, 2016, ESD's fraud unit determined that $1.8 million was owed by program beneficiaries resulting from 1,036 improper payment claims. However, all of the cases were in the 3SquaresVT and Reach Up programs with no claims having been established in the Seasonal Fuel Assistance or General Assistance programs. ESD's fraud unit did not check whether overpayments in these programs also occurred when they substantiated client violations that resulted in overpayments in the 3SquaresVT and Reach Up programs. As a result, ESD may not be seeking repayment for all inappropriately obtained benefits.

Moreover, if an individual is found to have intentionally misrepresented his/her income or household composition, the only program that disqualifies beneficiaries from receiving benefits for a period of time is the 3SquaresVT program. Except in very limited circumstances, beneficiaries in the other programs may continue receiving benefits if they continue to meet eligibility criteria, without consideration given to previous intentional misconduct.

Lastly, ESD did not utilize all available methods to collect the improper payment claims. For example, ESD did not send bills to individuals that defaulted on their debt, with the exception of when a 3SquaresVT debt was sent to a federal offset program for interception of federal payments. Nor did ESD use the Vermont income tax refund offset program, which allows any State agency to send their

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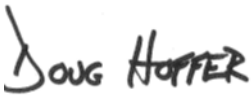
debt to the Department of Taxes for offset against personal income tax refunds and homestead property tax income sensitivity adjustments. As a result, ESD is losing opportunities to recoup additional improper payments.

We made a variety of recommendations to DCF, including establishing a system to track all allegations and utilizing the State's income tax refund offset program to collect defaulted debts.

In accordance with 32 V.S.A. §163, we are also providing copies of this report to the commissioner of the Department of Finance and Management and the Department of Libraries. In addition, the report will be made available at no charge on the state auditor's website, http://auditor.vermont.gov/.

I would like to thank the management and staff at the Department for Children and Families for their cooperation and professionalism during the course of the audit.

Sincerely,



DOUGLAS R. HOFFER
State Auditor

ADDRESSEES

The Honorable Shap Smith
Speaker of the House of Representatives

The Honorable John Campbell
President Pro Tempore of the Senate

The Honorable Peter Shumlin
Governor

Hal Cohen
Secretary, Agency of Human Services

Ken Schatz
Commissioner, Department for Children and Families

Contents

	Page
Introduction	4
Highlights	5
Background	7
Objective 1: ESD Had Processes in Place for Prevention and Detection of Fraud, but Lacked Evidence That All Allegations Were Reviewed	8
ESD Had Processes to Identify Fraudulent Activities, but Incomplete Tracking Did Not Ensure All Potential Fraud Was Investigated	8
FACU Documented Investigations and They Were Generally Performed Timely	13
Objective 2: In General, Claims Were Established and Clients Were Disqualified, but Improper Payments Were Not Effectively Recovered	14
Claims Appropriately Established, but Some Programs Not Reviewed for Improper Payments	15
Clients Disqualified from Future Participation in 3SquaresVT, but Not Other Programs	17
Collection Process Does Not Effectively Recover Improper Payments	19
Other Matter	22
Conclusions	22
Recommendations	23
Management's Comments and Our Evaluation	25
Appendix I: Scope and Methodology	26
Appendix II: Abbreviations	29
Appendix III: Sources and Process Related to Fraud Allegations	30
Appendix IV: Examples of Websites that Prominently Specify How to Report Fraud	31
Appendix V: Comments from the Commissioner, Department for Children and Families and Our Evaluation	33

Introduction

In fiscal year 2015, the Department for Children and Families (DCF) Economic Services Division (ESD) expended a little over $100 million in benefits in four of its programs that help low and moderate income Vermonters. These programs provide (1) help to families with children for their basic needs and services that support work and self-sufficiency (Reach Up program), (2) food assistance (3SquaresVT program), (3) home heating assistance (Seasonal Fuel Assistance program), and (4) emergency assistance (General Assistance program).

Many factors affect eligibility and benefit determinations, so there are multiple opportunities for errors to occur in the process that may result in improper payments.[1] While some participants make unintentional errors that result in improper payments, others make intentional errors or misuse their benefits, which are fraudulent practices.

Because of the magnitude of the ESD programs, we decided to conduct an audit of how DCF was addressing its risk for beneficiary fraud. Our objectives were to: (1) determine whether and how DCF's ESD prevents and detects beneficiary[2] eligibility fraud,[3] and (2) determine the extent to which claims are established, beneficiaries are disqualified, and improper payments are recovered for ESD programs. Regarding the first objective, our scope did not include an assessment of the eligibility process as a whole nor all of the controls DCF has in place to ensure that clients meet eligibility criteria (such as checking that the applicant submitted a valid social security number). Instead, our scope was limited to those practices related to investigations of potential fraud that occur before (prevention) or after (detection) a benefit is awarded to the client.

Appendix I contains detail on our scope and methodology. Appendix II contains a list of abbreviations used in this report.

1 Improper payments are payments to individuals that were made in an incorrect amount or should not have been made at all.

2 For purposes of this report, the terms beneficiary and client are used interchangeably to refer to individuals who receive benefits from the programs in our scope.

3 Beneficiaries also commit other types of fraud, such as trafficking in electronic benefit transaction cards, that were not included in the scope of our audit.

Highlights

In fiscal year 2015, the Department for Children and Families' (DCF) Economic Services Division (ESD) distributed millions of dollars in benefits to, or on behalf of, low and moderate income Vermonters. Because of the magnitude of the ESD programs, we decided to conduct an audit of how DCF was addressing the risk of beneficiary eligibility fraud. Our objectives were to: (1) determine whether and how DCF's ESD prevents and detects beneficiary eligibility fraud and (2) determine the extent to which claims are established, beneficiaries are disqualified, and improper payments are recovered for ESD programs.

Objective 1 Finding

ESD had processes in place to prevent and detect beneficiary eligibility fraud, but did not have assurance that all allegations were reviewed. ESD's Fraud and Claims Unit (FACU) investigated suspected beneficiary eligibility fraud based on referrals. Referrals were based on allegations from the public, ESD's district offices, and others, including the State Auditor's Office. The FACU also performed computerized data matching between the DCF eligibility system and non-DCF sources that resulted in referrals for investigations. Between January 1, 2013 and April 21, 2016, the FACU recorded 1,687 fraud referrals.

Not all allegations were referred to the FACU and the computerized data matching process was flawed. For example, allegations from the public were initially sent to the applicable district office for a preliminary investigation. If the district office determined that an allegation did not warrant an investigation, they did not send a referral to the FACU. The three district offices we visited did not have written procedures or a central system for tracking the receipt and resolution of allegations. Accordingly, ESD did not record and track to resolution all allegations of fraud. Without such tracking, ESD management cannot be certain that they were handled appropriately. In the case of the computerized data matching process, the FACU did not track all requests for verifications of data from the source (e.g., employer), so it may not have pursued all potential fraudulent activities.

We randomly selected 60 fraud referral cases to test. In all but one of these cases the FACU case files included documentation of the work performed and results. In addition, the vast majority of investigations conducted were completed within the 180-day standard set by the unit. The investigations took an average of 79 days from the date the case was assigned to an investigator to the date the investigator reported results.

Objective 2 Finding

The FACU generally established claims for overpayments and disqualified beneficiaries from receiving future benefits, but it did not effectively recover improper payments. Between January 1, 2013 and April 21, 2016, the FACU established 1,036 improper payment claims totaling $1.8 million, but none were in the Seasonal Fuel Assistance or General Assistance programs. Of the 60 cases tested, the FACU's documentation supported its determination as to whether to file a claim for overpayment of 3SquaresVT or Reach Up benefits. Investigations that conclude that income and household composition were incorrect in the 3SquaresVT or Reach Up programs could mean that overpayments were also made in the Seasonal Fuel Assistance or General Assistance programs because they too are largely based on income and household composition. However, the FACU did not check whether such overpayments occurred. As a result, the FACU may not be seeking repayment for all inappropriately obtained benefits.

The disqualifications of clients from future benefits occurred solely in the 3SquaresVT program. This is because ESD's rules in the Reach Up, Seasonal Fuel Assistance, or General Assistance programs pertaining to disqualification were very limited. In each of these programs, a client could still receive future benefits if he or she met eligibility requirements, notwithstanding previous fraudulent activities. For example, the seven beneficiaries in the test cases who received $12,631 in overpayments from the Reach Up program may continue in the program based on meeting eligibility criteria, without consideration given to previous intentional misconduct.

As of June 10, 2016, ESD had recovered $15,864 of the $86,256 in improper payments from recipients in 33 test cases with claims. For clients continuing to receive benefits, recoupment is done through a reduction in the benefit amount. For all others, the FACU attempts to establish a repayment agreement. However, there was no written standard for timely repayment. For the 10 cases in which the client signed a repayment agreement, the payments were scheduled to last one to 75 years, the latter an unrealistic period of time to expect the debt to be fully paid. Moreover, beneficiaries for 75 percent of the claims tested defaulted on their debt. ESD did not send bills to individuals in default, with the exception of when a 3SquaresVT debt was sent to a federal offset program for interception of federal payments. In addition, ESD did not use the Vermont income tax refund offset program, which allows any State agency to send their debt to the Department of Taxes for offset against personal income tax refunds and homestead property tax income sensitivity adjustments. As a result, ESD is losing opportunities to recoup additional improper payments.

Recommendations

We made a variety of recommendations to DCF, including establishing a system to track all allegations and utilizing the State's income tax refund offset program to collect defaulted debts.

Background

ESD administers several public benefit programs that help Vermonters meet their basic needs. Table 1 provides a brief description of the programs that were in the scope of our audit.[4]

Table 1: Description of Programs in the Scope of Audit

Vermont Program	Federal Program	Description	Actual and Budgeted Expenditures[a]	
			Funding Source[b]	FY 2015 Actual
3SquaresVT	Supplemental Nutrition Assistance Program (SNAP)	Provides assistance to households to put three healthy meals on their tables every day.	Federal Fund	$28,086,494
Reach Up	Temporary Assistance for Needy Families (TANF)	Helps families with children by providing case management, cash assistance for basic needs, and services that support work and self-sufficiency.	General Fund Federal Fund Special Fund Global Commitment Fund American Recovery and Reinvestment Act Fund Total	$13,738,828 3,699,524 22,062,765 2,209,591 1,475,380 $43,186,087
Seasonal Fuel Assistance	Low Income Home Energy Assistance Program (LIHEAP)	Provides assistance to households in paying for home heating bills. Benefits are either paid to the fuel dealer on behalf of the beneficiary, or directly to clients under certain circumstances.	Federal Fund General Fund Total[c]	$14,367,447 3,600,796 $17,968,243
General Assistance	Various	Helps individuals and families to meet their emergency basic needs if they do not have the income or resources to meet that need.	General Fund Federal Fund Global Commitment Fund Total	$ 9,567,150 2,143,514 211,974 $11,922,639

[a] Numbers may not add to totals due to rounding.
[b] The General Fund is the basic operating fund of the state. The Federal Fund records federal grant receipts. The Special Fund accounts for proceeds that are limited to expenditures for specific purposes. The Global Commitment Fund was created as a result of Vermont entering into a Medicaid waiver agreement with the federal government. The American Recovery and Reinvestment Act Fund contains monies from the Federal government.
[c] These amounts include administrative costs associated with administering the crisis fuel program.

When applying for these programs, ESD clients are required to sign an application that they are providing complete and accurate information. In particular, the common application used to request 3SquaresVT, Reach Up, or Seasonal Fuel Assistance benefits requires clients to sign that they (1) are responsible for submitting accurate information, (2) must report changes

[4] DCF also used to be responsible for eligibility determinations for the Medicaid program. As of July 1, 2016 this responsibility was transferred to the Department for Vermont Health Access. Because of this transfer, we did not include the Medicaid program in our scope.

within 10 days,[5] (3) must immediately tell ESD if they are receiving food or financial assistance from another state, and (4) may be investigated for fraud along with other adult members of the household, and could be subject to an administrative disqualification hearing and/or criminal prosecution.

Objective 1: ESD Had Processes in Place for Prevention and Detection of Fraud, but Lacked Evidence That All Allegations Were Reviewed

ESD's Fraud and Claim Unit prevented and detected beneficiary eligibility fraud by conducting investigations of potential fraudulent activity based on information contained in referrals, but ESD lacked assurance that referrals were made in all appropriate circumstances. Fraud referrals are generated by (1) allegations by the public, ESD district office staff, or others and (2) the FACU itself via reviews of the results of computer data matching between the DCF eligibility system (called ACCESS) and non-DCF sources. In the case of allegations of fraud, ESD district offices generally conduct a preliminary investigation and, if applicable, submit referrals to the FACU. However, ESD did not document allegations received nor track how they were resolved unless the allegation resulted in a fraud referral to the FACU. Therefore, ESD did not have evidence that all allegations were reviewed and appropriately investigated. In addition, the FACU's process for generating fraud referrals based on computer data matching was flawed and lacked assurance that all relevant matches resulted in a referral for investigation. Nevertheless, for those referrals generated, the FACU performed investigative work and documented this work and its results. These investigations generally met the FACU's internal standards for timely completion.

ESD Had Processes to Identify Fraudulent Activities, but Incomplete Tracking Did Not Ensure All Potential Fraud Was Investigated

Federal regulations and State statutes require the State to identify and investigate fraud. In the case of the Seasonal Fuel Assistance program, the Federal LIHEAP regulations require that grantees establish appropriate systems and procedures to prevent, detect, and correct waste, fraud, and abuse, including those due to clients.[6] In the case of 3SquaresVT, Reach Up, and General Assistance, 33 V.S.A. §121 states that if the Commissioner for

[5] In the case of the 3SquaresVT program, only those changes that put the household's income at or above 130 percent of the federal poverty level must be reported.

[6] 45 CFR §96.84.

Children and Families has reason to believe that assistance or benefits have been improperly obtained, he or she shall cause an investigation to be made and may suspend assistance or benefits pending the investigation.

The FACU is part of ESD and its mission is fraud control, which involves the prevention and detection of welfare abuse and/or fraud. Unit activities include investigations of beneficiary eligibility fraud and the determination of fraud and non-fraud overpayments found during unit activities. Investigations often start with an allegation from the public, ESD district office staff, or others, which turn into referrals to the FACU. The FACU also generates its own referrals by reviewing the results of computer data matching between information about current beneficiaries in the DCF ACCESS system and non-DCF systems. These are both preventive and detective controls in that the investigations may occur before a benefit is awarded (e.g., the district office staff submits an allegation based on a suspicious interview with an applicant) or after (e.g., the data match process).

Allegations

The sources of allegations are the public (who are directed to report fraud via a phone call to the ESD Benefits Service Center), staff from the 12 ESD district offices (either before or after a benefit is awarded to a client), or other entities (including the State Auditor's Office) that contact the FACU.

Appendix III contains a figure with the basic flow of allegations from the source to the point at which the FACU performs an investigation. Before an allegation is referred to the FACU, ESD's district offices generally conduct a preliminary investigation. This is because the allegation may be easily disposed of by checking to see if the individual is actually receiving benefits or if the information in the allegation is already known to the office. In other cases, the individual making the allegation may not know that program rules allow what is being alleged.

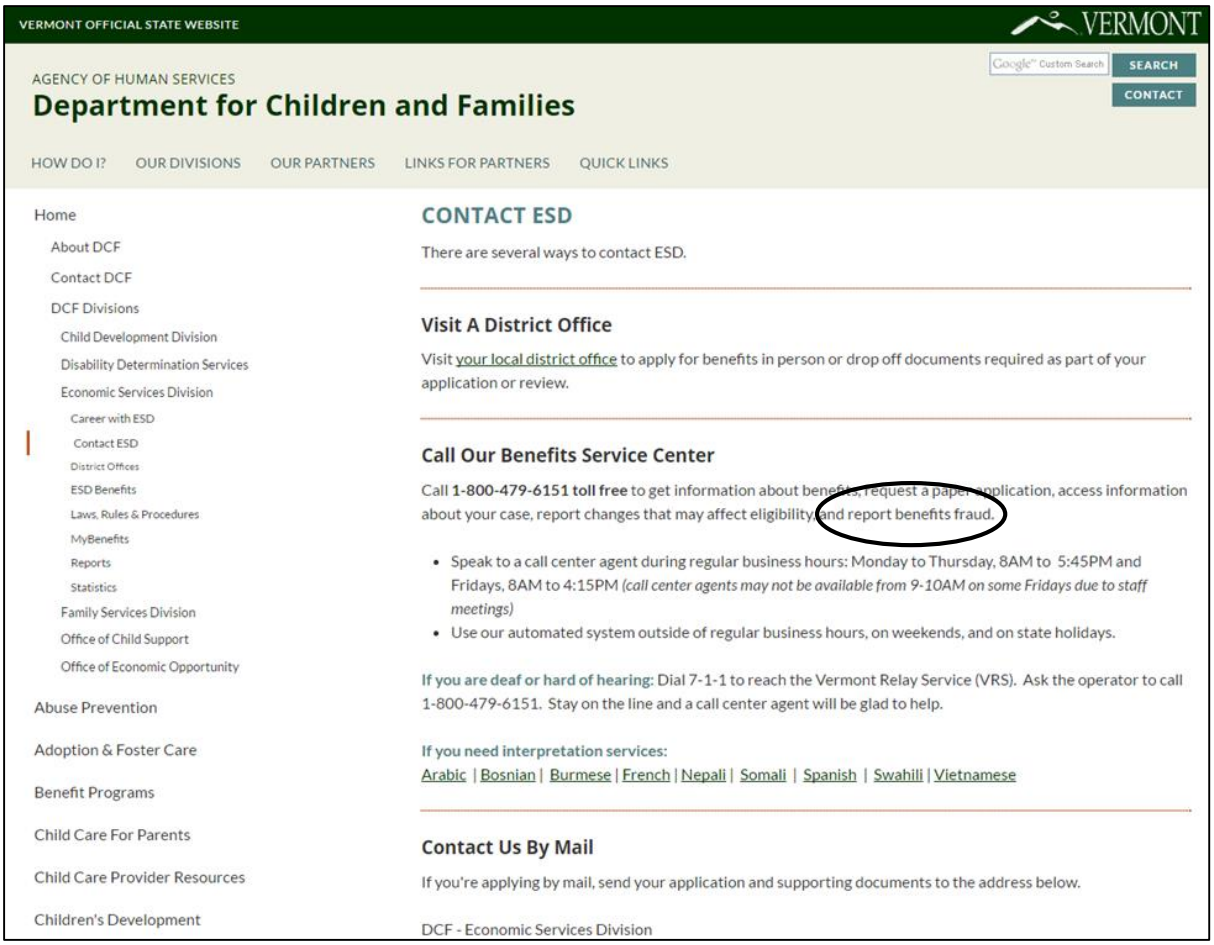
ESD did not record nor track to resolution the fraud allegations that were made by the public and referred to the district offices for preliminary investigation. According to supervisors in three district offices that perform preliminary investigations, there were no written procedures or a central system for recording and tracking allegations to resolution. Without such a system, ESD cannot be sure that all allegations are being addressed. In addition, without records of how the allegations are handled, ESD cannot be sure that district office staff are handling allegations appropriately.

Once it receives a referral, the FACU records it in an MS Access® database. This FACU fraud database is used to track the status and results of FACU investigations. This database contained 1,687 fraud referral cases dated

between January 1, 2013 and April 21, 2016.

We randomly selected 60 referred fraud cases from the FACU fraud database for testing.[7] Thirty-nine of these cases were based on allegations, but only eight were from the public. Allegations from the public may be hindered by the lack of prominence on the DCF/ESD websites of how to report a fraud complaint. A review of DCF and ESD websites shows that there was a single reference to reporting benefits fraud on the "Contact ESD" page, the reference to fraud was at the end of a two-line sentence about applying for benefits, and there was only a single method for reporting – telephoning the Benefits Service Center (see Figure 1).

Figure 1: Screen Shot of ESD Website Showing How to Report Fraud, August 5, 2016



[7] Because we did not perform a statistical sample, our results cannot be projected.

According to Federal best practices,[8] a hotline should aggressively advertise, provide a mechanism for reporting fraud via the website, and provide multiple options for reporting, such as faxes, electronic web forms, and social media. By limiting the visibility and methods for the public to report fraud, DCF is running the risk that it is missing valuable information about frauds being perpetrated.

In response to our draft report, DCF added the telephone number to report benefits fraud to the home pages of both DCF and ESD. The Commissioner of DCF reported that the electronic submission of allegations will be looked into as resources become available.

Data Matching

Fraud referrals were also generated internally by the FACU staff based on the results of computerized data matching between DCF's ACCESS eligibility system and non-DCF sources. The FACU used data matching to detect potential fraud cases by identifying potential erroneous data that could affect beneficiary eligibility for public assistance programs.[9] Data in ACCESS are matched to external sources, which produces reports of potential discrepancies (see Table 2 for information on the types of data matching performed and their limitations). Using these reports, the FACU supervisor eliminates obvious false-positive matches based on her experience. For the rest, the FACU staff request confirmation of the data from the source, such as the employer, a bank, or the client. However, in two of the three types of data matching performed (Department of Labor wage match and Public Assistance Recipient Information System match), the FACU does not have a spreadsheet or other system that tracks these confirmations.[10] Without such a tracking mechanism, the FACU is not in a position to know how many confirmations were sent and how many responses were received. Accordingly, the FACU lacks assurance that it is addressing all potential fraudulent activities being identified via the data match process. If a confirmation is received, FACU staff (1) decide that no further work is necessary, (2) fill out a referral form, which is sent to an investigator if fraud is suspected, (3) establish a claim if fraud is not suspected, or (4) enter the new information into ACCESS, which may affect future benefits.

[8] *Recommended Practices for Office of Inspector General Hotlines* (Department of Homeland Security Office of Inspector General, October 2010).

[9] ESD also uses computerized data matching during the eligibility process. Our scope did not include an assessment of this process.

[10] For Internal Revenue Service Form 1099 income matching, the FACU has a spreadsheet tracking confirmations sent and resolutions.

Table 2: Summary of Computerized Data Matching Used by the FACU to Detect Fraud

Data Match	Program Matched				Limitations
	3SquaresVT	Reach Up	Seasonal Fuel	General Assistance	
Department of Labor wage match This monthly match compares total wages reported to the Vermont Department of Labor by employers to income contained in ACCESS. If the totals do not match, a discrepancy is reported.	Yes	Yes	No	No	According to the FACU supervisor, data matching is not performed for Seasonal Fuel Assistance and General Assistance because these programs have short eligibility periods and it would be labor intensive to eliminate the false positives related to periods when benefits were not awarded. This seems reasonable particularly since clients who receive Seasonal Fuel Assistance and General Assistance benefits may also receive 3SquaresVT or Reach Up benefits and so would be identified in the data match. In addition, according to the FACU supervisor, due to a software problem in ACCESS, since January 2015 the matching reports have contained thousands more matches than previously. Because of this, not all discrepancies are processed.
Public Assistance Recipient Information System match This is a federal system in which all states upload information on beneficiaries. This quarterly match looks for Vermont clients receiving benefits in another state.	Yes	Yes	No	No	See the Department of Labor data match comment for an explanation of Seasonal Fuel Assistance and General Assistance.
Internal Revenue Service Form 1099 income match The Form 1099 reports income from sources such as interest, self-employment, dividends, cash prizes, and royalties. This monthly match compares information reported by beneficiaries to Internal Revenue Service data.	Yes	Yes	No	No	See the Department of Labor data match comment for an explanation of Seasonal Fuel Assistance and General Assistance. According to the FACU supervisor, not many fraud referrals result from this data match because the Internal Revenue Service data is not timely. For example, the discrepancy report run in July 2016 showed matches to 2014 tax information.

To prevent and detect fraud in the SNAP program (called 3SquaresVT in Vermont), the federal Food and Nutrition Service requires that states develop systems to monitor and prevent individuals in state detention or correctional institutions from being included in any SNAP household.[11] ESD is not performing this required prisoner match with the Department of Corrections' case management system, which contains status information on Vermont prisoners. The 3SquaresVT administrator explained that the prisoner match is not performed due to limited information technology resources and the anticipation of a new system to replace ACCESS. The administrator further noted that the new system has been delayed, and so they are moving forward with requesting information technology support to enable prisoner verification.

FACU Documented Investigations and They Were Generally Performed Timely

Once a fraud referral is generated, the FACU supervisor or her assistant assigns it to one of five fraud investigators stationed at certain district offices around the state. The FACU has an investigator manual that contains the investigation process, which includes analyzing the allegations, reviewing all applicable case records and documents, gathering evidence and analyzing its relevance, interviewing witnesses and the client, analyzing and arranging evidence in preparation for writing the report, and writing the report.

Many of the investigations center on earned income, and the investigator will contact employers to verify if or how much beneficiaries have earned. Another major category of investigations is household composition. In an example of an investigation, the FACU received a report that the father of a child in a household receiving 3SquaresVT benefits was living with the family, when the mother had reported he lived elsewhere. Eligibility for 3SquaresVT is based, in part, on the number of people in the household and the amount of household income. Having an additional wage-earning member in the household could change whether the household was eligible for 3SquaresVT benefits. In this case, the investigator made home visits and spoke to neighbors and determined that the father was residing in the household and also obtained the father's wages by contacting his employer.

In our randomly selected 60 test cases from the FACU fraud database, three cases were declined and 57 were investigated. In all but one of the 57 cases investigated,[12] the FACU case files contained the following documentation: (1) the basis for referral, (2) the investigation report containing a summary

[11] 7 CFR §272.13.

[12] In one case, the investigation report was missing.

of the work performed, and (3) correspondence with the client that described the basis of changes to future benefits or overpayment claims and whether they were determined to be due to intentional or unintentional actions by the client (when applicable).

According to the fraud unit supervisor, investigations are expected to be completed within 180 days from the date of assignment to a FACU investigator. Of the 56 cases investigated in which we could calculate the length of the investigation, six took longer than 180 days. The average investigation took 79 calendar days from the date the referral was assigned to the date the investigator submitted a report of record detailing the results of the investigation.

Objective 2: In General, Claims Were Established and Clients Were Disqualified, but Improper Payments Were Not Effectively Recovered

Over a 40-month period, the FACU established $1.8 million in claims and disqualified certain clients from receiving future benefits for a period of time, but did not effectively collect on these claims.[13] All of the claims were in the 3SquaresVT and Reach Up programs and none were established for recipients of Seasonal Fuel Assistance or General Assistance benefits. In these cases, even if the FACU found that a client had omitted or provided inaccurate eligibility information for the 3SquaresVT or Reach Up programs, they did not check whether these same errors had resulted in improper Seasonal Fuel Assistance[14] or General Assistance payments. Regarding disqualifications from future benefits, the FACU appropriately disqualified clients found to have intentionally violated 3SquaresVT program rules but did not disqualify recipients from the Reach Up, Seasonal Fuel Assistance, and General Assistance programs. This is because ESD's rules for these programs did not include language to disqualify a client who misrepresented their eligibility information from receiving future benefits for a period of time except in limited circumstances. In addition, ESD did not utilize all collection methods available to them in statute or as recommended by the State's internal control guidance. Specifically, when clients defaulted on their debt, ESD did not send out bills regularly for defaulted debt nor use the State's program for offsetting outstanding debt against personal income tax refunds and

[13] According to the FACU supervisor, DCF rarely seeks to prosecute clients who intentionally violate program rules under the State's fraud statute (33 V.S.A. §141 and §143) because they believe that administrative actions, such as seeking reimbursement for overpayments or disqualification (in the case of the 3SquaresVT program), are more effective. Under DCF rules, fraud must be proved beyond a reasonable doubt.

[14] DCF makes a payment to a fuel dealer on behalf of the Seasonal Fuel Assistance program recipient except for clients who heat with wood or whose rent includes heat. In such cases, the payments are made directly to clients.

homestead property tax income sensitivity adjustments. Consequently, ESD was not actively seeking repayment for those benefits that may have been obtained inappropriately and for which clients were not making payments.

Claims Appropriately Established, but Some Programs Not Reviewed for Improper Payments

Between January 1, 2013 and April 21, 2016, the FACU established 1,036 improper payment claims for about $1.8 million, all in the 3SquaresVT and/or Reach Up programs. In the 60 randomly selected cases tested,[15] the FACU's documentation supported its determination as to whether to file a claim for overpayment of benefits. In all but 1 of the 33 cases in which a claim was established, the FACU found that the client had omitted or inaccurately reported income and/or the number of people in the household. (The FACU declined to investigate 3 cases, did not substantiate the allegation in 17 cases, and substantiated the allegation with only future benefits affected in 7 cases.)

Table 3 details the reasons for the overpayments that resulted in 40 claims established for the 33 cases (seven cases had multiple claims). All of the claims were in the 3SquaresVT and/or Reach Up programs. If the FACU investigated whether the client was overpaid in one of these programs, it routinely checked whether an overpayment had occurred in the other program as well. In the 3SquaresVT program, the cause of an overpayment is described as:

- an agency error, caused by the department's action or failure to take action;
- inadvertent household error, resulting from a misunderstanding or unintended error on the part of the household; or
- intentional program violation, caused by a person making a false or misleading statement: misrepresenting, concealing or withholding facts; or committing any act that constitutes a violation of the federal overarching Act or program regulations.

In the Reach Up program, overpayments are characterized as resulting from either an administrative error or a client error. For both 3SquaresVT and Reach Up, the cause of the overpayment is pertinent as it could affect (1) the amount of the claim, (2) the maximum percentage by which future benefits may be reduced to recoup the amount owed, and (3) whether sanctions are

[15] We did not employ statistical sampling so our results cannot be projected.

applied to the recipient.

Table 3: Reasons for Overpayments Resulting in Claims in Test Cases[a]

	3SquaresVT			Reach Up	Total[b]
	Agency Error	Inadvertent Household Error	Intentional Program Violation	Client Error	
Total number of claims	1	4	28	7	40
Total value of claims	$1,893	$2,257	$69,475	$12,631	$86,256

[a] These test cases were derived from a random selection of referrals made to the FACU between January 1, 2013 and April 21, 2016.
[b] Seven cases had two separate claims.

All but three of the claims were mathematically correct.[16]

There were no claims related to the Seasonal Fuel Assistance program because, according to the FACU supervisor, ACCESS does not have the capability to track such claims. She stated that ESD's fuel unit would be notified if the FACU believed there was an overpayment in the Seasonal Fuel Assistance program, but she could not recall notifying this unit of the potential for overpayment for the time period in our scope. Additionally, no standard operating procedures have been developed for recouping overpayments from fuel benefit recipients, including the development of forms or letters to notify clients of the overpayment. According to the FACU supervisor there are very few overpayments in the Seasonal Fuel Assistance program, so the time needed to program the ACCESS system to track the payments was not deemed cost-effective.

There may be many more overpayments in this program than the FACU realizes. For example, in 15 of the 33 test cases with claims, these clients also received Seasonal Fuel Assistance benefits during the same benefit period in which the client had incorrectly reported income or household composition. Similar to the 3SquaresVT and Reach Up programs, the Seasonal Fuel Assistance program eligibility requirements are largely based on income and household composition, so the client may also have received overpayments in this program, but the FACU investigators did not check.

The Seasonal Fuel Assistance program's rules are also a barrier to seeking reimbursement for improper payments. According to these rules, DCF may seek recoupment of benefits representing an overpayment resulting from intentional program violation, fraud, or a benefit issuance that occurs by

[16] For one claim, the FACU understated the improper payment by $367 due to a miscalculation of three months of benefits. The other two cases had a cumulative understatement of $58.

department or client error. However, recoupment must be sought within 180 days of the close of the fuel season in which the overpayment occurred, except in the case of fraud.[17] Many of the FACU's investigations were completed more than 180 days after the fuel season ended.

According to the FACU supervisor, investigators do not consider whether overpayments were made in the General Assistance program if a client is found to have incorrectly reported income or household composition for the 3SquaresVT or Reach Up programs (none of our cases included clients receiving General Assistance during the period for the claim). Since eligibility for the General Assistance program is largely based on income and household composition, it is possible that if a client reported this information incorrectly for 3SquaresVT or Reach Up that s/he could also have reported it incorrectly for General Assistance. According to the FACU supervisor, this risk is mitigated because the eligibility review process period for receiving General Assistance benefits is short (every incidence in which the benefit is requested). Nevertheless, the client could have reported the same inaccurate information without detection so it is prudent to check.

Because the FACU does not determine whether an overpayment in the Seasonal Fuel Assistance or General Assistance programs had occurred, they are not seeking repayment for those benefits that may have been inappropriately obtained.

Clients Disqualified from Future Participation in 3SquaresVT, but Not Other Programs

If the FACU investigator believes that a 3SquaresVT client committed an intentional program violation (e.g., purposely did not report a change in income), federal and state requirements say that the client may be subject to disqualification from receiving benefits for a period of time. The disqualification period is (1) one year for the first violation, (2) two years for the second violation, (3) ten years for receiving benefits from two states, and (4) permanently for the third violation.[18] In these situations, the FACU investigator sends the client a letter explaining the violation, providing information on how to appeal to the state's Human Services Board,[19] and requesting that the client agree to the disqualification.

The FACU made the correct disqualification decision in all of the applicable

[17] Fraud is defined in 33 V.S.A. §141 and under DCF rules must be proved beyond a reasonable doubt.

[18] Other members of the client's household may continue to receive benefits during the client's disqualification period.

[19] The Human Services Board is a citizen's panel consisting of seven members whose duties are to act as a fair hearing board for appeals brought by individuals who are aggrieved by decisions or policies of the various departments and programs throughout the Agency of Human Services. The Board has two hearing officers who conduct hearings on a regular basis.

3SquaresVT cases tested. In addition, 27 of 29[20] of clients in the test cases (93 percent) agreed to the disqualification in lieu of requesting an administrative disqualification hearing before the Human Services Board.[21]

ESD's rules with regards to disqualification in the Reach Up, Seasonal Fuel Assistance, or General Assistance programs are much more limited so they might not deter a dishonest client from seeking to fraudulently obtain program benefits. Except in very limited circumstances, the client would only be required to pay back the improper payment but could continue to receive benefits if they met the eligibility requirements of the program.

Reach Up

In the case of Reach Up, under the Federal TANF statute and State rule, an individual convicted of fraudulently representing his or her residence, thereby receiving benefits in more than one state, must be disqualified for 10 years.[22] None of our test cases that resulted in claims involved this scenario. The clients in the seven Reach Up test cases resulting in claims for overpayments had intentionally omitted or provided inaccurate information. In each case, the recipient had the opportunity to continue to obtain benefits from the program. This is because, unlike other states like New York, Vermont does not have a policy to impose a disqualification period under its TANF program that is similar to the graduated sanctions imposed in the 3SquaresVT program for failing to comply with program requirements. As a result, recipients of Reach Up benefits who received overpayments because of their purposeful omission or misrepresentation of income or household composition may continue in the program if they meet its eligibility criteria, without consideration given to previous transgressions.

Seasonal Fuel Assistance

According to a Seasonal Fuel Assistance program rule, if an overpayment is the result of an intentional program violation or fraud, the household is to be disqualified from participating in the program until the overpayment has been repaid, or for one fuel season, whichever is less.[23] DCF's fuel and utility assistance programs director stated that the fuel season period mentioned in the rule is for the current fuel season which ends every March 31. Since fuel season benefits are generally paid as a single payment,[24] if the overpayment was discovered subsequent to the household having received the benefit payment, disqualification would be limited to any additional benefits for

[20] Twenty-eight had claims for intentional program violations, and one was disqualified for selling the benefits (called trafficking) but did not have a claim established.

[21] The Human Services Board agreed with the FACU's disqualification decision in both of the cases in which a hearing was held.

[22] 42 USC 608(a)(8) and Reach Up rule 2237.2.

[23] Fuel Assistance program rule 2904(b).

[24] The timing of an individual's fuel season payment is dependent upon the date of application.

which the client applied during the season, such as crisis fuel, which is provided in the event of an emergency. Benefits provided in any subsequent seasons are not affected.

General Assistance

33 V.S.A §2107 allows disqualification of recipients of General Assistance if they came into the State for the purpose of receiving General Assistance.[25] Neither this statute nor the ESD rules address disqualifying recipients from receiving future benefits for a period of time if it was found that they intentionally reported inaccurate or incomplete eligibility data.

Collection Process Does Not Effectively Recover Improper Payments

When a client is determined to owe a claim based on an investigation, the FACU sends a notification of the amount owed (a demand letter) with optional payment methods described (i.e., benefit reduction, pay part or all in cash, or set up a repayment agreement). If a client or the client's household is still receiving benefits in the program with the overpayment, the FACU recoups the claim by reducing future benefits in ACCESS. If a client (or a client's household) who owes for an overpayment is no longer receiving benefits, (1) the FACU attempts to establish a repayment agreement and (2) ACCESS sends defaulted 3SquaresVT debt to the U.S. Department of the Treasury for potential offset of federal payments (called the Treasury Offset Program or TOP), such as personal income tax refunds.[26]

Collected Debt

As of June 10, 2016, ESD had collected $15,864 towards $86,256 owed through establishment of the claims in our test cases. See Table 4 for the methods and extent of improper payment recovery.

[25] There is no disqualification timeframe specified in the statute.

[26] 3SquaresVT is the only ESD program under review in which Federal rules allow the use of the TOP program.

Table 4: Methods and Extent of Improper Payment Recovery for 40 Claims In Our 60 Test Cases as of June 10, 2016[a]

	3SquaresVT	Reach Up	Total
Overpayment claim amount	$73,625	$12,631	$86,256
Less collections:			
Amounts recouped from on-going benefits	$ 992	$ 218	$ 1,210
Cash payments by client or reduction in benefits previously received[b]	4,297	250	4,547
Offset of federal payments through TOP	10,107	0	10,107
Subtotal	$15,396	$ 468	$15,864
Less: Bankruptcy discharge	3,346	0	3,346
Total amount outstanding	$54,883	$12,163	$67,046

[a] These test cases were derived from a random selection of referrals made to the FACU between January 1, 2013 and April 21, 2016.

[b] 3SquaresVT and Reach Up recipients can have access to assistance via an Electronic Benefit Transfer card. The client has the option to use benefits that had been applied to the card but not yet been used to reduce the amount of an outstanding claim.

When a claim is established for an individual that belongs to a household that still receives 3SquaresVT or Reach Up benefits, the total household benefit may be reduced by a maximum percentage. In the case of 3SquaresVT, the reduction is the greater of $20 per month or 20 percent of the household's benefit if the claim is based on an intentional program violation whereas if not intentional the reduction is the greater of $10 per month or 10 percent. Reach Up benefits can be reduced up to ten percent of the household's benefit. In the cases we tested, the amount or percentage by which on-going benefits were to be reduced was correctly determined by the FACU.

When the household no longer gets benefits in the program for which the claim is made, the FACU attempts to set up a repayment agreement with the client. In our test cases, only 10 clients signed repayment agreements (others did not return a signed document). In the absence of a signed agreement, the client is expected to pay the claim in full. For those that chose to sign the agreements, the repayment amounts ranged from $10 to $200 a month. However, the FACU has no written standard for timely repayment of the debt. Based on the agreed-upon monthly repayment amount, (1) eight cases ranging from $350 to $1,820 had less than 3.5 years to repay, (2) one case for $3,300 had almost 28 years to repay ($10 a month), and (3) one case for $23,000 was allowed 75 years to repay ($25 a month).[27] According to the FACU supervisor, the practice followed to set up repayment agreements is consistent regardless of the size or length of time of the violation, and the

[27] The client that was allowed a 75-year period to repay at a rate of $25 per month had failed to report an average of $4,571 income per month and improperly received a $588 per month (on average) 3SquaresVT benefit for 39 months.

amount of repayment is determined through mutual agreement between the FACU investigator and the beneficiary. Nevertheless, we believe that it is reasonable to expect that repayment amounts be established such that it is realistic that the debt will be repaid in full.

Debt in Default

The Department of Finance and Management's guidelines on internal controls state that active efforts must be made to collect on accounts that are past due, such as generating billings and sending them to customers, which is listed as one of the department's best practices for managing accounts that are due. It is critical for an agency to take action on a delinquent debt immediately to prevent the delinquency from becoming more serious.

Clients defaulted on repaying $51,194 in outstanding debt in 30 of the 40 claims (75 percent)[28] that were established. These clients were no longer getting benefits and either made no repayment arrangements or had defaulted on the repayment agreement in force. As of June 10, 2016, the total amount still in default for these claims had been reduced to $37,741 because the State had received $10,107 via the TOP program.[29] All of these were 3SquaresVT claims, because this is the only program in the scope of the audit allowed to request an offset from TOP.

Aside from recoupment that would occur if a client with outstanding debt went back on a benefit program, the TOP program was the only mechanism ESD used to attempt to collect defaulted debt. However, an individual may not withhold enough money to generate a federal tax refund that can be used to pay the Vermont debt. ESD did not utilize other available collection methods, such as billing for outstanding debt and using Vermont's tax refund offset program.

- *Billing.* ESD did not send bills to individuals in default, except if a claim was going to be sent to TOP. Therefore, even if there were no collections using TOP or if the claim was not eligible to be sent to TOP, no other bill was sent. For example, in the test cases there were six claims with a balance of $12,163 for Reach Up overpayments that are not eligible to be sent to TOP. The only bill these clients received was the original demand letter when the claim was established. Only $250 in payments were made on these claims, two of which were established in 2013.

- *Vermont Income Tax Refund Offset.* 32 V.S.A. §5932 allows any State agency to send their debt to the Department of Taxes for offset against

[28] This represents 25 of the 33 cases (76 percent).

[29] One claim for $3,346 was discharged due to bankruptcy.

personal income tax refunds and homestead property tax income sensitivity adjustments.[30] This method of collecting outstanding debt is used by DCF for other programs, such as the child support program, but is not used for ESD debt. Since the TOP program has been the most effective collection method for ESD's 3SquaresVT debt, this may indicate that use of the State income tax refund offset program may also yield collections. For example, we recently reported that in a three-year period, this program was used to collect about a half million dollars in overdue public defender fees.[31]

Other Matter

State internal control standards require separation of duties so that no one individual is in the position to be able to commit and conceal errors (unintentional or intentional) or perpetrate fraud in the normal course of their duties. The FACU supervisor has the capability to perform many actions pertaining to the acceptance and resolution of fraud referrals. Some of these activities include (1) accepting the referral, (2) entering referrals in the FACU fraud database and changing the status of the investigation (e.g., from pending to complete), (3) reviewing evidence found and changing the investigator's report, (4) entering and adjusting over/under-payments in ACCESS, (5) reducing amounts owed by beneficiaries in ACCESS, (6) applying payments to accounts in ACCESS, (7) initiating refunds, (8) suspending collection efforts, and (9) writing off debt. With these capabilities the fraud supervisor would be able to commit and conceal errors (unintentional or intentional) or perpetrate fraud. While we found no evidence of untoward activity, ESD has unnecessarily increased its risks.

Conclusions

ESD has processes in place to detect and prevent beneficiary eligibility fraud. In addition, the FACU documented its investigations, which were generally performed in a timely manner. However, ESD cannot be assured that all fraud was appropriately investigated because it does not track allegations unless a referral is made to the FACU. In addition, when investigations substantiated that a fraud occurred, (1) ESD's ability to disqualify clients from the Reach Up, Seasonal Fuel Assistance, and General Assistance programs was very limited by their rules and (2) when overpayments were identified, ESD did not use all means available to it to pursue collection of the overpayment. By taking action to address these weaknesses, ESD would improve the likelihood

[30] Federal regulation, specifically 7 CFR §273.18, allows for collecting 3SquaresVT claims through conducting intercept of other state payments. The federal and state requirements for Reach Up, Seasonal Fuel Assistance, and General Assistance did not address using state tax refund offset programs.

[31] *Public Defender Fees: Judiciary's Efforts Yielded Collections of Less Than One-Third of Amounts Owed* (Rpt. No., 16-01, January 22, 2016).

of identifying and taking action against those clients that have fraudulently obtained unwarranted benefits.

Recommendations

We make the recommendations in Table 5 to the Commissioner of the Department for Children and Families.

Table 5: Recommendations and Related Issues

Recommendation	Report Pages	Issue
1. Direct ESD to create a system to track allegations of fraud from inception to resolution and periodically review whether the allegations are being handled appropriately.	9	ESD did not record or track to resolution the fraud allegations that were made by the public and referred to the district offices for preliminary investigation.
2. Enable the public to submit an allegation of beneficiary fraud electronically.	10-11	On August 5, 2016, a review of DCF and ESD websites showed that there was a single reference to reporting benefits fraud on the "Contact ESD" page. The reference to fraud was at the end of a two-line sentence about applying for benefits and there was only a single method for reporting – telephoning the Benefits Service Center. In response to our draft report, DCF added the telephone number to report benefits fraud to the DCF and ESD home pages, but did not provide an option for the public to submit an allegation of fraud electronically.
3. Direct the FACU to develop a mechanism to track the confirmations sent out regarding potential fraudulent activities identified via the Department of Labor wage data match and Public Assistance Recipient Information System data match and follow-up as necessary.	11	The FACU supervisor decides the computer data match results for which follow-up will be conducted. For those matches, the FACU staff request confirmation of the data from the source, but the FACU does not have a spreadsheet or system to track the confirmations sent for the Department of Labor wage match and Public Assistance Recipient Information System match. Without a tracking mechanism, the FACU is not in a position to know how many confirmations were sent and how many responses were received.
4. Fix the ACCESS software problem that is resulting in too many matches with the Vermont Department of Labor's wage data.	12	Due to a software problem in ACCESS, DCF's eligibility system, since January 2015 the Department of Labor data matching reports have contained thousands more matches than previously. Because of this, the FACU does not process all discrepancies.

Recommendation	Report Pages	Issue
5. Direct ESD to regularly perform a computer data match between ACCESS and the Department of Corrections' case management system to identify prisoners who may be receiving benefits.	13	To prevent and detect fraud in the SNAP program, the federal Food and Nutrition Service requires that states develop systems to monitor and prevent individuals in state detention or correctional institutions from being included in any SNAP household. ESD is not performing this required prisoner match with the Department of Corrections case management system.
6. Direct the FACU to check whether changes in income or household composition detected during investigations would have affected whether or how much a client received in Seasonal Fuel Assistance or General Assistance benefits and seek recoupment of overpayments when found.	16-17	There were no claims related to the Seasonal Fuel Assistance and General Assistance programs. The FACU investigators do not consider whether overpayments were made in these programs if a client is found to have incorrectly reported income or household composition in the 3SquaresVT or Reach Up programs.
7. Direct ESD to modify program rules to disqualify Reach Up clients for a period of time if they are found to have intentionally violated rules in the program in order to fraudulently obtain benefits.	18	ESD's rules with regards to disqualification in the Reach Up, Seasonal Fuel Assistance, or General Assistance programs are limited so they might not deter a dishonest client from seeking to fraudulently obtain program benefits. Except in very limited circumstances, the client would only be required to pay back the improper payment but could continue to receive benefits if they met the eligibility requirements of the program.
8. Direct ESD to modify program rules to disqualify Seasonal Fuel Assistance clients for a period of time if they are found to have intentionally violated rules in the program in order to fraudulently obtain benefits.	18-19	
9. Direct ESD to modify program rules to disqualify General Assistance clients for a period of time if they are found to have intentionally violated rules in the program in order to fraudulently obtain benefits.	19	
10. Direct the FACU to set a standard for a reasonable maximum repayment period in negotiating the monthly repayment amount for overpayment claims.	20	The FACU has not developed a standard for timely repayment of outstanding debt.
11. Direct ESD to periodically bill clients who are in default in repaying overpayment claims.	21	ESD did not send bills to individuals in default, except if a claim was going to be sent to TOP. Therefore, even if there were no collections using TOP or if the claim was not eligible to be sent to TOP, no other bill was sent.
12. Direct ESD to use the State's income tax refund offset program to collect ESD's delinquent debt for overpayment claims.	22	ESD does not use the State's income tax refund offset program to collect defaulted debt due to overpayments in its programs.
13. Direct ESD to review the duties of the FACU supervisor and reduce her capability to control or perform all key aspects of the investigation and claims process.	22	The FACU supervisor has the capability to perform many key actions pertaining to the acceptance and resolution of fraud referrals (including establishing and adjusting or eliminating claims).

Management's Comments and Our Evaluation

On September 9, 2016, the Commissioner of the Department for Children and Families provided comments on a draft of this report. These comments are reprinted in Appendix V along with our evaluation. Overall DCF agreed with most of the findings and recommendations in our report. In some cases, the Commissioner outlined specific actions that the department intended to take in response to our recommendations as well as timelines for this work. In other cases, the Commissioner expressed concerns about the recommendations and did not commit to specific actions.

Our scope was limited to benefit programs investigated by the Fraud and Claims Unit of the Economic Services Division of the Department for Children and Families. The four programs in our scope were 3SquaresVT, Reach Up Family Assistance, Seasonal Fuel Assistance, and General Assistance.[32]

To address both of our audit objectives for each of the four programs, we reviewed (1) pertinent Federal and State statutes, (2) eligibility requirements, and (3) ESD policies, procedures, rules, and regulations. We also considered State policies for internal controls.

We interviewed staff handling fraud allegations at the Benefits Service Center, and performed site visits to district offices in Barre, St. Albans, and Morrisville to gain an understanding of the process for handing allegations of beneficiary eligibility fraud, including the submission of fraud referrals to FACU. We also reviewed the 3SquaresVT claims training materials provided to ESD district offices. According to the Barre eligibility supervisor, the processes described in these training materials were also used for other ESD programs.

We reviewed the DCF process of computerized data matching, which compared data in ACCESS to data from external databases to identify possible fraud. We interviewed the staff involved in handling the data match results and viewed reports of the matches.

To understand how fraud investigations were conducted, we reviewed the FACU's Fraud and Claims Unit Investigator Manual and interviewed the FACU supervisor and one of the five fraud investigators (a second investigator was also interviewed pertaining to her work with the TOP program). We interviewed other ESD officials, including the process and performance director and the fraud and quality control chief.

We requested a complete record of all allegations of fraud received by ESD and the results of how they were handled. ESD could not fulfill this request because it does not track all allegations, ergo, we were unable to obtain a complete population of fraud allegations.

As a result, we turned our attention to the FACU fraud database used to record and track fraud referrals received by the unit. We obtained a copy of this database on April 21, 2016. We performed procedures to determine the reliability of the information in this database, such as scanning for missing data; looking for invalid data, such as dates outside valid time periods, dates in illogical progression, inconsistent data or outliers; and comparing data in

[32] We did not include Medicaid in this scope of this audit because the responsibility for investigating Medicaid beneficiary eligibility fraud was transferred from the DCF FACU to the Department of Vermont Health Access effective July 1, 2016.

the database to source documentation to check for accuracy.

As a result of these procedures, we determined that many of the fields in the database were incomplete for the time period of the audit or were unreliable due to inaccuracy or inconsistency. This was largely because the FACU had added fields to the database in 2015, and older records did not have data in these fields. Nevertheless, we determined that the fields in the FACU fraud database pertaining to the dollar value of claims resulting from investigations were sufficiently reliable for the purposes of our audit objectives. We did not use other data from this system except to summarize the number of investigations[33] and select cases for testing.

We randomly selected 60 completed cases from the FACU fraud database between January 1, 2013 and April 21, 2016.[34] For these 60 test cases we requested supporting documentation, such as the referral form, investigation report, computation of claims, and printouts from DCF's eligibility system (ACCESS). We did not review the completeness and accuracy of the investigation itself. For those test cases that substantiated an error had occurred, we:

- verified the mathematical accuracy of the claims computations,
- determined whether all programs for which a beneficiary were enrolled were included in overpayment calculations,
- determined whether or not the beneficiary was appropriately disqualified,
- verified that claims were accurately recorded in ACCESS system, and
- verified that payments were recorded in ACCESS.

We also documented the efforts ESD made to collect debts that resulted from claims. In particular, we interviewed a DCF business office official and inquired of DCF information technology officials on how the ACCESS claim screen worked. We also documented DCF's use of the U.S. Department of the Treasury's TOP process. Lastly, we reviewed the applicable State statute and obtained information from the Department of Taxes on the use of the State's income tax refund offset process.

We performed our audit work between February 2016 and August 2016 at

[33] We performed limited procedures regarding the completeness of the database as it was the sole source of the status and results of investigations.

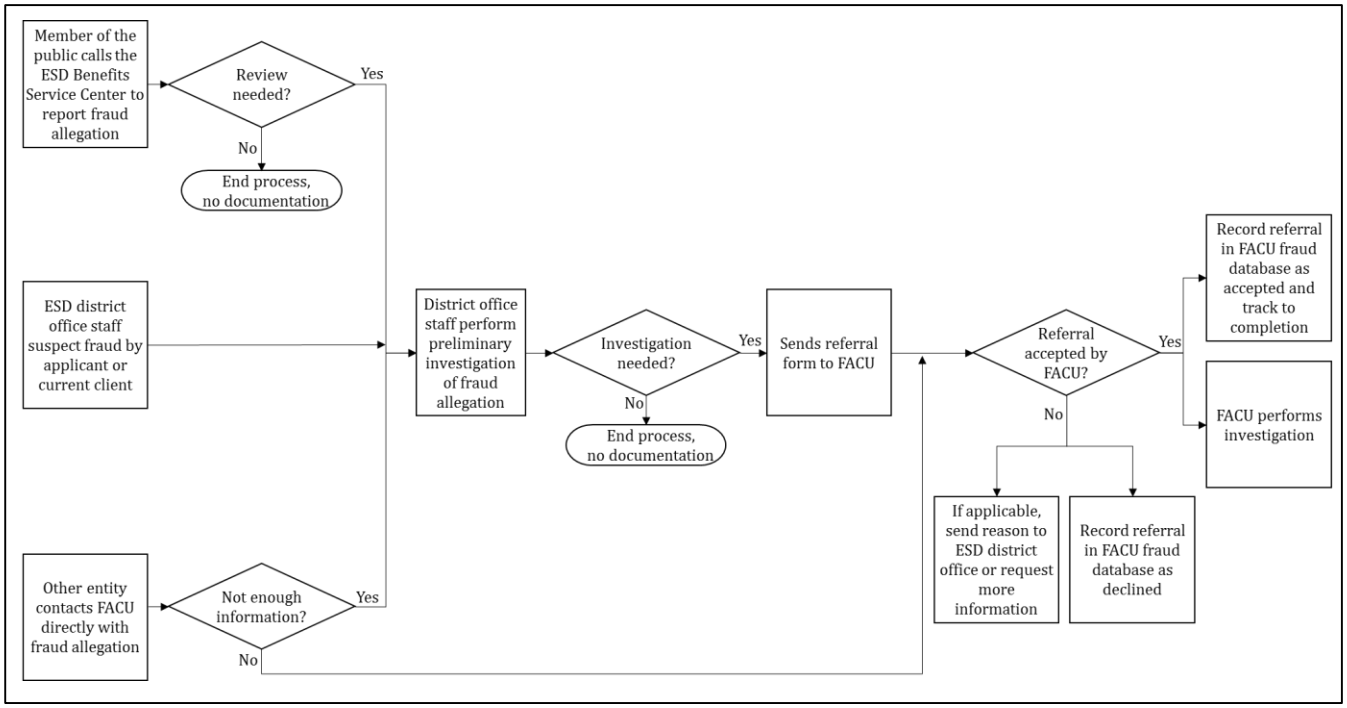
[34] Because this was not a statistical sample, the results cannot be projected.

the state office complex in Waterbury and at district offices in St. Albans, Barre, and Morrisville. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

DCF	Department for Children and Families
ESD	Economic Services Division
FACU	Fraud and Claims Unit
LIHEAP	Low Income Home Energy Assistance Program
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families
TOP	Treasury Offset Program

Figure 2 contains the sources of fraud allegations from the point of origin to the performance of the FACU investigation.

Figure 2: Sources of Fraud Allegations and the Process Flow to the Performance of the FACU Investigation



Maine (Figure 3) and Illinois (Figure 4) prominently display how to report fraud on their websites. In addition, these states allow the person making the allegation to report the information in multiple ways, including via the websites themselves.

Figure 3: Screen Print of Maine's Department of Health and Human Services Web Pages, as of August 5, 2016

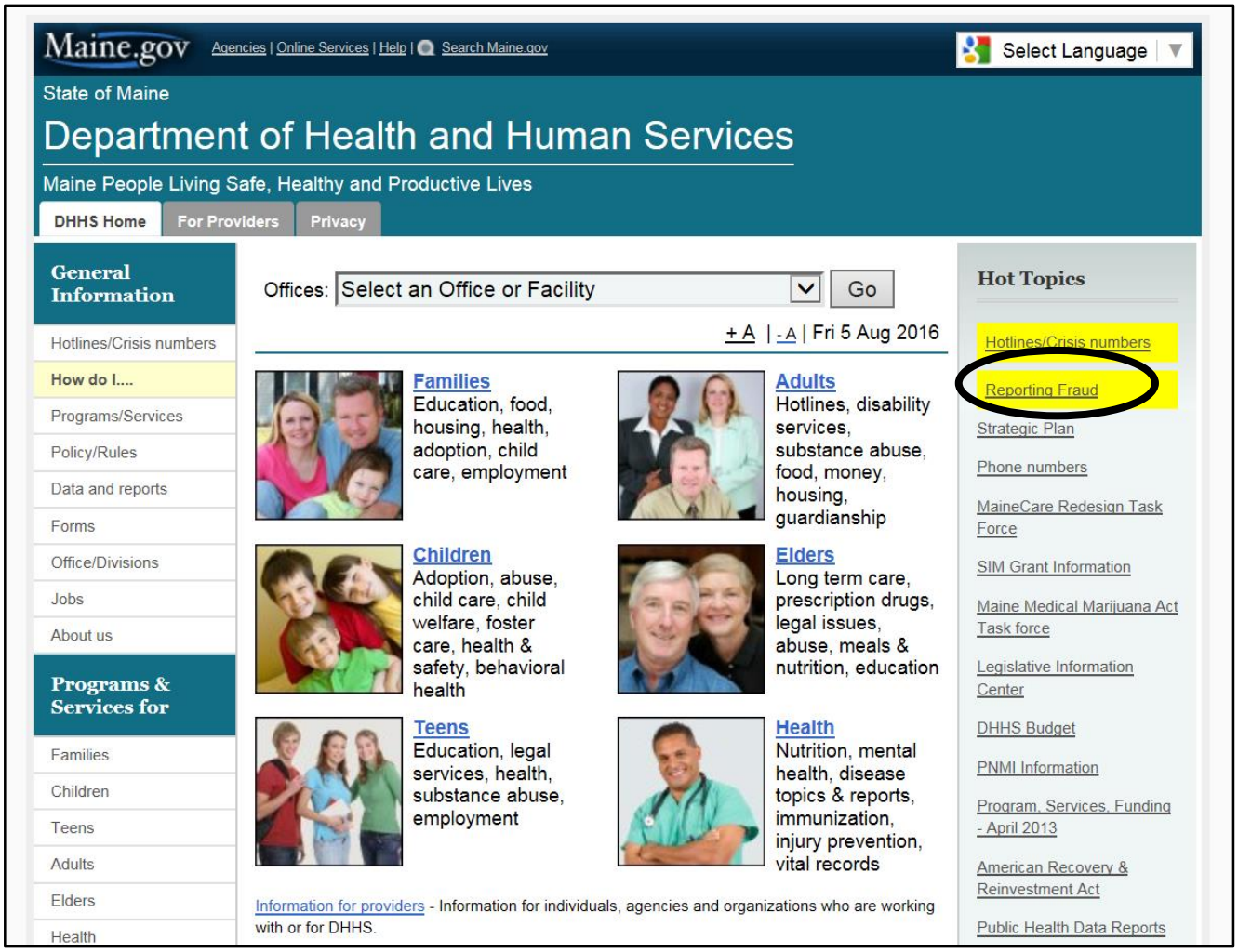
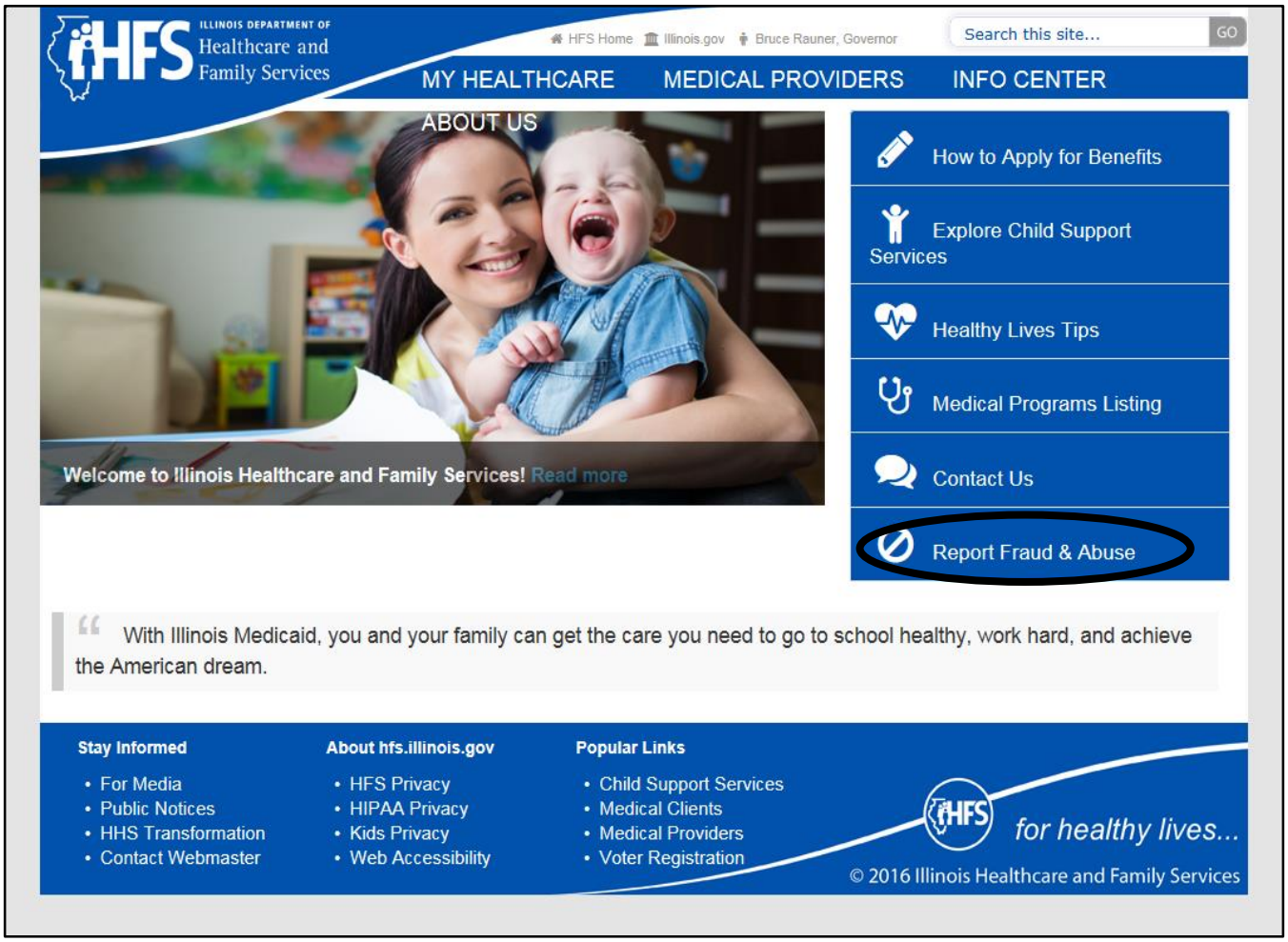


Figure 4: Screen Print of Illinois' Department of Healthcare and Family Services Web Pages, as of August 5, 2016



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Agency of Human Services

September 9, 2016

Douglas R. Hoffer
Vermont State Auditor
132 State Street
Montpelier, VT 05602

Dear Auditor Hoffer,

Thank you for the opportunity to work with you and your staff regarding the integrity of the programs within the Economic Services Division and to respond to your draft report entitled "Alleged Beneficiary Fraud Investigated, but Improper Payments Not Effectively Collected".

See our comment 1 on page 38

Overall, we agree with most of the findings and recommendations of the draft report, although we do not believe the title of the report accurately reflects the reasonable efforts made to collect on improper payments and respectfully request it be changed. As you found in your audit, the scope of improper payments is tiny when compared to the very sizeable amount of benefits issued by ESD programs and the integrity of the program administration is strong.

As you can see from the attached detailed response, we will implement some recommendations within a relatively short time frame. However, many of our responses to the recommendations outlined in the draft report will require significant information technology (IT) resources to implement. As you know, we have an antiquated IT mainframe system with significant challenges and barriers. We are committed to working with our IT division to implement these recommendations along with other competing priorities within the department. However, some recommendations will take longer to implement and will not be quick fixes. In addition, the cost of some of the proposed recommendations simply far exceed the value of any anticipated recoupments. While we value and respect the importance of addressing program fraud, we need to be mindful of the cost benefit analysis of implementing changes within the availability of program resources.

Finally, as we noted in the exit conference, and I'm sure you appreciate, our programs serve many of Vermont's most vulnerable citizens and we need to make sure implementing any proposed recommendations does not inadvertently jeopardize their health and safety. The recent policy shifts in Vermont support this approach, such as the current implementation of significantly reduced traffic fines for indigent Vermonters to allow them to regain driving licenses to support them in becoming

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more financially self-sufficient as well as waiving the normal General Assistance rules to implement the cold weather exception in the emergency housing program to ensure all homeless Vermonters have a safe, warm place to stay during very cold winter weather.

Enclosed you will find our detailed response to the recommendations in your draft report. If you have any questions or need further clarification, please do not hesitate to contact me.

Sincerely,

Ken Schatz
Commissioner
Department for Children and Families
Agency of Human Services

See our comment 2 on page 38

Recommendations	Report Pages	Issue	ESD response	Timeline
1. Direct ESD to create a system to track allegations of fraud from inception to resolution and periodically review whether the allegations are being handled appropriately.	8	ESD did not record or track to resolution the fraud allegations that were made by the public and referred to the district offices for preliminary investigation.	**ESD will look into a permanent solution for the long term but in the short term we will implement a tracking mechanism and train district office and call center office staff to track the allegations that come in, the date and whether it was referred to the FACU and the result**	**Interim solution 4-6 months while we look into a permanent solution that will take much longer**
2. Display more prominently on its website how to report an allegation of beneficiary fraud and enable the public to submit a report electronically.	9	Allegations from the public may be hindered by the lack of prominence on the DCF/ESD websites of how to report a fraud complaint.	**ESD has placed the 800# call center number on the front page of the ESD internet site. ESD will look into the ability to submit a report electronically.**	**800# presence completed. See DCF and ESD internet page. Electronic allegation submission will be looked into as resources become available.**
3. Direct the FACU to develop a mechanism to track the confirmations sent out regarding potential fraudulent activities identified via the Department of Labor wage data match and Public Assistance Recipient Information System data match and follow-up as necessary.	10	The FACU supervisor decides the computer data match results for which follow-up will be conducted. For those matches, the FACU staff request confirmation of the data from the source, but the FACU does not have a spreadsheet or system to track the confirmations sent for the Department of Labor wage match and Public Assistance Recipient Information System match. Without a tracking mechanism, the FACU is not in a position to how many confirmations were sent and how many responses were received.	**An IT enhancement change ticket will be submitted to make the report more user friendly so that it can be sorted, matched and mail merged to track the confirmations sent out. However, the IT change ticket has to be prioritized, first by ESD, then by DCF and then by the Agency along with many other competing priorities.**	**IT enhancement ticket will be submitted within 60 days**
4. Fix the ACCESS software problem that is resulting in too many matches with the Vermont Department of Labor's wage data.	11	Due to a software problem in ACCESS, DCF's eligibility system, since January 2015 the Department of Labor data matching reports have contained thousands more matches than previously. Because of this, the FACU does not process all discrepancies.	**The report in its current state is unmanageable, because it is matching on cases that it shouldn't be matching on. There is an open IT ticket to pare down the report to the relevant information.**	**Approximately 90 days.**
5. Direct ESD to regularly perform a computer data match between ACCESS and the Department of Corrections' case management system to identify prisoners who may be receiving benefits.	12	To prevent and detect fraud in the SNAP program, the federal Food and Nutrition Service requires that states develop systems to monitor and prevent individuals in state detention or correctional institutions from being included in any SNAP household. ESD is not performing this required prisoner match with the Department of Corrections case management system.	**ESD will submit an IT ticket. The ticket will need to be prioritized. We hope to work with IT during the Fall of 2016 with implementation during 2017.**	**Early 2017**

See our comment 3 on page 38	6. Direct the FACU to check whether changes in income or household composition detected during investigations would have affected whether or how much a client received in Seasonal Fuel Assistance or General Assistance benefits and seek recoupment of overpayments when found.	**15-16**	There were no claims related to the Seasonal Fuel Assistance and General Assistance programs. The FACU investigators do not consider whether overpayments were made in these programs if a client is found to have incorrectly reported income or household composition in the 3SquaresVT or Reach Up programs.	**Response for #6 – 9: While we recognize holding those who are willfully and egregiously accountable for their actions we don't want to harm the most vulnerable (children and elderly). We are committed to doing so where we can and to come up with a proposed workable solution that will best suit our population.**	
	7. Direct ESD to modify program rules to disqualify Reach Up clients for a period of time if they are found to have intentionally violated rules in the program in order to fraudulently obtain benefits.	**17**	ESD's rules with regards to disqualification in the Reach Up, Seasonal Fuel Assistance, or General Assistance programs are limited so they might not deter a dishonest client from seeking to fraudulently obtain program benefits. Except in very limited circumstances, the client would only be required to pay back the improper payment but could continue to receive benefits if they met the eligibility requirements of the program.		
	8. Direct ESD to modify program rules to disqualify Seasonal Fuel Assistance clients for a period of time if they are found to have intentionally violated rules in the program in order to fraudulently obtain benefits.	**17**			
	9. Direct ESD to modify program rules to disqualify General Assistance clients for a period of time if they are found to have intentionally violated rules in the program in order to fraudulently obtain benefits.	**18**			
	10. Direct the FACU to set a standard for a reasonable maximum repayment period in negotiating the monthly repayment amount for overpayment claims.	**19**	The FACU has not developed a standard for timely repayment of outstanding debt.	**This is something that USDA FNS (United States Department of Agriculture, Food and Nutrition Services) will have to approve. ESD will work with FNS to come up with a reasonable time frame. We will also research what other states are doing.**	**One Year**
See our comment 3 on page 38	11. Direct ESD to periodically bill clients who are in default in repaying overpayment claims.	**20**	ESD did not send bills to individuals in default, except if a claim was going to be sent to TOP. Therefore, even if there were no collections using TOP or if the claim was not eligible to be sent to TOP, no other bill was sent.	**This would require extensive programming by IT or a manual process. Right now we do not have the resources available to undertake this task.**	
See our comment 3 on page 38	12. Direct ESD to use the State's income tax refund offset program to collect ESD's delinquent debt for overpayment claims.	**21**	ESD does not use the State's income tax refund offset program to collect defaulted debt due to overpayments in its programs.	**ESD will look to implement a solution that is manageable and workable due to the complexity of the IT work. The majority of these people receive the EITC (Earned Income Tax Credit). These folks are of the lowest income and we want to ensure that**	

See our comment 4 on page 38

			Vermonter's have the ability to pay back in a feasible and reasonable way.	
13. Direct ESD to review the duties of the FACU supervisor and reduce her capability to control or perform all key aspects of the investigation and claims process.	**21**	The FACU supervisor has the capability to perform many key actions pertaining to the acceptance and resolution of fraud referrals (including establishing and adjusting or eliminating claims).	**The process referenced was implemented due to an FNS audit that forced us to put the specific duties of establishing and adjusting/ eliminating claims onto the FACU supervisor to ensure that they were completed (which are currently 100% up to date). However, this process has just changed. The FACU supervisor is no longer establishing claims, they are being done by the FACU investigators and the FACU Admin Assistant. The FACU supervisor does the adjustments and eliminations.**	**Completed**

The following presents our evaluation of comments made by the Commissioner of the Department for Children and Families.

Comment 1	As of June 10, 2016, ESD had collected $15,864 of $86,256 (18 percent) in our 33 test cases that included claims. In addition, ESD was not using all collection methods available to it, such as the Vermont income tax refund offset program, that could improve this low collection rate. As a result, we did not change the title of the report as we believe it accurately reflects ESD's current collection efforts.
Comment 2	We verified that the telephone number to report benefits fraud was added to the home pages of DCF and ESD. As a result, we removed this part of the recommendation from the report. The recommendation to enable the public to report allegations of fraud electronically remains.
Comment 3	We are cognizant that ESD provides benefits to help low and moderate income Vermonters. Nevertheless, in those cases in which ESD clients have purposefully omitted or falsified information in order to obtain these benefits, we believe that it is important that the State (1) take every action available to it to recoup the improper payments and (2) disqualify the client from receiving benefits for a period of time to deter future misconduct. Such actions are necessary to safeguard the integrity of the ESD programs as well as to guard against inappropriate uses of taxpayer monies.
Comment 4	We did not reevaluate the responsibilities of the FACU supervisor to determine whether the change reported by the Commissioner of DCF resulted in adequate separation of duties so we did not remove this recommendation.