LA20-11

STATE OF NEVADA

Performance Audit

Department of Health and Human Services
Division of Welfare and Supportive Services

2020

Legislative Auditor
Carson City, Nevada

Audit Highlights

Highlights of performance audit report on the Division of Welfare and Supportive Services issued on February 18, 2020.

Legislative Auditor report # LA20-11.

Background

The mission of the Division of Welfare and Supportive Services (Division) is to engage clients, staff, and the community to provide public assistance benefits to all who qualify, and reasonable support for children with absentee parents to help Nevadans achieve safe, stable, and healthy lives.

The Division, as part of the Department of Health and Human Services, is tasked with administering various state and federal welfare programs, including the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), Medicaid, the Energy Assistance Program (EAP), and the Child Support Enforcement Program.

Caseloads for SNAP and Medicaid have increased significantly in response to economic pressures and the Affordable Care Act. The population of SNAP recipients has increased from 125,000 in 2007 to 440,000 in 2018; for Medicaid, these figures total 175,000 in 2007 and 650,000 in 2018.

The Division had expenditures of about $606 million in fiscal year 2019. Primary funding sources include General Fund appropriations and federal grants. The Division's administrative office is in Carson City, with 21 district offices located throughout the State.

Purpose of Audit

The purpose of this audit was to determine whether the Division had sufficient controls over eligibility, income determinations, and fraud. Our audit focused on Division activities in fiscal year 2018 although we reviewed wage and other information prior to and after this time period for eligibility testing.

Audit Recommendations

This audit report contains eight recommendations to improve the Division's processes over eligibility and fraud detection.

The Division accepted the eight recommendations

Recommendation Status

The Division's 60-day plan for corrective action is due on May 12, 2020. In addition, the 6-month report on the status of audit recommendations is due on November 12, 2020.

Division of Welfare and Supportive Services

Department of Health and Human Services

Summary

Generally, the Division is properly assessing available information at the time eligibility is determined for most programs, but should improve its processes over identifying unreported wages and wage increases. Utilizing quarterly wage information more robustly could identify ineligibility sooner. Additionally, system notifications of changes in recipient circumstances should be reviewed timely. Even though health and welfare programs are largely funded by the federal government, the State should have processes to restrain unnecessary benefits as much as possible.

Enhancing the use of quarterly wage information can potentially reduce millions in improper payments. Projecting the results of our testing to the population of Medicaid and SNAP recipient households, we conservatively estimate ineligible recipients received benefits worth more than $69 million per year, but amounts could potentially be much higher. Unless recipients self-report changes in income timely, most of these improper payments are not preventable by the Division using available wage information.

The Division can improve its processes over detecting, deterring, and recovering improperly paid public assistance benefits. First, the Division does not adequately prioritize investigations and overpayment claims. As a result, a significant backlog exists. Second, the Division does not fully utilize its fraud detection system to identify misuse or fraud. Finally, certain reports generated to identify recipients receiving benefits in multiple states contained inconsistent information.

Key Findings

Recipients did not always notify the Division of income changes as required. Because of this, and the fact that Division systems do not routinely compare quarterly wage information, increases in income went undetected by the Division. Program agreements state recipients must report income changes to the Division. (page 4)

During our audit, we reviewed Employment Security Division quarterly wage data during participants' annual eligibility periods for 50 of the over 417,000 Medicaid recipient households. We found 11 households had unreported increases in income for one or more quarters. (page 5)

We requested the Division of Health Care Financing and Policy provide information on benefits paid for the 11 households and found $54,321 in ineligible benefits paid on recipients' behalf. We conservatively estimate ineligible recipients may have received more than $59.8 million in Medicaid benefits per year based on population totals. Only a small portion of Medicaid payments, about 20%, may be prevented by the Division. (page 5)

Our testing also included 50 of over 234,000 SNAP recipient households. Six households had unreported increases in income for one or more quarters. We requested the Division provide information on benefits paid for the six households in our sample with increased income and found $10,095 in excess benefits were paid. We conservatively estimate ineligible recipients may have received more than $9.5 million based on population totals. These excess benefit payments are likely unpreventable by the Division for the SNAP program due to the timing of wage information. (page 6)

The Division frequently did not clear system generated notifications regarding changes in recipient circumstances within 10 days. Some notifications do not appear overly useful. This volume of low value notifications impacts the Division's ability to review and take action on relevant issues. (page 8)

As of June 2019, the Division had a backlog of 3,800 unassigned investigation leads. These leads were open for an average of 1,023 days and 90% were more than a year old. Additionally, over 5,300 claim referrals remained unestablished pending a review. Claims had been open for an average of 559 days with about half open more than 1 year. (page 11)

The Division contracted with a data analytics service in 2017 to enhance fraud detection in the SNAP program. However, the Division has not fully determined the fraud detection reports most useful to its operations or developed policies and procedures over the use of the program and related reports. As a result, fraud and abuse is likely more prevalent in the program than identified under existing processes. (page 12)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Department of Health and Human Services, Division of Welfare and Supportive Services. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes eight recommendations to improve the Division's processes over eligibility and fraud. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

Daniel L. Crossman, CPA
Legislative Auditor

January 30, 2020
Carson City, Nevada

Division of Welfare and Supportive Services Table of Contents

Introduction

Background

The mission of the Division of Welfare and Supportive Services (Division) is to engage clients, staff, and the community to provide public assistance benefits to all who qualify and reasonable support for children with absentee parents to help Nevadans achieve safe, stable, and healthy lives. The Division, as part of the Department of Health and Human Services, is tasked with administering various state and federal welfare programs, overseen by federal agencies including the U.S. Departments of Agriculture and Health and Human Services. Programs include:

- Supplemental Nutrition Assistance Program (SNAP) – provides nutritional support to food insecure households to reduce hunger and malnutrition.

- Temporary Assistance for Needy Families (TANF) – provides funding for cash assistance, child care, education, job training, transportation, and other related services.

- Medicaid – the Division determines eligibility for Medicaid and the Children's Health Insurance Program, though these programs are administered by the Division of Health Care Financing and Policy.

- Child Care and Development Program – pays up to 100% of the state maximum rate for child care costs. The Division acts as the lead agency, and program activities are accomplished through state staff and subgrantees.

- Energy Assistance Program – assists low-income Nevadans to help them maintain essential heating and cooling in their homes.

- Child Support Enforcement Program – promotes self-sufficiency, strengthens families, and reduces the demand on public treasuries by securing child support from legally responsible parents.

Caseloads for SNAP and Medicaid have increased significantly in response to economic pressures and the Affordable Care Act. The population of SNAP recipients has increased from 125,000 in 2007 to nearly 440,000 in 2018. For Medicaid, recipients totaled 175,000 in 2007 and 650,000 in 2018.

In February 2018, the Division had 1,989 employees between its administrative office in Carson City and 21 district offices: one each in Carson City, Elko, Ely, Fallon, Hawthorne, Reno, Sparks, Yerington, Henderson, and Pahrump, as well as 11 in Las Vegas.

Exhibit 1 shows the average number of recipients and the amount of benefits paid during fiscal year 2018.

Recipient Averages and Total Benefits Paid **Exhibit 1**
Fiscal Year 2018

	Monthly Average		
Program	**Recipients**	**Benefits Paid**	**Annual Benefits Paid**
Medicaid[(1)]	653,500	$362	$2,836,706,866
Supplemental Nutrition Assistance Program[(2)]	440,694	117	618,153,457
Child Care and Development Program	8,813	395	41,733,334
Temporary Assistance for Needy Families	25,744	$127	$ 39,141,176

Source: State accounting system.

(1) Medicaid benefits are paid through the budget accounts of the Division of Health Care Financing and Policy.

(2) Supplemental Nutrition Assistance Program benefits are paid directly by the federal government and do not pass through the Division's budget accounts.

The Division administered 10 budget accounts in fiscal year 2019. Major sources of funding include General Fund appropriations and federal funds. The largest expenditures for the Division include the distribution of child support (36%), benefits paid to the recipients (24%), and personnel costs (22%). Exhibit 2 shows total expenditures by budget account for fiscal year 2019.

Expenditures by Budget Account **Exhibit 2**
Fiscal Year 2019

Description	Amount	Percent of Total
Collection and Distribution Account[1]	$226,787,722	37%
Welfare Field Services	117,856,663	19%
Child Care Assistance and Development	66,814,083	11%
Welfare Administration	47,469,277	8%
Temporary Assistance for Needy Families	39,522,958	7%
Child Support Enforcement	36,678,155	6%
Child Support Federal Reimbursement[2]	26,254,053	4%
Energy Assistance – Welfare	21,652,961	4%
Universal Energy	13,580,246	2%
Assistance to Aged and Blind	10,309,000	2%
Totals	**$606,925,118**	**100%**

Source: State accounting system.

[1] This account is used to pass through child support collections from the non-custodial parent to the custodial parent.

[2] This account is used to pass through federal payments to participating District Attorneys' Offices for the federal share of costs and incentive payments for local child support collection programs.

Scope and Objective

The scope of our audit included a review of Division activities in fiscal year 2018, although we reviewed wage and other information prior to and after this time period for eligibility testing. Our audit objective was to:

- Determine whether the Division of Welfare and Supportive Services had sufficient controls over eligibility, income determinations, and fraud detection.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Available Information Can Be Utilized More Effectively

Generally, the Division is properly assessing available information at the time eligibility is determined for most programs, but should improve its processes over identifying unreported wages and wage increases. Utilizing quarterly wage information more frequently and robustly could identify ineligibility sooner and reduce improper payments. Additionally, systems notifications of changes in recipient circumstances should be reviewed timely. Even though health and welfare programs are largely funded by the federal government, the State should have processes to restrain unnecessary benefits as much as possible.

Enhancing the use of quarterly wage information can potentially reduce millions in improper payments. Projecting the results of our testing to the population of Medicaid and SNAP recipient households, we conservatively estimate ineligible recipients received benefits worth more than $69 million per year, but amounts could potentially be much higher. Unless recipients self-report changes in income timely, most of these improper payments are not preventable by the Division using available wage information.

Quarterly Wage Information Should Be Used Between Eligibility Determinations

Automatic comparisons of income data are not performed by Division systems between routine eligibility determinations and recipients do not always self-report income changes. As a result, increases in recipients' income that exceeded program limits went undetected. Our review of Medicaid and SNAP recipients found 17 of 100 households experienced income increases between eligibility determinations. Excessive income would have reduced benefit payments or, more likely, resulted in program termination. Furthermore, the Division did not provide subgrantees with available income information for the Child Care and Development

Program to utilize in verifying recipient provided wage information. This led to higher subsidy payments for 2 of 50 households.

Income Increased Between Eligibility Determinations

Recipients did not always notify the Division of income changes as required. Because of this, and the fact that Division systems do not routinely compare quarterly wage information, increases in income went undetected by the Division. Program agreements signed by the recipient state income changes must be reported by recipients no later than the 5th day of the month, or within 10 days following the change so the Division can reevaluate benefits and eligibility.

Medicaid

During our audit, we reviewed Employment Security Division (ESD) quarterly wage data during participants' annual eligibility periods for 50 of the over 417,000 Medicaid recipient households. We found 11 households had unreported increases in income for one or more quarters.

Medicaid income limits are determined based on household composition and the subprogram under which a recipient applies. Medicaid redeterminations are typically required annually and incomes cannot exceed 122% to 165% of the federal poverty level for the household composition. Appendix A provides details regarding the 11 households, related program limits, and estimated income based on quarterly wage data from ESD.

We requested the Division of Health Care Financing and Policy provide information on benefits paid for the 11 households and found $54,321 in benefits paid on recipients' behalf during periods when reported incomes exceeded established limits. We conservatively estimate ineligible recipients may have received more than $59.8 million in Medicaid benefits per year based on population totals. However, because of the timing in which quarterly income information is received, only a small portion of Medicaid payments, about 20%, may be prevented by the Division.

SNAP

Our testing also included 50 of over 234,000 SNAP recipient households. Six households had unreported increases in income for one or more quarters.

SNAP income limits are based on household composition and the majority of households must reapply every 6 months. Program income limits are either 130% or 200% of the federal poverty level and benefits decline gradually as income increases. Appendix B shows details regarding the six households, related program limits, and estimated income based on quarterly wage data from ESD.

We requested the Division provide information on benefits paid for the six households in our sample with increased income and found $10,095 in excess benefits were paid. We conservatively estimate ineligible recipients may have received more than $9.5 million in excess benefits annually based on population totals. However, because the SNAP program requires redetermination for most recipients every 6 months, excess benefit payments are likely unpreventable due to the timing of wage information being provided to the Division.

Quarterly Wage Timeliness Limitations and Potential Monetary Impact

The Division utilizes quarterly wage data to compare the accuracy of wages reported by recipients at the time of application or redetermination, but not after an eligibility decision has been made. Based on discussions with Division personnel, ESD data is not considered verified income and cannot be used exclusively to rescind program eligibility. Additionally, ESD wage data is not typically received by the Division until at least a month after the quarter ends.

Discussions with Division staff indicated information systems can compare quarterly income information and provide notification when significant income changes occur. Division personnel could then verify wages and take action to modify or suspend benefit payments as appropriate. Wage verification includes inquiries with participants and employers. The sooner the Division can identify excess wages and take action, the more the Division can prevent inappropriate benefit payments. Preventing inappropriate payments is more effective than trying to collect amounts already paid.

Our conservative estimates for the annual value of Medicaid and SNAP benefits provided to ineligible participants, due to disqualifying wages, may be significantly higher than $69 million. This estimate represents the low end of a range of potential statistical results. Consequently, the Division needs to consider opportunities to assess recipients' continued eligibility based on wage information between eligibility determinations.

Child Care and Development Program Should Use Wage Information

Subsidies for the Child Care and Development Program were not always determined at the proper amount because recipients did not always disclose all income as required. In 4 of 50 cases, we found reported income was less than it should have been. Additional income was not identified because subgrantees who determine eligibility and subsidy percentages did not have access to all data sources available at the Division.

While 4 households in our sample of 50 were identified as having income in excess of amounts provided by recipients, only 2 had income changes significant enough to modify the subsidy percentage for child care support. These two child care program households received excess subsidies of $4,015 over several years as shown in Exhibit 3. This may represent excess subsidies of about $600,000 in fiscal year 2018 if errors noted are representative of the population of nearly 7,800 program households.

**Child Care Subsidy Examples
Households With Additional Income** **Exhibit 3**

	Monthly Income		
Household Size	**Recipient Reported**	**ESD Quarterly Wages**	**Subsidy Overpayment**
2	$2,645	$3,308	$1,199
4	1,307	2,480	—(1)
4	1,710	4,094	$2,816
4	$2,705	$3,125	—(1)

Source: Division systems and records.

(1) Child care subsidies are based on a sliding income scale. In these instances, quarterly wage increases did not exceed the next level to reduce benefits or amounts were too close to the next level to determine if subsidies would have been affected. ESD quarterly wages are considered unverified income. The Division does not act upon unverified information until determined to be an accurate representation of income.

For health and welfare programs, the Division has access to a number of informational sources to detect and verify income. These sources include information on wages, new hires, unemployment and disability income, and child support. Eligibility procedures for most programs included the use of these data sources to corroborate income reported by applicants.

Child care program subsidies are determined by subgrantees who had access to certain Division systems but not others. Because of this, subgrantees were unable to use external data to identify unreported income such as child support. In October 2018, the Division revised its processes and provided subgrantees access to systems containing external data. Subgrantees are now required to review this data when determining eligibility and subsidy amounts.

Excessive System Notifications Create Unnecessary Work

The Division frequently did not clear system generated notifications regarding changes in recipient circumstances within 10 days. Some notifications do not appear overly useful, but Division systems continue to generate them nonetheless. This volume of low-value notifications impacts the Division's ability to review and take action on relevant issues.

We reviewed notifications for 60 recipients and found 126 system generated notifications, of which 117 (93%) were not resolved within 10 days. On average, these alerts were 58 days past due.

System notifications generated from external data received by the Division reflect changes in household circumstances. Some changes, such as new employment or increased wages, can impact eligibility and benefit payments. Of the 126 notifications tested, 38 (30%) could have affected eligibility. Two of the 38 notifications resulted in overpayments of $1,845 because of new employment. However, these overpayments were not identified because alerts were not reviewed timely.

Division systems generate notifications for many reasons including new employment, data mismatches, age, and other matters relevant to Division operations, but not all notifications provide value. For example, one general notification compares employer data and alerts the Division if this information does not agree. However, the systems compare employer numbers, one federal and one state, that will not agree. Because the notification title is shared with other useful comparisons, the Division cannot disregard the notice and has to perform some work to ascertain the true nature of the notification.

Throughout our audit, the Division indicated resources are limited, which impacts the Division's ability to perform tasks in a timely manner. Eliminating low value notifications can focus resources on those matters most important to ensuring program integrity.

The Division does not have policies or procedures requiring staff to review notifications, or a process to monitor whether notifications are resolved timely. Documenting clear expectations for staff, reducing the number of notifications generated, and monitoring to ensure timeliness will help the Division prevent excess payments in the future.

Recommendations

1. Make use of quarterly wage information in the interim between eligibility determinations. Assess whether changes in household income warrant changes in eligibility status or benefit amounts.
2. Revise policies and procedures over the Child Care and Development Program eligibility determinations to require subgrantees use all available information when assessing income and monitor subgrantee use of systems.
3. Eliminate duplicate and low-value notifications.
4. Improve controls to ensure case notifications are addressed timely.

Fraud Detection Programs Can Be Enhanced

The Division can improve its processes over detecting, deterring, and recovering improperly paid public assistance benefits. First, the Division does not adequately prioritize investigations and overpayment claims. As a result, a significant backlog exists. Second, the Division does not fully utilize its fraud detection system to identify misuse or fraud. Finally, certain reports generated to identify recipients receiving benefits in multiple states contained inconsistent information.

Prioritization Can Better Leverage Resources

The Division does not prioritize investigation leads by the nature of the issue to maximize the use of its available resources. Additionally, the Division does not prioritize establishment of claims by potential repayment ability, size of overpayment, or previous overpayment history. Because of this, a significant backlog of investigations and claims currently exists, and the Division has started aging out investigation referrals from the system after 90 days. Because some lead types are more indicative of fraud or improper recipient activity than others, resources should be targeted toward those with the highest risk of impropriety.

As of June 2019, the Division had a backlog of 3,800 unassigned investigation leads. These leads were open for an average of 1,023 days and 90% of leads were more than a year old. Additionally, over 5,300 claim referrals remained unestablished because an administrative review had not occurred. Claims had been open for an average of 559 days with about half open more than 1 year.

Division investigation leads are often categorized by the nature of the matter precipitating the need for the investigation. Categorizations include such titles as forging documents, duplicate benefits, income, paternity, and household composition. Some lead types are less likely to result in overpayment or eligibility errors such as paternity or household composition. However, the Division assigned the oldest leads and overpayment claims first without any consideration of any factors.

Federal regulations for all programs require the Division to identify and investigate potential fraud and refer cases meeting criminal criteria to the proper authorities. The Division must substantiate benefit overpayments through investigations or other means. If an investigation concludes a benefit overpayment occurred, a claim is established to begin the recovery process. Before claims are established, the Division conducts an administrative review.

Division management indicated resources over investigations and claims are not sufficient to handle the workload generated. While this may be true, the Division has not conducted a caseload analysis to determine the minimum resources necessary to address the backlog or ongoing workload requirements. Additionally, by prioritizing leads and claims by the most significant and potentially fruitful cases, the Division can leverage resources to provide the best return and increase effectiveness.

Fraud Detection Resources Underutilized

While the Division does utilize certain reports and functionalities of its fraud detection program, it does not make use of capabilities that could enhance identification of SNAP program misuse. Other state audit reports have identified useful data comparisons to curb fraud and abuse at retailers in addition to recipients. Also, the Division can do more to ensure reports are accurate.

Data Analytics Program Purchased to Enhance Fraud Detection in SNAP Program

The Division contracted with a data analytics service in 2016 to enhance fraud detection in the SNAP program. However, the Division has not fully determined the fraud detection reports most useful to its operations or developed policies and procedures over the use of the program and related reports. As a result, fraud and abuse is likely more prevalent in the program than currently identified under existing processes.

The Division's fraud detection system has functionalities to detect risk factors that may indicate the misuse of SNAP benefits by recipients or retailers. In its request for the system, the Division indicated the program would assist in data analysis, data mining, case management and it would improve the number of investigations and fraudulent cases, disqualifications, and prosecutions. Between fiscal years, 2016 and 2019 about $1.9 million was spent on the program.

We reviewed a selection of reports and data analyses that detect inappropriate activity. Some of the reports not currently reviewed may be useful to the Division. For example, one report showed benefit transactions made exclusively out of state for the last 90 days. Generally, reports not used by the Division review unusual activity or patterns in SNAP benefit transactions, combining recipient and retailer activity.

There is no single measure that reflects all forms of fraud and errors in the SNAP program. Therefore, the more ways the Division analyzes SNAP activities, the more it can ensure the program's integrity and eligible families receive the assistance they need.

The Division indicated it has few resources to apply toward retailer fraud. Furthermore, federal entities are the lead agency for retailer fraud. However, federal regulations require the Division have a comprehensive fraud program. Reviewing unreasonable retailer activity can lead to the identification of recipient fraud and abuse that may go undetected otherwise.

Report Methodology Unknown

Reports generated from the fraud detection system for identifying possible duplicate benefits contained inconsistent and illogical information. While some variation may be acceptable, information from one source contained significantly more exceptions. For instance, one report showed 108 recipients while other data reflected over 11,000 recipients could be receiving benefits in other states. Inconsistencies occurred because the Division did not review reports or the design methodology. Neither the

Division nor the software provider could explain how reports were designed or why such significant variances existed.

Recommendations

5. Analyze investigation and overpayment claims to identify those most significant to program integrity and overpayment recovery.
6. Establish procedures to assign higher priority investigations and claims first.
7. Enhance policies and procedures over fraud detection reports to identify the most valuable reports, and utilize reports to ensure program integrity.
8. Develop controls over program integrity reports to ensure accuracy and completeness.

Appendix A

Testwork Sample – Medicaid Households With Excess Quarterly Income

Medicaid Household	Household Size	Quarter	Quarterly Income: Income Limit	Quarterly Income: Estimated Income[(1)]	Potential Overpayment
1	1	Q2 '18	$ 4,188	$ 9,504	$ 1,797
	1	Q3 '18	4,188	8,154	1,797
2	5	Q3 '17	11,871	18,391	1,520
	2	Q4 '18	6,789	16,789	1,185
	2	Q1 '19[(2)]	6,789	15,876	-
3	1	Q1 '18	4,161	4,724	980
	1	Q2 '18	4,188	7,926	980
	1	Q3 '18	4,188	7,500	980
4	1	Q1 '18	4,161	4,606	2,017
	1	Q2 '18	4,188	5,034	2,017
5	4	Q1 '18[(2)]	10,149	13,185	-
	4	Q2 '18	10,353	18,485	4,091
6	2	Q2 '18	5,679	6,397	836
7	1	Q4 '17	4,161	5,503	1,662
	1	Q4 '18	4,188	5,000	1,803
8	2	Q4 '17[(2)]	5,604	6,405	-
	2	Q1 '18	5,604	5,970	3,465
	2	Q2 '18	5,679	6,728	2,069
	2	Q3 '18	5,679	6,330	379
9	6	Q3 '18	11,640	17,629	996
	6	Q4 '18	11,640	18,000	1,984
10	7	Q4 '17	15,321	21,675	5,447
	7	Q1 '18	15,321	15,890	5,609
	7	Q2 '18	15,699	22,424	5,609
	7	Q3 '18	15,699	19,371	5,609
11	3	Q1 '19	$ 8,571	$ 9,200	1,489
Potential Overpayment Total					**$54,321**

Source: Division systems and records.

(1) Estimated income is based on quarterly wage data provided by the Employment Security Division of the Department of Employment, Training and Rehabilitation. ESD wages are considered unverified income. The Division does not act upon unverified information until determined to be an accurate representation of income.

(2) Benefits were not paid for these quarters.

Appendix B
Testwork Sample – SNAP Households With Excess Quarterly Income

SNAP Household	Household Size	Quarter	Quarterly Income: Income Limit	Quarterly Income: Estimated Income[1]	Potential Overpayment
1	3	Q2 '18	$6,432	$ 7,389	$ 402
2	2	Q3 '17	5,115	6,260	1,071
	2	Q4 '17	5,115	7,545	104
	2	Q1 '18	7,886	7,940	45
	2	Q2 '18	5,115	12,335	382
	2	Q3 '18	5,115	10,793	1,056
	2	Q4 '18	5,115	15,770	353
3	3	Q2 '18	6,432	13,458	507
	3	Q3 '18	6,432	11,318	338
4	5	Q2 '18	9,072	13,428	682
	5	Q3 '18	9,072	20,319	2,046
	5	Q4 '18	9,072	19,176	682
5	5	Q1 '18	9,072	9,874	684
	5	Q2 '18	9,072	9,826	228
6	4	Q1 '18	7,752	9,843	67
	5	Q2 '18	9,072	11,148	305
	5	Q4 '18	$9,072	$10,990	1,143
Potential Overpayment Total					**$10,095**

Source: Division systems and records.

[1] Estimated income is based on quarterly wage data provided by the Employment Security Division of the Department of Employment, Training and Rehabilitation. ESD wages are considered unverified income. The Division does not act upon unverified information until determined to be an accurate representation of income.

Appendix C
Audit Methodology

To gain an understanding of the Division of Welfare and Supportive Services (Division), we interviewed staff, reviewed statutes, regulations, and policies and procedures significant to the Division's operations. We reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Division. Further, we documented and assessed the Division's internal controls related to eligibility and fraud prevention.

To conclude on our objective, June 2018 recipient data for Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), Medicaid, and Child Care and Development Program (CCDP) were obtained and reviewed for blanks, illogical information, and reasonableness. We determined if data met specifications for specific fields, character length, and other established criteria. We further assessed data reliability by discussing known data issues from ongoing use of data with Division staff. Finally, we reviewed access controls for certain systems.

To determine if the Division is effectively using information from various sources including, but not limited to, the Employment Security Division (ESD) of the Department of Employment, Training and Rehabilitation to find unreported income, we randomly selected 50 recipients eligible during June 2018 for each of the SNAP, TANF, Medicaid, and CCDP programs. Recipients totaled 472,587 (SNAP), 25,992 (TANF), 747,996 (Medicaid), and 7,732 (CCDP) for the month. We used Division systems that aggregate information from other sources, such as ESD, to verify if income reported by recipients during their most recent eligibility determination was accurate.

We compared income reported by recipients to that reported from other sources, and identified those where income reported by recipients exceeded that reported from other sources. Finally, we calculated benefit overpayments, if any, for exceptions in our sample.

To calculate an estimate of benefit overpayments for CCDP, we determined the monthly overpayment for June 2018, the month our sample was selected from. We calculated the annual overpayment based on the June 2018 error. Then, we determined the overpayment for the population using the error rate and annual overpayment from our testwork sample.

Next, we reviewed whether the Division could improve its use of quarterly wage data between eligibility redetermination periods. Again, we compared income reported by recipients to that reported by ESD. This typically resulted in reviewing a one-year period for SNAP recipients (+/- 6 months), and a 2-year period for TANF and Medicaid recipients (+/- 12 months) based on the differing redetermination schedules for each program.

We requested information from the Division of Healthcare Financing and Policy to determine certain benefits paid for Medicaid recipients. For our estimate of potential overpayments related to SNAP and Medicaid recipients, the yearly overpayment amounts were extrapolated to the populations at a 90% confidence level, resulting in a level of precision of plus or minus 80% of $47.3 million for SNAP, and 74% of $453.2 million for Medicaid. Using the lower limit, on an annualized basis, the estimated overpayments in the report represent $59.8 million for Medicaid and $9.5 million for SNAP.

We also compared benefit overpayments to the timing of when external information would likely be received by the Division. We determined if any benefit payments could have been prevented if the Division had system notifications based on wage increases. From this comparison, we calculated the percentage of benefit payments from the Medicaid and SNAP programs that could be avoided by identifying ineligibility sooner.

Our testing related to eligibility included a review of whether the Division is following up on system-generated alerts. We reviewed 20 recipients for each of the SNAP, TANF, and Medicaid programs from the same recipient populations noted previously. We reviewed alerts and determined if the Division addressed the alert by the due date. We also reviewed the nature of the alert, whether eligibility was, or could be affected by the alert, and whether benefits paid continued to be appropriate. Due to how the system generates and disposes of alerts, we were unable to determine the number of alerts generated and reviewed by the Division for any time period.

We also tested the Division's timeliness in conducting eligibility redeterminations and certain SNAP exemptions. We reviewed information in Division systems for 50 recipients for each of the SNAP, TANF, and Medicaid programs from the same recipient populations noted previously. We reviewed the date of the most recent eligibility redetermination, viewed notices sent to recipients, and determined the timeliness of the redetermination based on applicable program rules. For SNAP exemptions, we randomly sampled 50 recipients from 399,868 recipients designated as employment exempt during June 2018. We verified the exemption status by reviewing supporting information.

To determine whether the Division is investigating and processing referrals and claims regarding potential and known overpayments, we analyzed case reports from the Division's investigation and recovery case management systems. We reviewed data for blanks, illogical information, and reasonableness. We found the data reliable for our testing purposes.

We also reviewed whether the Division is fully utilizing its data analytic program. We held discussions with staff, obtained access to the system, and reviewed the Division's request for funding of the system. We reviewed reports designed to identify fraud, and determined whether reports were reviewed regularly by the Division. We reviewed fraud reports used in other states and compared these reports to those available. Lastly, we compared certain reports to data obtained by the federal government and determined the accuracy of those reports.

Finally, we reviewed whether the Division complied with debt collection requirements, by obtaining reports regarding accounts receivable sent to collections, those not sent to collections, and amounts written off. For debts not sent to collections, we selected the 10 oldest debts and a random sample of 50 debts out of 8,203 debts. For debts sent to collections, we randomly selected 25 out of 5,924 debts that were sent to the State Controller's Office, 10 out of 509 active Treasury Offset Program debts that had no collection activity, and 15 out of 738 debts that were currently being collected through the Treasury Offset Program. We assessed the timeliness of debt submissions to respective collection agencies, and determined if the Division had adequate collection methods if debts were not sent to collections. Lastly, we reviewed 12 out of 47 debts written off for compliance with program requirements.

For our sample design, we used non-statistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that non-statistical samples provided sufficient, appropriate audit evidence to support the conclusions in our report. We did not project the results of certain testing because populations were not known or errors were not projectable.

Our audit work was conducted from January 2018 to July 2019. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Division of Welfare and Supportive Services. On December 4, 2019, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D, which begins on page 22.

Contributors to this report included:

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Appendix D
Response From the Division of Welfare and Supportive Services

Steve Sisolak
Governor

Richard Whitley, MS
Director

DEPARTMENT OF
HEALTH AND HUMAN SERVICES
Division of Welfare and Supportive Services
Helping people. It's who we are and what we do.

Steve H. Fisher
Administrator

December 16, 2019

Daniel L. Crossman, CPA
Legislative Auditor
Legislative Counsel Bureau
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Crossman:

In response to the letter and draft audit report provided by the Legislative Counsel Bureau (LCB), dated November 21, 2019, the Nevada Division of Welfare and Supportive Services (the Division) provides this written statement of explanation to the eight recommendations as follows:

1. **Make use of quarterly wage information in the interim between eligibility determinations. Assess whether changes in household income warrant changes in eligibility status or benefit amounts.**

   Response: The Division partially agrees and disagrees with this recommendation.

   The agency agrees case income may fluctuate from approval to recertification. However, quarterly data from the Employment Security Division (ESD) is not verified upon receipt and is not received timely for case processing. This information is between 2 to 4 months old by the time the agency is provided the data.

   DWSS is currently evaluating various options that other states have implemented to gather timely income data during the certification period. The agency is committed to finding the most accurate and efficient way to gather income data and determine the best way to notify the case managers when there is a discrepancy that needs to be addressed.

2. **Revise policies and procedures over the Child Care and Development Program eligibility determinations to require subgrantees use all available information when assessing income and monitor sub-grantee use of systems.**

   Response: The Division agrees with this recommendation.

   The attached Policy Transmittal mandates that staff utilize certain resources to obtain verifications when processing cases. The Policy Transmittal was released on February 25, 2019.

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3. **Eliminate duplicate and low-value notifications.**

   Response: The Division agrees with this recommendation.

   The agency is currently researching and evaluating system alerts. There has already been a work item opened and a team assigned for this project.

4. **Improve controls to ensure case notifications are addressed timely.**

   Response: The Division agrees with this recommendation.

   When the alert issue is corrected in recommendation 3, referenced above, this should also be resolved. The solution above would include changing how alerts are distributed to the field for processing. Currently, staff pull alerts. The solution will include pushing the alerts into tasks for the field staff to address.

5. **Analyze investigation and overpayment claims to identify those most significant to program integrity and overpayment recovery.**

   Response: The Division agrees with this recommendation.

   In early September 2019, Investigations & Recovery (I&R) did an in-depth analysis of the two most common referral reasons for investigations over the last 3 years from September 2016 to August 2019. The referral reasons were household composition and unreported income. The analysis involved looking at which referral reason resulted in the most investigations completed with an overpayment found. The analysis revealed unreported income investigations resulted in the most cases with findings and an overpayment even though there were more household composition investigations conducted overall. As a result of these findings, triaging and prioritization of incoming referrals for investigation became paramount to maximize limited resources and outcomes. Subsequently, overpayment staff priorities were brought in line to support the operational and procedural pivot towards assignment of more unreported income investigations. This had a process trickle-down effect and emphasized a need to prioritize overpayment referrals as well.

   Early in 2019, at the suggestion of the Food and Nutrition Service (FNS), I&R adopted a 90-day aged-out methodology for investigative referrals modeled after Washington State. This methodology places a 3-month time limit to work the highest priority investigative referrals. Any referrals exceeding the time limit are not deleted as referenced in the LCB audit findings but closed in the system. These referrals can be re-submitted for investigation by the district office. This methodology became policy in June 2019. A referral prioritization matrix was devised and implemented in early October 2019 for investigative and overpayment referrals. District Office Managers are provided a monthly list of aged-out referrals to provide the opportunity to re-submit any for investigation.

6. **Establish procedures to assign higher priority investigations and claims first.**

   Response: The Division agrees with this recommendation.

   In October 2019, Investigations & Recovery (I&R) devised and implemented a referral prioritization system for all incoming referrals modeled after Washington State. Referrals are designated for investigation or overpayments. Each referral for investigation is assigned a priority level based on established guidelines by vetting staff. Investigators select investigations based on priority level. Overpayment referrals are not assigned a priority level but organized in priority groups. Referrals resulting from an investigation are always the top priority to be processed. Afterwards, overpayments mandated by specific federal statute have next priority followed by all other priority groups in order of importance.

   Most unreported income referrals are a priority 1 or 2. These investigations do not take as long as a referral for household composition. Household composition cases will mostly be priority 2 with some specific circumstances assigned priority 1. Overpayments resulting from unreported income investigations are faster to process then household composition overpayments. The desired result should be more investigations completed and more overpayments processed by focusing on the most productive activities. Over time, backlogs for investigations and overpayments will be more efficiently manageable. In May 2019, I&R designated the resolution of the oldest overpayment referrals as the highest priority. From June 2019 to December 2019, approximately 1200 referrals have been processed. This has resulted in a significant decrease in the number of overpayments awaiting action.

7. **Enhance policies and procedures over fraud detection reports to identify the most valuable reports and utilize reports to ensure program integrity.**

   Response: The Division agrees with this recommendation.

   In late 2016 with the help of an FNS technology grant, I&R developed a data analytics and case management system with a private vendor Pondera. This new system can analyze vast amounts of Supplemental Nutrition Assistance Program (SNAP) Electronic Benefits Transfer (EBT) transaction and data match information looking for indicators of possible fraudulent activity involving individual recipients and SNAP retail businesses. The result has been a vast increase in retailer and recipient SNAP trafficking alerts. To address these alerts, staff need to conduct research, audits, compliance monitoring, provide investigative reporting, tracking, developing case files, compile and preserve evidence, and prepare final audit or investigation reports.

   Investigations and Recovery entered into a State Law Enforcement Bureau (SLEB) agreement with the United States Department of Agriculture (USDA) to conduct investigations into possible SNAP retailer fraud. I&R has partnered with several law enforcement agencies to investigate and prosecute retailer EBT trafficking. Since 2016, DWSS has one Compliance Investigator II, assigned to work retailer trafficking cases in Northern Nevada and recently, assigned another Compliance Investigator II to address this concern in Southern Nevada.

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I&R is performing a staffing evaluation with the purpose of creating a Compliance Audit Team. I&R may request additional positions in the next biennium to staff this team. This team will be responsible for addressing the complex and intricate schemes developed by criminal elements throughout Nevada and address the alerts Pondera is providing. I&R has worked diligently with Pondera to identify the most useful alerts and modify them for the best indicator of fraud in Nevada. During the past two years, our SLEB activity has resulted in the lifetime disqualification of 5 retailers operating in Northern Nevada and currently pending the conviction of two retailers in Las Vegas.

8. **Develop controls over program integrity reports to ensure accuracy and completeness.**

   Response: The Division agrees with this recommendation.

   The issue surrounding this recommendation was an error in the processing of a Public Assistance Reporting Information System (PARIS) report in Pondera. Pondera performed a rerun of PARIS data in October 2018 on February 2018 data, which caused multiple errors in the PARIS match report. This issue has been corrected.

   DWSS received and provided Pondera the PARIS match data in August 2019. This data was integrated into Pondera in September 2019.

   The information below was provided by Pondera to describe how the PARIS match is performed.

   > *Pondera receives the PARIS Match files (Interstate, VA, Fed) from NV DWSS on a quarterly basis and crossmatches it against the DWSS Recipient data, also received by NV DWSS, to query for instances of duplicate benefits. The results of the crossmatch are then pushed to the Pondera FraudCaster dashboard for users to view and create cases. Depending on which alert, or flag, a user is looking at in the dashboard, there may be additional logic or criteria factored into the query in order for the alert to trip. For example, Alert 3216 includes additional logic to check for matches where Nevada is the second state that recipient receives benefits. Each quarter when the new PARIS data is received, Pondera repeats the process of running the analytics and pushing the results to the system for the users.*

   As a result of the subsequent successful completion of PARIS matches performed after the LCB Audit, DWSS believes this issue has been resolved.

   In addition to the above-referenced recommendations, under key findings, it states as of June 2019, the Division had a backlog of 3,800 unassigned investigation leads. As of the date of this letter, 3,430 of the backlog investigations have been triaged and reviewed and determined to be low priority, with lack of evidence and will be aged out.

The report also indicates a 5,300-claim referral backlog. As of December 11, 2019, the current backlog has been reduced to 4,029.

Should you have any questions or require additional information, you may contact Nicole Kennedy at (775) 684-0785.

Sincerely,

Steve H. Fisher, Administrator

/nk
Encl. (1)

cc: Robert Thompson, Deputy Division Administrator
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The Division of Welfare and Supportive Services' Response to Audit Recommendations

	Recommendations	Accepted	Rejected
1.	Make use of quarterly wage information in the interim between eligibility determinations. Assess whether changes in household income warrant changes in eligibility status or benefit amounts	X	
2.	Revise policies and procedures over the Child Care and Development Program eligibility determinations to require subgrantees use all available information when assessing income and monitor subgrantee use of systems	X	
3.	Eliminate duplicate and low-value notifications	X	
4.	Improve controls to ensure case notifications are addressed timely	X	
5.	Analyze investigation and overpayment claims to identify those most significant to program integrity and overpayment recovery	X	
6.	Establish procedures to assign higher priority investigations and claims first	X	
7.	Enhance policies and procedures over fraud detection reports to identify the most valuable reports, and utilize reports to ensure program integrity	X	
8.	Develop controls over program integrity reports to ensure accuracy and completeness	X	
	TOTALS	8	

Appendix E
Auditor's Comments on Agency Response

The Division, in its response on page 22, indicated it partially disagrees with Recommendation No. 1. Because of this, we have provided our comments on this issue to inform the reader of our position and demonstrate why we believe our finding, conclusion, and recommendation, as stated in the report, to be accurate and appropriate.

The Division states that Employment Security Division (ESD) data is not verified upon receipt and is not received timely for case processing. The Division indicates this information is between 2 to 4 months old by the time the agency is provided the data. On page 6 of the report, we acknowledge these facts; however, ESD wage data is the most comprehensive wage information currently available to the Division based on our review of system interfaces. Considering over 20% of the Medicaid households we tested did not report increased income between eligibility determinations as noted on page 5, we believe monitoring of available wage data is important to identify potential improper payments.

The Division indicates it is evaluating options that other states have implemented to gather timely income data. The State of Colorado uses similar wage information to ensure recipients meet income requirements between eligibility determinations. However, if the Division can identify income data that is timely and comprehensive, other than ESD wage data, we have no objection to the Division instituting a process using wage or income information that is more timely.

As stated on page 4 of the report, potential benefit overpayments of $69 million per year occurred because recipients did not report wage increases between eligibility determinations. This total represents the low end of a range of potential statistical results. That range indicates benefit payments for ineligible recipients could near $500 million per year, based on current Medicaid and SNAP populations. While the timing of ESD wage information may not prevent all inappropriate benefit payments, about 20% of Medicaid payments for ineligible recipients may be prevented if the Division instituted a process to identify excess income between eligibility determinations.