

Audit Highlights



Highlights of Legislative Auditor report on the Department of Health and Human Services, Division of Welfare and Supportive Services issued on September 19, 2012. Report # LA12-19.

Background

The Welfare Division was created in 1937 and was renamed the Division of Welfare and Supportive Services in 2005. The Division is part of the Department of Health and Human Services. The Division's mission is to provide quality, timely, and temporary services enabling Nevada families, the disabled, and elderly to achieve their highest levels of self-sufficiency.

The Division had 1,335 legislatively approved full-time equivalent positions as of July 1, 2010, and expenditures totaling over \$496 million during fiscal year 2011. The Division's main source of funding is the federal government. The Division's administrative office is in Carson City. In addition, the Division has 13 District Offices: one each in Carson City, Elko, Ely, Fallon, Hawthorne, Reno, Pahrump, Yerington, and Henderson, and four in Las Vegas.

Purpose of Audit

The purpose of this audit was to: 1) determine if the Division's controls over benefits issued through Electronic Benefits Transfer (EBT) cards were sufficient to reduce the risks of benefits being paid to deceased clients and of unauthorized persons using those benefits, and 2) determine if payments made to the vendor for EBT account services were accurate.

Audit Recommendations

This audit report contains five recommendations to improve administrative controls over EBT cards and the EBT account services vendor. These recommendations include developing policies and procedures to help ensure benefits are not issued to deceased clients, accounts are modified to prevent the use of EBT cards after clients' deaths, and to improve controls related to the Division's monitoring of the information received from and the amount paid to the EBT vendor to help ensure reports and payments are accurate.

The Division accepted the five recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on December 18, 2012. In addition, the six-month report on the status of audit recommendations is due on June 18, 2013.

Division of Welfare and Supportive Services

Department of Health and Human Services

Summary

The Division could improve its controls over benefits issued through the Electronic Benefits Transfer (EBT) card system to help ensure benefits are not paid to deceased clients. In some instances, the Division continued to pay benefits into EBT accounts for clients who had been deceased for months. In addition, some EBT cards continued to be used for cash or purchases for months after the clients' deaths. Problems were also noted in some EBT accounts where the Division had recorded clients' dates of death, such as accounts remaining in active status.

The Division can improve its oversight of the EBT vendor to help ensure the services and information provided are in accordance with the contract and the vendor's billings are appropriate. The vendor's reports do not always contain complete, accurate, and timely information. In addition, the vendor continued to bill for point-of-sale devices at a rate from a prior contract for 12 months after a new contract reduced the agreed-upon fee by \$10 per device.

Key Findings

The Division should consider using additional sources of information to identify when clients have died. The Division relies on the Social Security Administration, medical facilities, and family members to report when clients have died. However, other methods of obtaining information are available. For example, another state researches samples of client files. The Division could also verify the status of samples of clients selected randomly or selected based on certain criteria, like age or address changes. We matched information in the Division's Nevada Operations of Multi-Automated Data Systems (NOMADS) for about a third of the head of household clients for the Supplemental Nutrition Assistance Program (SNAP) and all head of household clients for the Temporary Assistance for Needy Families (TANF) program with a list of all persons reported to the Health Division's Office of Vital Statistics as having died in Nevada between July 1, 2007, and December 31, 2011. We found 189 persons listed on NOMADS as living who were reported to the Office of Vital Statistics as deceased on or before December 31, 2009. To analyze post-death account activity, we tested the EBT accounts for 50 of these 189 clients and found the Division paid more than \$11,500 in benefits to 27 of the 50 clients after their dates of death. The Division made deposits into these accounts up to 10 months after the clients died. Of these benefits, the EBT vendor later removed \$7,225 of unused benefits from the accounts. (page 7)

The Division's controls for preventing unauthorized persons from using benefits after the death of a client can be improved. The Division relies on the EBT vendor to remove unspent SNAP benefits from accounts after 12 months. Of the 50 deceased clients' accounts we tested, 13, or 26%, had purchases or automatic teller machine transactions after the clients' dates of death. These transactions totaled \$6,502 and took place from 13 to 247 days after the clients' dates of death. Since the EBT cards were still being used, the EBT vendor did not promptly remove the benefits remaining in the accounts at the time of death. (page 9)

We matched client information in the Division's NOMADS with information on deaths in Nevada maintained by the Office of Vital Statistics and found 178 clients with dates of death that were different in the two databases. We tested five of these clients' accounts and found all were listed by the vendor as having active accounts even though the clients' records in NOMADS showed the clients were deceased. (page 9)

The EBT services vendor's reports did not always contain complete, accurate, and timely information. We tested client information reports for 65 client files whose unused benefits were removed by the vendor or whose accounts had no activity for more than 1 year. All 65 clients' accounts were listed as active accounts on the EBT vendor's system. The Division's contract with the EBT vendor defines an active account as one where there is client-initiated activity within 360 days for SNAP accounts and 180 days for TANF accounts. The contract makes the vendor responsible for changing the card and account status from active to inactive. However, the statuses for these 65 accounts were not changed. Leaving an account status as active after a client has died increases the risk that an unauthorized person may use the benefits. (page 11)

The Division did not adequately review the invoices from the EBT vendor before paying. The Division paid invoices where the vendor used a monthly rate for point-of-sale devices from a prior contract. We estimate the Division overpaid the vendor by \$77,000. According to Division management, all monies from the overpayment were recouped from the vendor. (page 12)

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This report contains the findings, conclusions, and recommendations from our completed 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 five recommendations to improve controls over the provision of benefits using electronic benefits transfer cards and over the vendor providing banking services for the cards. 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,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

August 15, 2012
Carson City, Nevada

Division of Welfare and Supportive Services

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Introduction

Background

The Welfare Division was created in 1937 and was renamed the Division of Welfare and Supportive Services in 2005. The Division is part of the Department of Health and Human Services. The Division's mission is to provide quality, timely, and temporary services enabling Nevada families, the disabled, and elderly to achieve their highest levels of self-sufficiency.

The Division has three primary sections: Administrative Services, Program and Field Operations, and Information Services. The Division administers multiple programs, including:

- Supplemental Nutrition Assistance Program (SNAP) – SNAP was designed to raise the nutritional level of low-income households whose limited food purchasing power contributes to hunger and malnutrition among members of these households. The federal government pays 100% of SNAP benefits, which totaled \$497 million in federal fiscal year 2011; administrative expenditures are 50% federal and 50% general fund appropriations.
- Temporary Assistance for Needy Families Program (TANF) – TANF has four purposes: 1) provide assistance to needy families so children may be cared for in their homes or in the homes of relatives; 2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; 3) prevent and reduce the incidence of out-of-wedlock pregnancies; and 4) encourage the formation and maintenance of two-parent families.
- New Employees of Nevada (NEON) – NEON provides services to assist TANF households to become self-sufficient, primarily through training, employment, and increased income. Assistance may include childcare, transportation, clothing, tools, and other special needs items necessary for employment.
- Medicaid – The Division provides eligibility determinations for Medicaid applicants.

- Child Health Assurance Program (CHAP) – CHAP provides pregnancy-related Medicaid benefits for pregnant women and Medicaid benefits to children under the age of 6 years whose families have income between 100% and 133% of the federal poverty level.
- Child Support Enforcement Program – This program helps ensure parents support their children. This program is administered in partnership with participating District Attorneys’ Offices.
- Child Care Assistance and Development Program (CCDP) – CCDP provides assistance to Nevada’s low-income families in paying for their child care needs. These services assist people to become and remain self-sufficient, thereby reducing long-term dependency and the associated public assistance program expenditures.
- Energy Assistance Program – This program assists low income Nevadans with the cost of home energy.

Caseloads for the Division’s major programs have increased significantly during recent years. For example, caseloads for SNAP, CHAP, and NEON have increased more than 100% since fiscal year 2007. Exhibit 1 shows the increase in caseloads for six major programs administered by the Division from fiscal year 2003 through fiscal year 2011.

Caseload Analysis **Exhibit 1**
Fiscal Year 2003 Through Fiscal Year 2011

Program	FY 2003	FY 2007	FY 03 to FY 07		FY 2011	FY 07 to FY 11	
			Number Change	Percent Change		Number Change	Percent Change
SNAP	48,474	56,621	8,147	17%	153,934	97,313	172%
TANF	12,181	7,326	(4,855)	(40%)	11,982	4,656	64%
NEON	6,684	3,061	(3,623)	(54%)	7,248	4,187	137%
MEDICAID	21,852	24,988	3,136	14%	48,169	23,181	93%
CHAP	12,468	14,586	2,118	17%	38,232	23,646	162%
CCDP	10,667	10,782	115	1%	7,838	(2,944)	-27%

Source: Department of Health and Human Services.

The Division had 1,335 legislatively approved full-time equivalent positions as of July 1, 2010. Exhibit 2 details changes in the

Division's staffing levels from fiscal year 2003 to fiscal year 2011. The Division's number of legislatively approved full-time equivalent positions increased 8% from July 1, 2006, to July 1, 2010. In addition, the Division has 248 intermittent staff assigned to the Welfare Field Services budget account. Most of these positions were added during fiscal year 2010 to address fluctuations in workload associated with processing public assistance applications.

**Legislatively Approved Full-Time Equivalent Positions
Fiscal Year 2003 through Fiscal Year 2011**

Exhibit 2

Budget Account	FY 2003	FY 2007	FY 03 to FY 07		FY 2011	FY 07 to FY 11	
			Number Change	Percent Change		Number Change	Percent Change
Welfare Administration	118	162	44	37%	185	23	14%
Welfare Field Services	758	963	205	27%	1,001	38	4%
Child Support Enforcement	90	99	9	10%	126	27	27%
Child Care Assistance and Development	11	11	-	0%	11	-	0%
Energy Assistance Program	5	5	-	0%	12	7	140%
Totals	982	1,240	258	26%	1,335	95	8%

Source: Legislatively approved budgets.

The Division's administrative office is in Carson City. In addition, the Division has 13 District Offices: one each in Carson City, Elko, Ely, Fallon, Hawthorne, Reno, Pahrump, Yerington, and Henderson, and four in Las Vegas.

The Division administers 10 budget accounts. The Division's main source of funding is the federal government. Exhibit 3 provides additional information on the Division's expenditures during fiscal year 2011.

**Division of Welfare and Supportive Services Exhibit 3
Expenditures for Fiscal Year 2011**

Description	Amount	Percent of Total
Welfare Administration	\$ 28,089,043	6%
TANF	56,239,958	11%
Assistance to Aged and Blind	7,581,000	2%
Welfare Field Services	71,330,646	14%
Child Support Enforcement	14,450,610	3%
Collection and Distribution Account ⁽¹⁾	29,470,703	6%
Child Care Assistance and Development	50,063,580	10%
Energy Assistance Program	28,920,860	6%
Collection and Distribution Account ⁽²⁾	198,326,498	40%
Universal Energy	11,910,652	2%
Total	\$496,383,550	100%

Source: State accounting system

⁽¹⁾ 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.

⁽²⁾ This account is used to pass through child support collections from the non-custodial parent to the custodial parent.

Issuing Electronic Benefits Transfer Cards

The Division has two primary information systems used to administer the benefits for the SNAP and TANF programs. These systems are the Nevada Operations of Multi-Automated Data Systems (NOMADS) and the JPMorgan Electronic Benefits Transfer (EBT) card system. Most case information flows from NOMADS to the EBT system.

The Division uses EBT cards to help distribute benefits for the SNAP and TANF programs. Most benefits are deposited into accounts with a contracted bank. Benefits may be used for qualified purchases from merchants for the SNAP program or to access cash or make purchases for the TANF program. EBT cards are similar to debit cards issued by banks and require the use of a personal identification number.

Generally, when an application for SNAP or TANF benefits is approved, the client goes to a District Office to obtain the EBT card. Before the card is handed to the client, staff opens both the NOMADS and EBT systems, verifies the client's identification, determines if the client is getting the card for the first time or if the

card is a replacement, and gives the client an informational brochure. The cards are kept in a secured location and the client must sign a log indicating receipt of the card. Staff enters the pertinent information into the information systems and instructs the client how to assign a personal identification number to the card.

The client has the option to assign various levels of authority over personal information or benefits to another person called an authorized representative. Depending on the level of authority selected, a separate EBT card could be issued to the authorized representative for the client's account. Information about the authorized representative is found in both the NOMADS and EBT systems.

Each month, benefits are deposited into clients' accounts. However, there are situations where benefits can be stopped. These situations include household status changes, clients moving to another state, or the death of a client.

An EBT account remains active until there is no client-initiated activity for a given number of days depending on the program. For SNAP, benefits not used after 12 months are removed and revert to the federal government. For TANF, after 180 days of no client-initiated activity, the unused benefits are removed from the account and the funds revert to the State.

The EBT cards are administered by JPMorgan Chase Bank. The Western States EBT Alliance, an initiative of the Western Governors' Association, jointly procured EBT services for member states. JPMorgan, an incumbent contractor, was awarded the contract effective from October 1, 2009, to June 30, 2018. During fiscal year 2011, the Division paid over \$1.66 million to JPMorgan for administering the EBT cards.

Scope and Objectives

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.

This audit included a review of the Division's controls over Electronic Benefits Transfer accounts from the clients' dates of death through December 31, 2011. The clients' dates of death ranged from July 1, 2007, through December 31, 2009. In addition, the audit included the EBT vendor's billings and the Division's payments to the vendor for the period from July 2010 through June 2011. The objectives of our audit were to:

- Determine if the Division's controls over benefits issued through Electronic Benefits Transfer (EBT) cards were sufficient to reduce the risks of benefits being paid to deceased clients and of unauthorized persons using those benefits.
- Determine if payments made to the vendor for EBT account services were accurate.

Controls Over Certain Benefits Could Be Improved

The Division could improve its controls over benefits issued through the Electronic Benefits Transfer (EBT) card system to help ensure benefits are not paid to deceased clients. In some instances, the Division continued to pay benefits into EBT accounts for clients who had been deceased for months. In addition, some EBT cards continued to be used for cash or purchases for months after the clients' deaths. Problems were also noted in some EBT accounts where the Division had recorded clients' dates of death, such as accounts remaining in active status.

The Division Needs to Improve Identification of Deceased Clients

The Division should consider using additional sources of information to identify when clients have died. The Division relies on the Social Security Administration, medical facilities, and family members to report when clients have died. However, other methods of obtaining information are available. For example, another state researches samples of client files. The Division could also verify the status of samples of clients selected randomly or selected based on certain criteria, like age or address changes.

Continuing to deposit benefits and leaving accounts' statuses as active for months after clients' deaths increases the risk that the benefits may be used by unauthorized persons. Further, the number of deposits into each client's EBT account is one component included on the EBT vendor's monthly billings. Consequently, the State incurs an unnecessary cost for benefits deposited into accounts belonging to deceased clients.

The Health Division's Office of Vital Statistics maintains a database of persons who have died in Nevada. We matched information for about a third of the SNAP head of household

clients and all the head of household clients for the TANF program with the Office of Vital Statistics' database of persons who had died in Nevada between July 1, 2007, and December 31, 2011. Almost 2,400 persons were listed in both databases; 749 of the 2,400 were not shown as deceased in NOMADS. Of these, 189 were listed in NOMADS as living, but were reported by Vital Statistics as deceased on or before December 31, 2009. To analyze post-death account activity, we tested 50 of these 189 clients' EBT accounts and found they were all shown by the EBT card services vendor as having active accounts.

Benefits Were Paid to Deceased Clients

The Division often did not discontinue the payment of benefits to clients for months after their deaths because these dates were not known. More than \$11,500 in benefits were paid to 27 of the 50 clients tested after their dates of death reported in the database provided by Vital Statistics. The Division made deposits into these accounts from just a few days to 10 months after the clients died. In addition, 3 of the 50 clients' benefits included dependents. While the clients' dependents might have continued to qualify for benefits, the benefit amounts should have been reviewed or possibly adjusted after the clients' deaths.

Further, 8 of the 27 client files that had benefits issued after the date of death also had address changes. These address changes were effective 7 to 298 days after the dates of death reported by Vital Statistics.

The vendor is responsible for removing unused benefits from accounts when they are not used for a specified period of time. Of the benefits issued to the 27 clients where no dates of death were recorded in NOMADS, the vendor later removed \$7,225 of unused benefits from the accounts.

We also found that the Division issued an EBT card to a client through a third party 8 days after the client's death. Further, a new personal identification number was issued on this account 3 days after the issue date. Because no date of death was identified for this client, benefits were not stopped and \$1,600 was deposited into the EBT account.

EBT Card Accounts Were Used After Clients' Deaths

The Division's controls for preventing unauthorized persons from using benefits after the death of a client can be improved. The Division relies on the EBT vendor to remove unspent SNAP benefits from accounts after 12 months. However, this control is not effective at preventing unauthorized persons from using benefits intended for another.

EBT cards belonging to deceased clients were used. We tested transaction records for 50 clients who were reported as deceased by Vital Statistics but shown as active in the EBT system and found 13, or 26%, had purchases or automatic teller machine transactions after the clients' dates of death. These transactions totaled \$6,502 and took place 13 to 247 days after the clients' dates of death. Because none of these accounts had a date of death entered in NOMADS, and the EBT cards were still being used, the EBT vendor did not promptly remove the benefits remaining in the accounts at the time of death.

Further, we found that \$1,000 was spent using the EBT card that was issued after the client's date of death. Many of these purchases were made in another state.

Problems Also Found When the Date of Death Was Recorded

Of the 2,400 persons listed in both NOMADS and the database provided by the Office of Vital Statistics, 178 persons' dates of death did not match in the two systems. Exhibit 4 shows the range of the differences in the dates of death between the two databases.

Differences in Dates of Death Between NOMADS and the Office of Vital Statistics **Exhibit 4**

Range of Days	Number of Clients
400 or More	2
300 to 399	4
200 to 299	1
100 to 199	9
50 to 99	13
25 to 49	19
1 to 24	130
Total	178

Source: NOMADS client records and the Office of Vital Statistics' data.

The Division's controls did not ensure that EBT accounts for those clients of whose deaths the Division was aware were closed or changed to inactive status. We tested the EBT accounts for 5 of these 178 clients and found all were listed by the vendor as having active accounts, even though the clients' records in NOMADS showed the clients were deceased. In addition, all five of these clients' files had address changes after the dates of death in NOMADS.

Recommendations

1. Develop policies and procedures for using additional sources of information to identify when clients have died.
2. Develop policies and procedures to more timely stop the payment of benefits to deceased clients.
3. Develop policies and procedures to prevent the use of EBT cards by unauthorized persons after clients' deaths.

Oversight of EBT Vendor Can Be Improved

The Division can improve its oversight of the EBT vendor to help ensure the services and information provided are in accordance with the contract and the vendor's billings are appropriate. The vendor's reports do not always contain complete, accurate, and timely information. In addition, the vendor continued to bill for point-of-sale (POS) devices at a rate from a prior contract for 12 months after a new contract reduced the agreed-upon fee by \$10 per device.

Problems Found in the EBT Vendor's Reports

Client information on summary case reports and account activity reports did not always contain complete, accurate, and timely information from the EBT vendor's information system. Division staff use EBT system reports to perform such duties as issuing EBT cards and fiscal reconciliation. Reliability of information is necessary for strong controls and decision-making.

The client summary report, called *Cardholder Information*, contains personal information including the client's name, address, social security number, and case number. This report also includes whether the EBT card and account are in active status, the amounts and dates of the last transactions, and the available balance of benefits remaining on the account. Account activity reports, called *Transaction Inquiry*, include details affecting the EBT account such as benefits issued, purchases, automatic teller machine (ATM) cash withdrawals, balance inquiries, insufficient funds notifications, invalid personal identification number entries, and the removal of unused benefits.

Cardholder Information Reports

We tested *Cardholder Information* reports for 65 client files whose accounts either had unused benefits removed by the vendor or had no activity for more than 1 year. We found all were listed as having active EBT cards and accounts, even though 10 of the

clients' accounts had been listed on the vendor's *Inactive EBT Accounts* reports.

The vendor's contract defines an active account as one where there is client-initiated transactions within 360 days for SNAP accounts and 180 days for TANF accounts. Further, the contract makes the vendor responsible for changing the card and account status from active to inactive. However, revising the EBT card and account status from active to inactive did not happen for these 65 accounts. Leaving an account status as active after a client has died increases the risk that an unauthorized person may use the benefits.

Transaction Inquiry Reports

Transaction Inquiry reports did not always include ATM fees and one report did not include all paid benefits. We tested the *Transaction Inquiry* reports for five TANF clients. We found these reports did not include ATM fees, totaling \$505, for any of the 158 transactions from July 1, 2009, through December 31, 2011.

Further, for 2 of 50 files reviewed, *Transaction Inquiry* totals did not agree with the balance reported on the *Cardholder Information* report. One *Transaction Inquiry* report showed a balance of \$18.20; however, the *Cardholder Information* report showed a zero balance. The *Transaction Inquiry* report did not include ATM transaction fees. In the second case, the *Transaction Inquiry* report did not include a \$200 benefit posted days after the EBT card was approved.

Division management was not aware of these inconsistencies. After consulting with the vendor, using custom reports, and after more than one attempt, the Division was able to get complete and accurate information for these two clients' accounts.

Vendor Invoices Need Better Review

The Division did not adequately review the invoices from the EBT vendor before paying. The vendor bills the State for each POS device used by merchants to process purchases for clients using EBT cards. A new contract started on October 1, 2009, with new rates for the POS devices effective in July 2010. However, the Division approved and paid invoices where the vendor used the prior monthly rate of \$14.49 instead of the revised rate of \$3.50 or \$4.50 depending on the type of POS device used.

We estimate the Division overpaid the vendor by \$77,000 during the 12 months ending in June 2011. According to Division management, immediate steps were taken to correct the overpayment when we identified the problem. Although the Division's fiscal officer stated all monies from the overpayment were recouped from the vendor, steps need to be taken to ensure similar situations do not occur.

Recommendations

4. Work with the EBT vendor to ensure reports relating to the EBT cards are complete, accurate, timely, and easily accessible.
5. Implement controls to ensure vendor invoices agree with contracted amounts and rates prior to payment.

Appendix A

Audit Methodology

To gain an understanding of the Division of Welfare and Supportive Services, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to the Division's operations. We also reviewed the Division's financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Division.

To assess controls over benefits issued through the Electronic Benefits Transfer (EBT) card system, we requested a database of Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF) participants from the Nevada Operations of Multi-Automated Data Systems (NOMADS) for June 30, 2008, through December 31, 2011. We received 38,229 (100% of the population) head of household files in TANF and 106,836 (32% of 330,376 population) head of household files in SNAP. Then we reviewed the SNAP data for representativeness. We also reviewed the TANF and SNAP data for unusual trends and inconsistencies.

Next, we obtained a database consisting of 85,522 records of Nevada citizens reported as deceased to the Office of Vital Statistics from July 1, 2007, through December 31, 2011. Then we compared data from Vital Statistics with the NOMADS data and identified 189 persons who were listed in NOMADS as living but listed as deceased by Vital Statistics between July 1, 2007, and December 31, 2009. We also found 178 persons identified as deceased in both databases but with different dates of death. To test the reliability of our matches, we compared clients' social security numbers, dates of birth, names, and addresses.

We created a database consisting of client names not designated as deceased in NOMADS but designated as deceased on or

before December 31, 2009, in the data received from Vital Statistics. From this database, we selected a sample of 20 clients with the oldest birthdates. Next, we randomly selected 30 clients from the same database for a total of 50 clients for testing.

We tested the controls to reduce the opportunities of misuse over the EBT cards for SNAP and TANF benefits by persons other than the client. These tests included determining whether the clients were designated head of household; if the clients' EBT accounts were designated as active; whether persons, besides the clients, had responsibilities for the benefits, such as authorized representatives; and if the representatives were facilities and were registered with the federal Food and Nutritional Services agency. We also requested the Division's staff search the Investigation and Recovery Unit's database of cases to determine if any of the accounts with expenditures occurring after the dates of death had been referred for investigation.

Further, we analyzed each client's EBT financial transactions to compute benefits, purchases, and cash distributions posted to the account after the client's date of death reported by the Office of Vital Statistics. Next, we determined whether the EBT vendor removed unused benefits from the client's account when activity ceased, in accordance with the contract. We calculated the amount of benefits that were removed from the account.

We also conducted these tests for five clients we judgmentally selected from the clients who were designated as deceased in both NOMADS and Vital Statistics databases, but the dates of death did not agree. Judgment was based on the number of days from the date of death recorded on NOMADS to the date of death as recorded in the database from Vital Statistics.

To test if the EBT vendor's reports provided complete, accurate, and timely information, we used three samples for a total of 65 clients:

- We used the sample of 50 clients' accounts selected to evaluate controls over the EBT cards.

- We used the five clients' files recorded as deceased in both NOMADS and Vital Statistics databases, but the dates of death did not agree.
- We randomly selected a sample of 10 clients from the EBT vendor's daily *Inactive EBT Accounts* reports generated from August 2, 2009, through January 1, 2012.

For each of these samples, we accessed the vendor's *Cardholder Information* report to identify whether the vendor classified the EBT card and account status as active or inactive. Next, to verify the accuracy of the card and account status, we obtained the history of the EBT transactions through the vendor's *Transaction Inquiry* reports. The *Transaction Inquiry* reports were analyzed to see if the transactions generated by the clients supported the cards' and accounts' statuses, as defined in the contract, stated on the *Cardholder Information* reports.

The *Transaction Inquiry* reports were obtained through the vendor's online administrators' web site. The system allows these standard reports to be converted into Microsoft Excel worksheets. Each *Transaction Inquiry* report was then converted into Excel worksheets to facilitate analysis.

To determine if the vendor's *Transaction Inquiry* reports accurately included all transactions impacting the EBT accounts, we sorted the TANF database files from the NOMADS download and selected five clients' accounts that had the most financial activity. We then requested custom *Financial Universe* reports for these EBT accounts. The dates and fees related to cash withdrawals from automatic teller machine (ATM) transactions were identified on the *Financial Universe* reports. Next, we accessed the vendor's standard *Transaction Inquiry* reports for each client to determine whether the ATM transaction dates and fees were included.

We also conducted tests of the accuracy of the standard *Transaction Inquiry* reports for 2 clients' accounts from the sample of 50 clients selected for testing controls over the use of EBT cards. To ensure the *Transaction Inquiry* reports included all

activity, they were compared to transactions reported on custom *Financial Universe* reports.

To determine the accuracy of the EBT vendor's invoices, we reviewed billing terms of the current and prior contracts. The terms were then compared to paid invoices.

Our audit work was conducted from March 2011 to June 2012. 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.

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 August 7, 2012, 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 B which begins on page 18.

Contributors to this report included:

Stephany Gibbs, CPA, CGFM
Deputy Legislative Auditor

Jane Bailey, MS
Audit Supervisor

Roger Wilkerson, MBA
Deputy Legislative Auditor

Appendix B

Response From the Division of Welfare and Supportive Services



BRIAN SANDOVAL
Governor

STATE OF NEVADA
DEPARTMENT OF HEALTH & HUMAN SERVICES
DIVISION OF WELFARE & SUPPORTIVE SERVICES
1470 College Parkway
Carson City, NV 89706
(775) 684-0500

MICHAEL J. WILLDEN
Director

DIANE J. COMEAUX
Administrator

August 10, 2012

Paul V. Townsend, CAP
Legislative Auditor
401 S. Carson Street
Carson City, NV 89701

Dear Mr. Townsend:

The Division of Welfare and Supportive Services has reviewed the audit report and accepts the five recommendations to improve administrative controls over benefits issued through the Electronic Benefits Transfer (EBT) card system. We agree that the recommendations provide us with an opportunity to strengthen our policies and procedures in identifying deceased clients and to decrease the times in which assistance payments may be issued to deceased individuals. We will also use this opportunity to work with our EBT vendor to improve payment accuracy and to ensure their data reports do not display incorrect or inconsistent data.

The Division would like to thank Stephany Gibbs, Roger Wilkinson and Jane Bailey for their professionalism and cooperation during the audit.

Please feel free to contact the Division if you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink that reads "Diane J. Comeaux".

Diane J. Comeaux
Administrator

Enclosure

cc: Mike Willden, Director, Department of Health and Human Services
Sue Smith, Deputy Administrator, DWSS Administrative Services
Tami Dufresne, DWSS Budget

"Working for the Welfare of ALL Nevadans"

Division of Welfare and Supportive Services' Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Develop policies and procedures for using additional sources of information to identify when clients have died.....	<u> X </u>	<u> </u>
2. Develop policies and procedures to more timely stop the payment of benefits to deceased clients.....	<u> X </u>	<u> </u>
3. Develop policies and procedures to prevent the use of EBT cards by unauthorized persons after clients' deaths.	<u> X </u>	<u> </u>
4. Work with the EBT vendor to ensure reports relating to the EBT cards are complete, accurate, timely, and easily accessible.	<u> X </u>	<u> </u>
5. Implement controls to ensure vendor invoices agree with contracted amounts and rates prior to payment.....	<u> X </u>	<u> </u>
TOTALS	<u> 5 </u>	<u> 0 </u>