

# WELFARE FRAUD AND ABUSE

## Testimony of Elizabeth Stelle

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Good afternoon, my name is Elizabeth Stelle, and I am a research associate with the Commonwealth Foundation for Public Policy Alternatives, a non-partisan educational institute based in Harrisburg. Thank you for allowing me to speak today.

### The Cost of Fraud

Since Governor Rendell took office in 2003, General Fund spending on public welfare has ballooned. In his FY 2010-11 budget, public welfare is set to receive an increase of \$482 million. That would bring the increase in public welfare spending since 2003 to 68.2% (41.3% in inflation-adjusted spending).

This dramatic increase in expenditures is especially worrisome given that the Department of Public Welfare is the focus of constant audits and investigations revealing evidence of widespread abuse and waste. In fact, you may remember findings from a House Republican Policy Committee investigation uncovering numerous cases of welfare fraud.

Recently, Auditor General Jack Wagner uncovered fraud in several state Department of Public Welfare (DPW) programs that could represent \$1 billion or more in misspent money. These programs include LIHEAP, the Special Allowance Program, and Medical Assistance (Medicaid).

LIHEAP provides grants to households with incomes of up to 150 percent of the federal poverty line, meaning a family of four earning up to \$33,075 can receive benefits. Two audits over three years revealed lax procedures, insufficient supervision, and inadequate oversight. And the second audit resulted in the arrest of 18 people for stealing more than \$500,000 of LIHEAP funds and related crimes.

DPW's Special Allowance Program was also labeled as "rife with mismanagement and poor oversight," creating an environment for potential fraud and abuse. This mismanagement has cost taxpayers tens of millions of dollars.

In the case of Medicaid, the Auditor General's office found that DPW failed to make proper eligibility determinations on more than 1,600 randomly selected applications between January 2005 and March 2008—resulting in \$3.3 million in payments to a fraction of ineligible recipients. Many of the improper disbursements were due to DPW's failure to verify the recipients' age, disability, and family relationship requirements, and to promptly review recipients' financial and other eligibility information. The total cost of this fraud across the Medical Assistance program would likely be **hundreds of millions** of dollars.

The bureaucratic nature of DPW exacerbates the problem. The incentive structure is such that the department's primary goal is to add to its clientele, regardless of need. The more clients it has, the more funding it can obtain, creating greater job security for the bureaucrats.

## **Recommendations**

Addressing the issues of fraud and waste starts with improving the enforcement of eligibility for DPW programs. However, the Rendell Administration seems content to celebrate increasing numbers of Pennsylvanians served by those programs (or those that become dependent on government), regardless of whether they are the truly needy.

Prior to the Rendell Administration, approximately 47,000 cases of suspected welfare fraud were referred annually to the Inspector General. However, between 2003 and 2004, the Inspector General received about 29,000 referrals—as caseloads continued to increase. In the past four years, the number of referrals has continued to decline, with 25,802 referrals in 2009.

Additionally, improving Pennsylvania's whistleblower protection law can help ensure transparency and accountability.

Eighteen states have whistleblower laws that protect private sector workers who report misuses of government funds. In addition to these states, Georgia protects healthcare workers who report Medicaid false claims, and South Carolina goes a step further to reward whistleblowers with up to \$2,000 if their information saves money. The Commonwealth Foundation supports a similar approach to South Carolina's, rewarding whistleblowers, in the public and private sector, who identify those defrauding our welfare system and save taxpayers money.

Another step the legislature should consider is recovery audits legislation. Recovery audits for improper payments can be used to recoup the cost of fraud in state welfare operations. The American Legislative Exchange Council (ALEC) has model legislation implementing recovery audits for improper payments.

Recovery audits allow private contractors to audit fraud in Medicaid and other programs, and collect from those cheating the system. Recovery audits are a nationally recognized best practice for disbursements management and improving operational efficiency. Additionally, recovery audits will not cost the state any resources, as the contractor's costs are deducted from any dollars recovered, making the recovery audits self-funding. Typically, Medicaid is the largest area where overpayments and fraud are uncovered, but audits have been done in other areas as well.

## Medicaid Reform

Finally, perhaps the most important step lawmakers can take is to overhaul the state's Medicaid program. Medicaid consumes a large part of our state budget and is growing at an unsustainable rate. If the current rate of growth continues, Medicaid will consume 94% of the state budget by 2075. Enacting Medicaid reform could significantly reduce the fraud and waste.

At the same time, Medicaid is a notoriously low-quality provider of health care. Studies show that those with private health insurance, as well as those without health insurance, have better health outcomes than those on Medicaid. Poor quality care is caused by the limited selection of doctors as Medicaid pays doctors and hospitals less for the same procedures than private insurance companies. The poor quality of Medicaid affects all Pennsylvanians by driving up the cost of private coverage. Allowing Medicaid recipients to have more control over their healthcare by transitioning from fee-for-service to vouchers would go a long way in improving service.

Specifically, each recipient would be awarded *risk-adjusted credits* to purchase health insurance, instead of direct payments to medical facilities. Florida, South Carolina, and Louisiana, have already adopted this approach. When individuals have more control over their health care dollars they use medical services more discriminately; likewise, providers have more freedom in treating Medicaid enrollees. Policies to enact Medicaid reform include:

- Creating an Insurance & Provider Exchange (IPE) whereby **recipients can shop for coverage** to replace the fee-for-service structure of Medicaid payment.
- Allowing Medicaid credits to be used for *premium assistance*, to be combined with individual or employer payments.

Our recommendations would reduce fraud and waste; because the credits would be income-adjusted, determining eligibility would be a regular part of the Medicaid exchange. Further, private insurers serving Medicaid recipients would have an incentive to crack down on improper billings and abuse by recipients and providers.

Welfare advocates justify spending increases by emphasizing that they're necessary to provide for Pennsylvania's vulnerable residents, including children, older adults, and the disabled. However, we must consider the efficiency and the outcomes of such programs. If resources are being squandered on those who don't need them and are defrauding the system, both welfare recipients and taxpayers would benefit from the above welfare reforms.

Thank you for your time, I will be happy to take questions.