



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report
Department of Social and Health
Services

For the Investigation Period December 31, 2014 through June 30,
2016

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**Office of the Washington State Auditor
Pat McCarthy**

October 4, 2018

Cheryl Strange, Secretary
Department of Social and Health Services
Olympia, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Department of Social and Health Services. On April 10, 2017, the Department notified the State Auditor's Office of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the former financial service specialist's unallowable activities at the Department from March 1, 2013 through May 1, 2017. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.290) and included procedures we considered necessary under the circumstances.

If you are a member of the media and have questions about this report, please contact Director of Communications Kathleen Cooper at (360) 902-0470. Otherwise, please contact Fraud Manager Sarah Walker at (509) 454-3621.

Pat McCarthy

State Auditor

Olympia, WA

cc: Rick Meyer, External Audit Compliance Manager

FRAUD INVESTIGATION REPORT

Investigation Summary

On April 10, 2017, the Department of Social and Health Services (Department) notified our Office regarding a potential loss of public funds as required by state law. The Department received an anonymous complaint on October 15, 2015, regarding the potential loss but did not notify us in a timely manner.

In August 2016, the Department filed a report with the Washington State Patrol (Patrol), which investigated this case. We reviewed the Patrol's investigation and determined a former Financial Services Specialist misappropriated public assistance funds between December 31, 2014, and June 30, 2016.

The Patrol referred the case to the Kitsap County Prosecuting Attorney's Office.

Background and Investigation Results

Nearly one of every four Washington residents receives public assistance such as cash, food, child support, child care and some medical services. The Department's Economic Services Administration (ESA) provides these services. People access services through local Community Services Offices (CSO) where ESA employees provide families and individuals the resources and support needed to access assistance.

The Department received an anonymous complaint on October 15, 2015, that indicated the former Financial Services Specialist was receiving food, childcare and medical benefits she was not qualified to receive.

The Department worked with the Patrol to investigate the complaint further. The Patrol's investigation found the following:

- On her application for benefits, the former Financial Services Specialist said she was a single parent who lived with her mother and was her family's sole source of income. However, it was determined that she actually lived with her husband and their combined income made them ineligible for benefits.
- A total of \$30,877 in unallowable childcare benefits and \$1,086 in unallowable food benefits were calculated based on her household income exceeding the allowable levels for assistance.
- The former Financial Services Specialist also received medical benefits from the Health Care Authority (Authority); however, the Department did not refer the complaint to the Authority to pursue the allegation of medical benefit misappropriation.

In March 2017, the Patrol Sergeant assigned to the DSHS Special Investigations Unit facilitated an interview with the former Financial Services Specialist. After consulting with her attorney

during the interview, the former Financial Services Specialist said she would not answer any questions and the interview was terminated.

The Patrol referred the case to the Kitsap County Prosecutor's Office, and the former Financial Services Specialist entered into an agreement with the Kitsap County Felony Diversion Program. Before entering into the agreement, she paid restitution to the Department totaling \$31,963 and signed a Disqualification Consent Agreement with the Department agreeing she would be disqualified from basic food assistance for one year.

Internal Control Weaknesses

Internal controls at the Department were not adequate to safeguard public resources. Specifically, we found the Department's process to determine the former Financial Services Specialist's eligibility for public assistance was not effectively performed.

Recommendations

We recommend the Department:

- Strengthen internal controls over eligibility determinations to ensure adequate oversight and monitoring to safeguard public resources, especially when it involves Department employees
- Report known or suspected losses of public funds or illegal activity quickly, as required by state law
- Refer future reports of potential Medicaid fraud to the Authority

We also recommend the Department seek recovery of the related investigation costs of \$9,763 from the former Financial Services Specialist and/or the Department's insurance bonding company, as appropriate.

Department's Response

Thank you for the opportunity to review and respond to the State Auditor's Office (SAO) report F-17-129 Fraud Investigation. The Department of Social and Health Services (DSHS) appreciates the assistance of the SAO by providing the Department with important facts from its investigation.

The report states a former Financial Services Specialist misappropriated public assistance funds between December 31, 2014, and June 30, 2016. The SAO determined internal controls at the Department were not adequate to safeguard public resources and recommends the Department:

- 1. Strengthen internal controls over eligibility determinations to ensure adequate oversight and monitoring to safeguard public resources, especially when it involves Department employees.***

In response to DSHS 2016-028 CCDF Eligibility finding and as part of a continuous quality improvement effort, the Department, in collaboration with the Division of Children, Youth and Family (formerly the Department of Early Learning), enacted changes to improve our internal controls over eligibility determinations for Child Care Subsidy Programs. Many of these changes, implemented after the timeframe for this investigation, aimed at reducing errors due to household composition and ensuring appropriate secondary review for high-risk cases. They include:

- *Effective March 2018, the Department added a system alert to notify the case worker when the household composition reported for child care subsidy is different than the household composition reported for other DSHS benefits and services. The case worker is expected to review the case to resolve the discrepancies and request additional information from the consumer if needed.*

Under changes to Washington Administrative Code 110-15-0012, when a single-parent household composition cannot be verified by review of agency records, the consumer (at application and review) must sign a declaration, under penalty of perjury, that provides the name and address of the other parent, or declares that the name and address is unknown, or that providing the information will likely result in serious physical or emotional harm. The Department will randomly pull these declarations for focused accuracy reviews.

- *Effective July 2018, the Department added system functionality for a lead staff integrity review when an eligibility determination is made by a case worker that was not assigned to the case worker through the automated workload assignment system. This ensures workers are working on cases that are randomly assigned to them and helps prevent employee fraud.*

2. Report known or suspected losses of public funds or illegal activity quickly, as required by state law.

In response to DSHS 2017-022 Fraud Reporting finding, the Department convened a workgroup to develop sufficient procedures to ensure we report fraud appropriately. The workgroup is drafting an Administration wide policy to provide guidance/procedures for staff to ensure they are educated about the reporting requirements.

The Department will continue to report known or suspected fraud to the DSHS Internal Audit and Consultation unit as required by DSHS Administrative Policy 16.10. Internal Audit and Consultation will serve as the principle point of contact with the SAO for all DSHS reports of loss or illegal activity.

3. Refer future reports of potential Medicaid fraud to the Authority.

In response to DSHS 2017-022 Fraud Reporting finding, as stated above, the Department convened a workgroup to develop sufficient procedures to ensure we report fraud appropriately, including referring to other Agencies as necessary.

State Auditor’s Office Concluding Remarks

We thank Department officials and personnel for their assistance and cooperation during the investigation.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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