Policy Points

from the COMMONWEALTH FOUNDATION

June 2012

Getting Rich Off the Poor

Examining Welfare Abuse

Welfare spending grew 55 percent in 10 years; Pennsylvania now spends $27 billion in state and federal dollars on Public Welfare programs.[1] Yet 15,429 individuals are still on the waiting list for intellectual disability services.[2]

Over the past few years, the Pennsylvania Department of Public Welfare conducted a series of audits and uncovered many questionable practices among state contractors. Some providers of welfare services have taken advantage of unclear rules and regulations to nickel and dime Pennsylvania families. By misusing funds meant for the truly needy, these providers contribute to today's bloated welfare budget, the single largest state General Fund expenditure. Shifting to a fee-for-service payment instead of reimbursing all provider expenses would prevent waste and abuse, freeing up tax dollars and reducing the number of truly needy Pennsylvanians waiting for help.

WELFARE ABUSE

- Over two years, training provider KRA charged **more than $1.8 million in unsubstantiated or unidentified expenses** to the Department of Public Welfare.
  - KRA, a for-profit company, also used taxpayer money to send 130 people on a sunset dinner cruise and expensed an open bar, buffet and amusement package at adult amusement restaurant Dave & Buster's for 90 people. KRA terminated its contract during the audit process.[3] **Total cost to taxpayers: $50,773**.

- Western PA Child Care, LLC charged **$84,000 for limousine service to an NCAA basketball game and King of Prussia Mall, a custom-made suit for an executive, a chartered fishing trip and other related party expenses.**
  - WPCC is a for-profit company with government contracts to provide housing and services for juvenile delinquents.
  - WPCC opened in 2005 under the ownership of Robert Powell, who was convicted for concealing a felony in the "kids for cash" scandal in 2009, and George Zappala, who bought Powell's WPCC shares in 2008.
  - Shortly after executives enjoyed these perks, WPCC experienced cash flow problems. In early 2008, the facility received shut-off notices from utility providers, incurred late fees from vendors and lost required court documents for juvenile residents.[4]

- The executive director of It Takes a Village Childcare and Learning Center, Inc. **charged taxpayers for undocumented expenses** and **took 28 percent of the organization's state contract, totaling $173,077.**
  - The executive director received about $139,000 in salary and collected **$34,432 in non-salary payments**—including fringe benefits, undocumented lease expenses, travel, insurance, and cell phone reimbursements—over two years.
  - A check for $5,022 to Staples could not be supported since the receipts totaled only $399. When auditors asked to see the equipment supposedly purchased, they were told it had broken and been discarded.
  - The audit recommended the organization pay back $44,926, but officials negotiated a repayment of $24,000.[5] **Total tax dollar waste: $20,926.**

- Taxpayers **paid twice for mortgages on the same properties,** and paid rent for the same homes, totaling **more than $1,000,000 in duplicated payments.[6]**
  - Taxpayers reimbursed Lynch Homes for mortgage payments and then paid a usage fee, like rent, of 8 percent for homes used to provide community-based services to the intellectually and developmentally disabled. Lynch was also receiving reimbursements for maintenance on the homes.[7]
  - In 2011, Lynch Homes sold properties to provider Kencrest. Due to a quirk in the welfare department's reimbursement system, taxpayers are on the hook again to pay the new mortgages Kencrest took out to purchase the properties from Lynch Homes.[8]

- Providers serving the intellectually disabled in Pennsylvania used **thousands of taxpayer dollars for unnecessary luxury goods.**
  - ⇨ Supportive Concepts for Families, Inc. **spent $73,152 leasing luxury vehicles**, including an Acura MDX for $689 a month and an Acura RL for two years at $835 a month. SCFF could have purchased four Chevy Impalas for the cost of leasing one Acura RL.[9]

- The Department of Public Welfare determined that **$900,000 of a $3.6 million severance package** for the CEO of a mental health and intellectual disabilities service provider was inappropriately invested taxpayer funds.
  - ⇨ Allegheny Valley School awarded its former CEO a severance package taken from a taxpayer-funded account for capital costs. Program regulations prohibit providers from using interest (in this case $900,000) for non-capital expenses.
  - ⇨ The transfer occurred while AVS was merging with another provider, Northwest Human Services. After the audit uncovered this misuse of funds, NHS reimbursed the account.[10]

FIVE WAYS TO PREVENT WELFARE ABUSE

- **Set clear rates for provider payments to prevent confusion and eliminate the opportunity for wasteful spending.** The Department of Welfare is in the process of shifting more services from the cost reporting method, where the provider is reimbursed for all eligible expenses, to a fee schedule that sets clear rates for services. This new system reduces department monitoring costs and relieves providers of the burden of submitting those reports.

- **Pass recovery audit legislation.** Recovery audits allow private contractors to audit providers and recoup funds from those cheating the system. The audits are paid for by deducting the contractor's costs from any dollars recovered.

- **Level the playing field for competition among providers.** The state must continue to move away from individually negotiated provider rates to a standardized statewide rate system. Standardization provides a more level playing field for providers and ensures an equitable and predictable system.

- **Competitive contracting**. Current Medicaid rules do not allow for competition. Medicaid is an "any willing provider" program. Lawmakers must petition Washington for relief and ensure that all provider contracts are based on competition, quality, outcomes and cost savings.

- **Increase transparency**. Ensure all audits are easily accessible to taxpayers by posting them online after redacting personal information. The state should deploy transparency portals so that taxpayers can see how much they pay for services.

ENDNOTES

1. "Past Payment Practices of the Office of Developmental Programs," Testimony before the Senate Public Health and Welfare Committee, Sept. 28, 2011.
2. The term "intellectual disabilities" is preferred over the term "mental retardation."
3. KRA Corporation Performance Audit, provided to the Commonwealth Foundation per open records request, December 24, 2009.
4. Western PA Child Care, LLC Performance Audit, provided to the Commonwealth Foundation per open records request, May 28, 2009.
5. It Takes a Village Childcare and Learning Center, Inc. Performance Audit, provided to the Commonwealth Foundation per open records request, October 3, 2007. Detailed repayment information provided to the Commonwealth Foundation by the Department of Public Welfare.
6. Information provided to the Commonwealth Foundation by the Department of Public Welfare.
7. Lynch Homes, Inc. Facility Audit, Department of Public Welfare website, February 10, 2009.
8. "Kencrest Centers Acquires Lynch Homes," Kencrest Press Release, April 2011.
9. Supportive Concepts for Families, Inc. BFO report, provided to the Commonwealth Foundation per opens records request, June 2008.
10. Allegheny Valley School Facility Audit, Department of Public Welfare website, May 19, 2010.