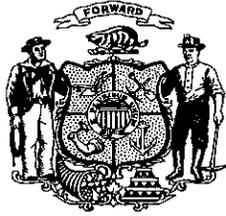


# STATE OF WISCONSIN

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## JOINT COMMITTEE ON FINANCE

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Alberta Darling  
Representative John Nygren

Date: November 2, 2015

Re: DCF Report to JFC

Attached is a quarterly report on the state's corrective compliance plan relating to the federal income verification requirements from the Department of Children and Families, pursuant to JFC November 12, 2014, s. 13.10 meeting.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

AD:JN;jm



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Governor Scott Walker  
Secretary Eloise Anderson

Secretary's Office

October 30, 2015

Honorable Alberta Darling, Senate Co-Chair  
Joint Committee on Finance  
Room 317 East, State Capitol  
Madison, WI 53707-7882

Honorable John Nygren, Assembly Co-Chair  
Joint Committee on Finance  
Room 309 East, State Capitol  
Madison, WI 53707-7882



*St. Finance*

Dear Senator Darling and Representative Nygren:

On November 12, 2014, the Joint Committee on Finance provided \$4,730,000 in income augmentation revenue for programs under the Temporary Assistance for Needy Families (TANF) block grant in order to replace the loss of TANF block grant funds in the same amount due to an imposed penalty for failing to meet federal Integrated Earnings Verification System (IEVS) requirements. The Committee also required the Department of Children and Families (DCF) to evaluate and report quarterly on the department's progress under the state's corrective compliance plan relating to the federal income verification requirements with the first report due on or before April 30, 2015.

DCF sent the first quarter report to the committee on April 30, 2015, and the second quarter report on July 31, 2015. This letter provides DCF's third quarter 2015 report on the progress under the state's TANF Corrective Compliance Plan related to the federal IEVS TANF Penalty. The information below provides a status of the corrective actions. The TANF Corrective Compliance Plan dated April 8, 2014, submitted to U.S. Department of Health and Human Services (DHHS) is attached to this letter.

#### **DATA MATCH REQUIREMENT**

Section 1137 of the Social Security Act requires the Wisconsin Works (W-2) program to participate in an income and eligibility verification system. This system compares data relating to applicants for or recipients of W-2 benefits with wage information from the state unemployment compensation program and wage, income, and other information from the Social Security Administration and the Internal Revenue Service for the purpose of verifying eligibility for, and the amount of, benefits available under the W-2 program. The information obtained through data matches cannot be used to terminate, deny, suspend, or reduce any benefits of an individual until the agency "has taken appropriate steps to independently verify information relating to (A) the amount of the asset or income involved, (B) whether such individual actually has (or had) access to such asset or income for his own use, and (C) the period or periods when the individual actually had such asset or income." §1137(a)(5) [emphasis

added.] If the income or asset is independently verified from a third party source, the W-2 program can use the verified information to make decisions regarding the individual's current or past eligibility and can collect any overpayments that may have been made in the individual's case. The department or the W-2 agency must assess each case to resolve discrepancies between information reported to the W-2 program and verified information identified through the data matches, and to determine whether there has been an overpayment.

## **DATA MATCH CORRECTIVE ACTIONS**

The department's corrective action plan requires it to carry out matches with IRS data for Tax Years 2012-2014. DCF and the Department of Health Services (DHS) have completed the IRS data match for tax year 2012. The data match process and outcomes of the process for 2012 were described in the July 31, 2015 report. DCF and DHS have now completed the IRS data match for tax year 2013 and resolved discrepancies as follows.

### IRS Tax Year 2013

Based on the IRS's 2013 tax year information, DHS sent out letters requesting third party verification of unearned income for 544 cases. Of the 544 cases, DCF was required to review 293 cases for which third party verification was received.

Of the 293 discrepancies identified in the IRS data exchange of 2013 tax year information and verified by independent third parties, DCF identified 61 cases that required review and follow-up by W-2 agencies in order to determine whether overpayments existed. Of the 61 cases, the W-2 agencies identified overpayments for 2 cases with a total overpayment amount of \$1,894.00. Two cases are still under review and awaiting additional verification in order to determine whether an overpayment exists.

Based on DCF's data matches for tax years prior to 2013, the small number of 2013 cases with overpayments is not unexpected. Most participants with previously unreported unearned income have received a single lump sum payment that they spent in the month that they received it. Participants only become ineligible to receive W-2 if they are over the income limit for two consecutive months, and a single lump sum payment does not usually affect the participants' eligibility or result in an overpayment of benefits.

### IRS Tax Year 2014

DCF will complete the IRS data match for tax year 2014 without DHS assistance by the end of December 2016 if there are no delays in obtaining certification from the IRS for DCF to perform this data match independently.

## **SAFEGUARDING CORRECTIVE ACTION**

The first step in the process to become certified to perform the IRS data match is for DCF to obtain approval from the IRS Office of Safeguards to do so. In order to obtain approval from the IRS Office of Safeguards, DCF must complete, submit, and receive approval of the Safeguard

Security Report (SSR) and comply with the IRS safeguarding requirements described in IRS Publication 1075. DCF submitted the SSR on July 7, 2015, and is waiting to hear back from the IRS. The IRS has 90 days to review the report. DCF will be able to complete the IRS data match for 2014 timely as long as there are no delays in obtaining certification from the IRS. DCF contacted the IRS on October 7, 2015, regarding the status of the SSR and is awaiting their response.

In order to comply with the IRS safeguarding requirements as described in IRS Publication 1075, the Department has prepared the physical space and is in the process of purchasing the following:

- Secure locks for storage of federal tax information (FTI);
- Laptop for secure storage of FTI;
- 8GB Ironkey encrypted flash drive to securely save FTI;
- Printer and shredder that meet IRS Publication 1075 requirements;
- Scanner and Kofax license to securely transfer FTI;
- Post office box to receive third party verification; and
- Mailroom lock box to secure third party verification until the appropriate screened and trained staff get the mail from the mailroom.

Additional steps for obtaining certification from the IRS to perform the data match are described in the attached *TANF IEVS Penalty Corrective Compliance Plan – Adjusted Steps and Timeline* that was submitted to DHHS in April 2015.

#### **STATE WAGE INFORMATION COLLECTION AGENCY (SWICA) AND UNEMPLOYMENT COMPENSATION (UC) CORRECTIVE ACTIONS:**

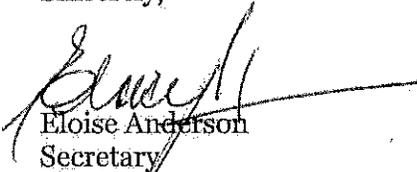
Timely completion of SWICA and UC discrepancies by W-2 agencies is required as part of W-2 eligibility case processing in the W-2 and Related Programs Contract. In an effort to make an immediate impact on the timeliness of processing discrepancies, in March 2015 DHS and DCF enhanced the CARES Worker Web (CWW) Workload Dashboard to assist case workers in managing the SWICA and UC discrepancies. As a result of these changes, as of July 27, 2015, all W-2 agencies are completing their SWICA and UC discrepancies within the required timeframe with the exception of one agency. We continue to provide technical assistance to the one agency that is not processing discrepancies timely to ensure that its staff understands how the enhancements should be used to assure compliance with the SWICA time limit. If the agency's performance does not improve, we will impose a corrective compliance plan on the agency. DCF will provide a status report on this agency's progress in the January 31, 2016 report.

In addition to the system changes, when DCF entered into the TANF Corrective Compliance Plan in April 2014, it proposed assuming responsibility for processing SWICA and UC discrepancies at the state level. The 2015-2017 biennial budget provided four additional full time positions for this effort. DCF has obtained the position numbers from the Department of Administration for these positions and will provide a status on the recruitment process in the January 31, 2016 report.

Senator Alberta Darling  
Representative John Nygren  
October 30, 2015  
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I appreciate the opportunity to provide an update on the state's Corrective Compliance Plan related to the federal IEVS TANF Penalty.

Sincerely,



Eloise Anderson  
Secretary

cc: Scott Neitzel, Department of Administration  
Bob Lang, Legislative Fiscal Bureau

Attachments: E-mail to DHHS Regional Office (WI TANF IEVS Penalty Corrective Compliance Plan Steps and Timeline)  
Attachment – Adjusted Timeline TANF IEVS Corrective Compliance Plan  
IEVS Penalty Corrective Compliance Plan 2014 (Original)

**STATE OF WISCONSIN**

**DEPARTMENT OF CHILDREN AND FAMILIES**

**TEMPORARY ASSISTANCE FOR NEEDY FAMILIES  
CORRECTIVE COMPLIANCE PLAN**

**FOR**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**ADMINISTRATION FOR CHILDREN AND FAMILIES**

**INTEGRATED EARNINGS VERIFICATION  
TANF PENALTY**

**Single Audit Report CIN A-05-10-94652  
Report Period July 1, 2007 – June 30, 2008  
Finding WI-08-10**

**Plan Date – April 8, 2014**

**Primary Compliance Plan Contact**

Randall Keys, Chief Legal Counsel  
Department of Children and Families  
201 E. Washington Avenue, Room G200  
P.O. Box 8916, Madison, WI 53708  
Telephone: (608) 266-8614



WISCONSIN DEPARTMENT OF  
CHILDREN AND FAMILIES

State of Wisconsin  
Department of Children and Families

**TANF CORRECTIVE COMPLIANCE PLAN**

**1. Analysis of Non-Compliance with the Income Eligibility and Verification System**

The U.S. Department of Health and Human Services, Administration for Children and Families (ACF) notified the Secretary of Wisconsin's Department of Children and Families (DCF) that it was imposing a penalty of \$4,763,580 for not participating in the Income Eligibility and Verification Systems (IEVS) as indicated in the Single Audit Report for the period July 1, 2007, to June 30, 2008. DCF did not (1) perform the Internal Revenue Service (IRS) data match and (2) did not complete timely or document appropriately the state wage information collection agency (SWICA) and unemployment compensation (UC) data matches.

The Temporary Assistance for Needy Families (TANF) work program in Wisconsin is called Wisconsin Works (W-2). Completing the required IEVS IRS data match for the W-2 program has been a challenge for Wisconsin for several reasons including:

- a. Wisconsin currently contracts with private agencies to administer the W-2 program, including the verification of all income data used for program eligibility. For the period July 1, 2007, through June 30, 2008, DCF contracted with 51 public and/or private agencies and consortiums. IRS regulations deny private W-2 agency staff access to Federal Tax Information (FTI) data.
- b. In 2002, the IRS terminated both the IRS Computer Matching Agreement (CMA) and FTI data matching for the Department of Workforce Development (DWD), the state agency that administered W-2 at the time. Administration of the W-2 program was transferred to the newly created DCF in July 2008.

Wisconsin had a similar finding in the July 1, 2003, through June 30, 2004 Single Audit Report. To address these challenges and correct the violation, DWD developed a corrective compliance plan jointly with the Department of Health and Family Services (DHFS), now the Department of Health Services (DHS) in May 2006. The plan, which was approved by ACF in July 2006, indicated DHFS would perform the data match with the IRS and carry out the third party verification under the IRS safe guarding requirements, and DWD would identify and process overpayments. DHFS performed the IRS data matches for tax years 2004 and 2005 in September 2006. DHFS completed the third party verification in November 2007. In August 2009, DCF completed the review of unearned income for tax years 2004 and 2005 and identified 16 cases with a potential overpayment. This was the last year that all steps in

the IRS match process were completed. Resource and capacity issues prevented the state from consistently completing the IRS IEVS data match requirements.

W-2 agencies have been responsible for following up on the SWICA and UC data matches. DCF has implemented a number of system changes to reduce the number of discrepancies that require manual review and resolution by the caseworkers. In addition to system changes, DCF has issued guidance to W-2 agencies about the requirement for timely completion of data matches, provided training on how to process data matches, created management reports to identify and track completion of data matches including overdue data matches, improved computer system logic to create data matches that are most likely to have an impact on eligibility, and conducted ongoing monitoring of data matches. In January 2013, DCF implemented a new service delivery system administered by 8 contracted W-2 agencies instead of the 51 agencies in 2008. One goal was to improve quality control through greater scale of operations and capacity. DCF now plans to complete SWICA and UC data matches internally to ensure that they are done timely and with appropriate documentation.

The success of this plan is dependent on two critical elements. First, the ability of DHS to perform the first two steps in the IRS data match process until DCF is certified to carry out those functions and second, IRS certification of DCF staff to perform the IRS data match functions.

## **2. Corrective Compliance Plan Description and Milestones**

The Corrective Compliance Plan and Timeframes section describes the steps DCF will implement and the timeline DCF will follow to come into compliance with IEVS requirements. DCF intends to hire additional staff that will follow up on SWICA and UC data match exceptions. In the short term DCF will work with DHS to complete the required data matches for unearned income reported by the IRS. DCF will coordinate with DHS to complete the data match and third party verification process for the IRS IEVS data match requirements until DCF receives IRS authorization and can assume those responsibilities.

The following milestones will be achieved by DCF:

- a. Complete the required data matches for unearned income reported by the IRS for tax year 2012 by December 31, 2014
- b. Complete the required data matches for unearned income reported by the IRS for tax year 2013 by December 31, 2015
- c. Become current in processing SWICA and UC data matches by December 31, 2015
- d. Complete IRS requirements to assume responsibility for the required data matches for unearned income reported by the IRS for tax year 2014 by May 2015
- e. Complete the required data matches for unearned income reported by the IRS for tax year 2014 by April 30, 2016

### 3. Corrective Compliance Plan and Timeframes

#### a. IRS Corrective Actions and Timelines

<b>Data Match Corrective Actions</b>	<b>Timelines</b>	<b>Completed</b>
Update the Memorandum of Understanding with DHS to assist with the data match and third party verification until DCF can become certified and assume responsibility for all of the processes for the IRS data match	April – May 2014	<input type="checkbox"/>
Request, process, and complete the following IRS Tax Year data matches:		
IRS Tax Year 2012 Request data from IRS (DHS) Apply WI TANF thresholds (DHS) Complete third party reviews (DHS)	April - Sept. 2014	<input type="checkbox"/>
Complete case reviews (DCF) Process overpayments, if appropriate (DCF)	September – December 2014	<input type="checkbox"/>
IRS Tax Year 2013 Request data from IRS (DHS) Apply WI TANF thresholds (DHS) Complete third party reviews (DHS)	July 2014 – September 2015	<input type="checkbox"/>
Complete case reviews (DCF) Process overpayments, if appropriate (DCF)	September – December 2015	<input type="checkbox"/>
IRS Tax Year 2014 (DCF) Request data from IRS Apply WI TANF thresholds Complete third party reviews Complete case reviews Process overpayments, if appropriate	July 2015 – April 2016	<input type="checkbox"/>
<b>Develop Capacity Within DCF to Complete IEVS IRS Requirements</b>		
<b>Safeguarding Corrective Actions</b>	<b>Timelines</b>	<b>Completed</b>
Comply with IRS Safeguarding Requirements in IRS Publication 1075 ( <i>Tax Information Security Guidelines for Federal, State and Local Agencies; Safeguards for Protecting Federal Tax Returns and Return Information</i> )	April –November 2014	<input type="checkbox"/>
Establish a Secure Data Transfer (SDT) program	November 2014	<input type="checkbox"/>
Become SDT certified	November 2014 - February 2015	<input type="checkbox"/>
Contact IRS and establish DCF as lead to complete IRS data matches for TANF	February 2015 – May 2015	<input type="checkbox"/>
Create and submit the Disclosure of Information to Federal, State and Local Agencies IRS CMA to IRS	March 2015 – May 2015	<input type="checkbox"/>
Complete and submit to the IRS the Safeguard Security Report and Corrective Action Plan	March 2015 – May 2015	<input type="checkbox"/>

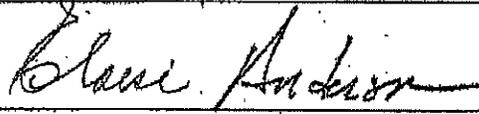
**b. SWICA and UC Corrective Actions and Timelines**

Corrective Actions	Timelines	Completed
Determine Full Time Equivalent (FTE) positions needed to process SWICA and UC discrepancies each month	April 2014	<input type="checkbox"/>
Obtain position authority and additional funding to hire sufficient FTEs to complete SWICA and UC discrepancies (positions will also complete IRS data match once DCF is authorized to carry out the matches)	May - August 2014	<input type="checkbox"/>
Recruit and hire IEVS FTEs	August - October 2014	<input type="checkbox"/>
Develop, revise and update DCF policies, procedures and systems to support DCF completion of SWICA and UC discrepancies	May - November 2014	<input type="checkbox"/>
Notify stakeholders of changes to SWICA and UC IEVS processes	November 2014	<input type="checkbox"/>
Begin SWICA and UC internal processing for State Fiscal Year (SFY) 2015	November 2014	<input type="checkbox"/>
All SWICA and UC discrepancies for SFY 2015 completed timely	December 2015	<input type="checkbox"/>

**4. Governor's Certification of Support**

I, Eloise Anderson, acting on behalf of Scott Walker, Governor of the State of Wisconsin, do hereby certify that necessary financial and personnel resources and any other needed support actions will be provided to ensure that this TANF penalty corrective compliance plan will be successfully implemented by Wisconsin in the time frame provided by this plan.

Date: 4/7/2014

Signature: 

Eloise Anderson, Secretary  
 State of Wisconsin  
 Department of Children and Families