“What you don’t know can and will hurt you”

A Case Study: Unreported Income: NJ Family Care (NJFC) April 2007

New Jersey Family Care (NJFC) is a federal and state funded health insurance program created to help New Jersey’s uninsured children and certain low-income parents and guardians have affordable health coverage. NJFC provides no cost or low-cost health insurance through managed care enrollment to uninsured parents and children with incomes up to 350 percent of the poverty level.

NJFC applicants are required to list all jobs and employers for each working person in their household as well as other non-work income on their application and are asked to send in proof of income. The authorized vendor reviews the documentation submitted and screens applicants against the state’s wage, disability, and unemployment databases to verify the income reported. These databases do not include income from self-employment and rentals, interest, or dividends.

Case study Results:

A Computer match of all 86,600 cases with eligible participants as of April 2007 with state tax files resulted in 60,800 cases (70.2%) with at least one household member that filed a 2006 state tax return.

- 6,781 of the 60,800 cases (11.2%) had $10,000 or greater in unreported self-employment income
- A test of 70 of these cases disclosed that 21 of the cases (30%) failed to indicate self-employment status on their initial NFIC application.
- 18 of these 21 cases (85.7%) were ineligible
- 3 of the 18 (16.7%) failed to report self employment incomes of $295,000, $186,000 and $177,700 as indicated on their 2006 state tax returns.
- 873 cases with $85,000 or more in gross income reported on their 2006 state tax return.
- 5 out of 25 cases had self-employment, rental, dividend or interest income that was not reported on their state tax returns.
- 1 of the 5 cases had eligible participants throughout 2006 with unreported dividends of $137,000 and interest of $42,000 as indicated on their 2006 state tax return.
- 15 of the 25 cases had net gains of more than $100,000 on their 2006 state tax returns with 3 of them having more than $700,000.

“Nothing is so firmly believed as that which is least known” Francis Jeffery.

Conclusion: primary contributing factor for fraud: Underreported Income

- Net income for the self-employed
- Real Estate rental property income
- Interest income
- Dividend income
The Solution
IRS Verified Income Data delivered over a secure environment in 24-48 hours

- Personal: 1040 all series
- Business: 1065-Partnership, 1120, 1120S
- W2, 1099 all series, 1098 all series, 5498

NCS- One report provides IRS income verified data for making the right decision

- Net income for the self-employed
- Real Estate rental property income
- Interest income
- Dividend income
- Wages, Salaries, tips
- Net income, Adjusted Gross Income
- Unemployment compensation
- Social Security Payments including disability payments
- Alimony & Child support payments
- Withdrawals from a traditional IRA or SEP-IRA
- Withdrawals from a 401K plan
- Tax delinquency investigation
- Failure to file penalty
- Failure to pay tax penalty
- Bad check penalty
- Fraud penalty
- Negligence penalty
- IRS litigation has been instituted
- Refund will be applied to non IRS debt: back child support, alimony or any debt owed to a Federal, Military or State agency
- Identity theft
- Deceased taxpayer
- Posted amended return
- Taxpayer making installment payments on balance owed to the IRS
- Back taxes payment installment default
- Federal tax lien

Leveraging Business Intelligence for Transformative Results

“The only way to make sense out of change is to plunge into it, move with it and join the dance” Allan Watts

NCS provided JPS with Business Intelligence that provided these transformative results

- Helped to identify charity care and ability to pay within the self pay population
- Reduced the length of time to process an application
- Reduced burden on patients to provide copies of their tax return copies
- Reduced the number of required documents that applicants must “bring back”
- Increased applicant satisfaction with the eligibility process
- Standardized training: JPS Representatives were provided on-site training and follow up regarding procedures for completing IRS Form 4506-T, submitting and retrieving the IRS tax transcripts
- Reports-Provide JPS management with a detailed weekly report which helps measure performance.
- Reduced the number of ineligible applicants receiving charity care
- Eliminates the risk of relying on an applicant’s tax return copy which could have been manipulated, altered or amended after being approved for charity care.
- Created a customized platform for JPS management that allows monitoring of JPS representatives to ensure compliance with daily production standards
- NCS system helped provide a better automation of information collection
- Provide Income verification data from a reliable source (IRS) to assist in making the right decision
- Reduced paper documentation for low income applicants

While one of the Lean Project Lessons Learned by JPS was that “no matter where you get your information from, it will have bias in it”. The NCS business intelligence provided to JPS comes direct from the IRS (the Holy Grail for Income Data), which will help to minimize that bias.