

PERFORMANCE AUDIT  
OF THE  
OFFICE OF INSPECTOR GENERAL  
AND RELATED COMPLAINT REFERRAL  
AND DISPOSITION PROCESSES  
FAMILY INDEPENDENCE AGENCY

January 2001

## EXECUTIVE DIGEST

# OFFICE OF INSPECTOR GENERAL AND RELATED COMPLAINT REFERRAL AND DISPOSITION PROCESSES

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### INTRODUCTION

This report, issued in January 2001, contains the results of our performance audit\* of the Office of Inspector General (OIG) and Related Complaint Referral and Disposition Processes, Family Independence Agency (FIA).

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### AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness\* and efficiency\*.

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### BACKGROUND

OIG is a criminal justice agency\* within FIA whose mission\* is to support FIA by conducting criminal and administrative investigations and providing assistance to ensure accountability and the efficient use of FIA funds. FIA local offices are responsible for initially analyzing complaints; referring complaints to OIG; and recording recoupment\* agreements and court-ordered restitutions, referred by OIG, on the Automatic Recoupment System. Federal regulations require FIA to establish and maintain

\* See glossary at end of report for definition.

procedures for referring to law enforcement officials situations in which there is a valid reason to suspect that fraud has been committed.

OIG incurred operating expenditures of approximately \$6.6 million, \$6.7 million, and \$7.7 million in fiscal years 1998-99, 1997-98, and 1996-97, respectively. We estimate that FIA recovered, as the result of OIG investigations, benefits for which recipients were not eligible of \$8.5 million, \$6.1 million, and \$13.7 million in fiscal years 1998-99, 1997-98, and 1996-97, respectively.

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AUDIT OBJECTIVES,  
CONCLUSIONS, AND  
NOTEWORTHY  
ACCOMPLISHMENTS

**Audit Objective:** To determine whether FIA's referral process to its OIG for alleged public assistance fraud was effective and efficient.

**Conclusion:** We concluded that FIA's referral process to its OIG for alleged public assistance fraud was neither effective nor efficient. Our assessment disclosed three material conditions\*:

- FIA sometimes did not actively pursue potential fraud in compliance with federal statutes and regulations, State statute, State Plan certifications, and FIA policies and procedures that require action against clients who may have improperly received "material" benefits based on false claims (Finding 1).

FIA responded that it agreed and will comply with the corresponding recommendation. However, FIA offered some comments related to the finding, which are shown in the agency preliminary response to Finding 1.

\* See glossary at end of report for definition.

- FIA frequently did not comply with its procedures to investigate differences between clients' actual wages and reported wages (Finding 2).

FIA responded that it agreed and will comply with the corresponding recommendation.

- FIA's controls were not effective in ensuring that OIG receives all complaint referrals\* for potential fraud which meet FIA's defined threshold for referral to OIG (Finding 3).

FIA responded that it agreed and will comply with the corresponding recommendation.

**Audit Objective:** To determine whether FIA and its OIG safeguarded the integrity of alleged fraud referrals; effectively investigated referrals in compliance with applicable statutes, rules, policies, and procedures; and established effective controls to help ensure the recovery of public assistance overissuances\*.

**Conclusion:** We concluded that FIA and its OIG did not safeguard the integrity of alleged fraud referrals; that OIG effectively investigated referrals in compliance with applicable statutes, rules, policies, and procedures; and that FIA had not established effective controls to help ensure the recovery of public assistance overissuances. Our assessment disclosed two material conditions:

- FIA and its OIG had not developed effective control procedures to ensure the security of the Automated

\* See glossary at end of report for definition.

Reporting System for the Office of Inspector General database files (Finding 4).

FIA responded that it agreed and will comply with the corresponding recommendation.

- FIA had not formally established effective controls to ensure that it recorded OIG recoupment agreements and court-ordered restitutions to facilitate the recovery of public assistance overissuances and to deter welfare fraud (Finding 5).

FIA responded that it agreed and will comply with both corresponding recommendations.

Our assessment also disclosed reportable conditions\* relating to the timely screening and assignment of complaint referrals and the timely purging of special investigation cases (Findings 6 and 7).

**Noteworthy Accomplishments:** Our stakeholder survey of prosecuting attorneys showed that the attorneys were generally satisfied with OIG operations related to fraud referrals and considered OIG investigations to be successful in acting as a fraud deterrent.

**Audit Objective:** To determine whether OIG was effective in recommending ways to improve public assistance program accountability and to detect and deter related fraud.

**Conclusion:** We concluded that OIG was effective in recommending ways to improve public assistance

\* See glossary at end of report for definition.

**program accountability and to detect and deter related fraud.**

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**AUDIT SCOPE AND  
METHODOLOGY**

Our audit scope was to examine the Family Independence Agency's Office of Inspector General program and its records and the Family Independence Agency's records for related complaint referral and disposition processes. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit procedures generally covered the period October 1, 1996 through April 30, 2000. Our procedures included a preliminary survey to obtain an understanding of the OIG complaint intake, processing, and collection processes. Our audit included examining various records at four FIA county offices: Genesee, Ingham, Jackson, and Wayne.

In connection with our first objective, we selected a sample of complaint referrals to determine whether OIG had received the referrals and recorded them on its database. We also investigated the basis for the disposal of wage/benefit matches\* at various local offices throughout the State.

In connection with our second objective, we reviewed randomly selected complaint referrals to determine whether OIG processed them in accordance with OIG policy and procedure and to determine whether FIA had properly recorded settlements for collection.

\* See glossary at end of report for definition.

In connection with our third objective, we reviewed the action taken by OIG to correct identified internal control weaknesses and to detect and deter fraud.

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**AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP**

Our audit report contains 7 findings and 8 corresponding recommendations. The agency preliminary response indicates that FIA agreed with the 8 recommendations. The agency preliminary response also indicates that FIA did not agree with parts of Finding 1.

FIA complied with 8 of the 12 prior audit recommendations included within the scope of our current audit. We repeated 1 prior audit recommendation in this report (Finding 3), and 3 prior audit recommendations were no longer applicable.

January 19, 2001

Mr. Douglas E. Howard, Director  
Family Independence Agency  
Grand Tower  
Lansing, Michigan

Dear Mr. Howard:

This is our report on the performance audit of the Office of Inspector General and Related Complaint Referral and Disposition Processes, Family Independence Agency.

This report contains our executive digest; description of program; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; two exhibits and a summary of stakeholder survey, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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## Description of Program

The Office of Inspector General (OIG) is a criminal justice agency within the Family Independence Agency (FIA) whose mission is to support FIA by conducting criminal and administrative investigations and providing assistance to ensure accountability and the efficient use of FIA funds. The inspector general reports to the FIA deputy director. FIA local offices are responsible for initially analyzing complaints; referring complaints to OIG; and recording recoupment agreements and court-ordered restitutions, referred by OIG, on the Automatic Recoupment System. Federal regulations require FIA to establish and maintain procedures for referring to law enforcement officials situations in which there is a valid reason to suspect that fraud has been committed.

OIG is responsible for investigating alleged fraud in all programs administered by FIA as well as reviewing administrative policies and procedures and recommending ways to improve accountability, fraud deterrence, and detection.

OIG receives complaint referrals from a variety of sources, including FIA local office recoupment specialists\*, public officials, concerned citizens, and automated tests. All complaint referrals that are investigated and found to contain the elements of fraud are forwarded to the appropriate county prosecuting attorney\* for criminal disposition and/or to FIA for administrative action. Complaint referrals received are weighted according to a priority schedule agreed upon between OIG and each county prosecuting attorney's office. Only those referrals that meet acceptance criteria are assigned for criminal investigation. Final action can take the form of prosecution, ordered repayment of ineligibly received funds, a combination of both, a decision not to prosecute, dismissal of charges, or administrative sanctions up to and including FIA employee dismissal.

OIG incurred operating expenditures of approximately \$6.6 million, \$6.7 million, and \$7.7 million in fiscal years 1998-99, 1997-98, and 1996-97, respectively (see Exhibit 1). Also, for the same fiscal years, FIA reimbursed county prosecuting attorney's offices for the prosecution of cases \$1.7 million, \$1.8 million, and \$2.7 million, respectively (see Exhibit 1). We estimate that FIA recovered, as the result of OIG investigations, benefits

\* See glossary at end of report for definition.

for which recipients were not eligible of \$8.5 million, \$6.1 million, and \$13.7 million in fiscal years 1998-99, 1997-98, and 1996-97, respectively (see Exhibit 2). In addition, OIG operations provide an intangible benefit to FIA of fraud deterrence derived from the prosecution and conviction of clients for fraud.

## Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our performance audit of the Office of Inspector General (OIG) and Related Complaint Referral and Disposition Processes, Family Independence Agency (FIA), had the following objectives:

1. To determine whether FIA's referral process to its OIG for alleged public assistance fraud was effective and efficient.
2. To determine whether FIA and its OIG safeguarded the integrity of alleged fraud referrals; effectively investigated referrals in compliance with applicable statutes, rules, policies, and procedures; and established effective controls to help ensure the recovery of public assistance overissuances.
3. To determine whether OIG was effective in recommending ways to improve public assistance program accountability and to detect and deter related fraud.

### Audit Scope

Our audit scope was to examine the Family Independence Agency's Office of Inspector General program and its records and the Family Independence Agency's records for related complaint referral and disposition processes. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

### Audit Methodology

Our audit procedures generally covered the period October 1, 1996 through April 30, 2000 and were performed from June 1999 through April 2000. Our procedures included a preliminary survey to obtain an understanding of the OIG complaint intake, processing, and collection processes. Our audit included examining various records at four FIA county offices: Genesee, Ingham, Jackson, and Wayne.

In connection with our first objective, we selected a sample of complaint referrals to determine whether OIG had received the referrals and recorded them on its database. We also investigated the basis for the disposal of wage/benefit matches at various local offices throughout the State.

In connection with our second objective, we reviewed randomly selected complaint referrals to determine whether OIG processed them in accordance with OIG policy and procedure and to determine whether FIA had properly recorded settlements for collection.

In connection with our third objective, we reviewed the action taken by OIG to correct identified internal control weaknesses and to detect and deter fraud.

#### Agency Responses and Prior Audit Follow-Up

Our audit report contains 7 findings and 8 corresponding recommendations. The agency preliminary response indicates that FIA agreed with the 8 recommendations. The agency preliminary response also indicates that FIA did not agree with parts of Finding 1.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require FIA to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

FIA complied with 8 of the 12 prior audit recommendations included within the scope of our current audit. We repeated 1 prior audit recommendation in this report (Finding 3), and 3 prior audit recommendations were no longer applicable.

# COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## COMPLAINT REFERRAL

### COMMENT

**Audit Objective:** To determine whether the Family Independence Agency's (FIA's) referral process to its Office of Inspector General (OIG) for alleged public assistance fraud was effective and efficient.

**Conclusion:** We concluded that FIA's referral process to its OIG for alleged public assistance fraud was neither effective nor efficient. Our assessment disclosed three material conditions. FIA sometimes did not actively pursue potential fraud in compliance with federal statutes and regulations, State statute, State Plan certifications, and FIA policies and procedures that require action against clients who may have improperly received "material" benefits based on false claims. Also, FIA frequently did not comply with its procedures to investigate differences between clients' actual wages and reported wages. Further, FIA's controls were not effective in ensuring that OIG receives all complaint referrals for potential fraud which meet FIA's defined threshold for referral to OIG.

### FINDING

#### 1. Management Support

FIA sometimes did not actively pursue potential fraud in compliance with federal statutes and regulations, State statute, State Plan certifications, and FIA policies and procedures that require action against clients who may have improperly received "material" benefits based on false claims.

Federal statute and regulations and State polices and procedures require FIA to follow up on potential fraud in excess of certain amounts. The active investigation

of such fraud is not optional and cannot be assigned a low priority that effectively eliminates review and recovery. For example:

- a. Title 7, Section 2022 of the *United States Code* states that "... a State Agency shall collect any overissuance of [food] coupons issued to a household." Also, Title 7, Part 273, Section 18 of the *Code of Federal Regulations (CFR)* states that, "The State Agency shall establish a claim against any household that has received more food stamp benefits than it is entitled to receive . . . ."
- b. Federal regulation 45 *CFR* 235.110 for the Temporary Assistance to Needy Families (TANF) Program states that "... the State Agency will establish and maintain . . . procedures . . . for referring to law enforcement officials situations in which there is valid reason to suspect that fraud has been practiced."
- c. Section 400.60 of the Social Welfare Act states that "any person who by means of willful false statement or representation . . . attempts to obtain . . . assistance or relief to which the person is not entitled; or a larger amount of assistance or relief than that to which the person is justly entitled" is guilty of a misdemeanor if involving \$500 or less and a felony if involving more than \$500.
- d. The State certifies in its TANF State Plan that, "Michigan has established and is enforcing standards and procedures to ensure against program fraud and abuse . . . ."
- e. FIA Program Administrative Manual (PAM) item 700 states: "When a client group receives more benefits than policy allows, FIA must attempt to recoup the overissuance."

Our review of FIA's intake process for complaint referrals to OIG disclosed:

- (a) The Office of Program Coordination and Support, Family Independence Services Administration, instructed local office staff not to pursue certain overissuances.

On July 21, 1999, the Office, in response to an inquiry from an FIA zone office manager, stated:

At this time, no recoupment action is to be initiated for ESS/FSS [Employment Support Services/Family Support Services] overissuances due to client error, fraudulent statements or any other reason. No referral is to be sent to OIG and no ESS/FSS overissuance is to be recouped through ARS [Automatic Recoupment System], local office accounting procedures or any other means.

- (b) As noted in Finding 2, staff in one FIA local office improperly deferred the referral to OIG of 1,466 potentially fraudulent clients.

We estimate that these deferrals involved approximately \$4.2 million in unreported wages. On a test basis, FIA reviewed 76 of the 1,466 deferrals and found benefit overissuances of \$27,918. If this error rate is representative, we estimate that the overissuances for the 1,466 deferrals totaled approximately \$525,000.

Information we received from various FIA staff indicated that the processing of potentially fraudulent client referrals was also improperly deferred in other local offices. Although we requested attestations, FIA management did not obtain attestations from current and former local office directors that similar deferrals were not made.

As reported in a recent U.S. General Accounting Office audit report:

As industry statistics have shown, the likelihood of recovering amounts owed decreases dramatically with the age of delinquency of the debt. Thus, the old adage that "time is money" is very relevant . . .

Management's failure to actively pursue all known "material" client fraud violates various federal and State requirements and does not establish the proper environment to help deter future fraud and to safeguard federal and State resources.

## **RECOMMENDATION**

We recommend that FIA actively pursue potential fraud in compliance with federal statutes and regulations, State statute, State Plan certifications, and FIA policies and procedures that require action against clients who may have improperly received "material" benefits based on false claims.

## **AGENCY PRELIMINARY RESPONSE AND OFFICE OF THE AUDITOR GENERAL EPILOGUES**

FIA agreed and will comply with the recommendation. However, FIA offered the following comments related to the finding:

- (1) The report states, "The active investigation of such fraud is not optional and cannot be assigned a low priority that effectively eliminates review and recovery." It is true that the investigation of fraud is not optional; however, there are no regulations that address time frames. Given resource constraints, FIA local offices must process new applications and case redeterminations, which are time sensitive by law, before potential fraud cases.

### **Epilogue**

Assigning fraud referrals a low priority will impede recovery. Of 76 closed cases referred for review, FIA could not locate 16 (21%) of the case files. Of 24 open cases referred for review, FIA could not locate 15 (63%) of the original referral documents and 1 (4%) case file. As of December 2000, FIA had not developed a corrective action plan to follow up the 1,466 closed and open deferred cases we identified and provided to them on March 21, 2000.

- (2) The July 21, 1999 memorandum was issued by a policy analyst and was not approved by management. Upon learning of this directive, FIA management issued a policy effective July 1, 2000 instructing staff to recoup ESS/FSS overissuances.

### **Epilogue**

We informed FIA of this policy memorandum on March 7, 2000. FIA revoked the memorandum on July 1, 2000.

- (3) The report states that ". . . staff in one FIA local office improperly deferred the referral to OIG of 1,466 potentially fraudulent clients." Although FIA management gave local offices flexibility in prioritizing cases, there was never any intent that follow-up not be conducted on these cases.

### **Epilogue**

FIA's cover form for the fraud referrals sent to closed case files stated, "If this case re-opens, there is a fraud referral with possible recoupment that has to be processed." Thus, if the case file never re-opens, the fraud referral will never be followed up.

- (4) The report states, "Information we received from various FIA staff indicated that the processing of potentially fraudulent client referrals was also improperly deferred in other local offices." The Office of the Auditor General refused to provide information to support this statement so that FIA could follow up to determine what problems could exist. FIA's Office of Internal Audit conducted an inquiry at three local offices and found that one office had a backlog. This was due to the fact that the recoupment specialist was working in several counties and could not review all cases in the time needed. Those cases are reviewed based on the order received.

### **Epilogue**

The Office of Internal Audit's procedures were not of sufficient scope to determine if the local offices improperly deferred fraud referrals. Management in the county office where we obtained the improperly deferred files did not have a record of the deferrals.

- (5) The report states, "Although we requested attestations, FIA management did not obtain attestations from current and former local office directors that similar deferrals were not made." Rather than require attestations, FIA followed up through its management structure (i.e., zone offices).

### **Epilogue**

Although requested, FIA did not provide us with documentation related to the type of follow-up initiated.

- (6) In addition, for fiscal year 2000-01, FIA added seven recoupment specialists to its staff.

## **FINDING**

### **2. Wage/Benefit Match**

FIA frequently did not comply with its procedures to investigate differences between clients' actual wages and reported wages.

FIA's policies and procedures require that differences between actual wages and reported wages be investigated and that FIA take corrective action to adjust a client's benefits and/or to recoup any overissuances.

PAM item 700 states that, when a client receives more benefits than policy allows, FIA must attempt to recoup the overissuance. To help identify overissuances, FIA compares, on a quarterly basis, the wages that the clients have earned according to the Michigan Unemployment Agency records with the wages reported to FIA by the client. FIA produces a wage match report of clients receiving benefits who are earning wages greater than the wages that the client reported to FIA. Matches are then forwarded to each FIA local office for resolution. Also, PAM item 720 states that an overissuance must be referred to OIG for investigation of potential fraud when the local office determines that the overissuance was caused by the intentional withholding of information by the client and the amount of the overissuance exceeds the established threshold.

We reviewed the wage/benefit match process for 80 clients identified on the wage/benefit report prepared in April 1999. We determined:

- a. In 32 (40%) of the cases, FIA did not obtain employment verifications even though the variance between actual wages and reported wages exceeded established thresholds. PAM item 800 and FIA video display transmission (VDT) dated August 6, 1998 and January 20, 1999 required caseworkers to obtain employment verifications if the differences between actual wages and reported wages did not comply with established thresholds. The failure to verify the variance between actual wages and reported wages may result in FIA providing an inappropriate level of benefits to clients.

- b. In 12 (15%) of the cases, the clients had reported a change in their wages to FIA, but FIA had failed to enter the change on the Client Information System (CIS). The wage/benefit match process uses the wages entered on CIS in the reported wage field to calculate the difference between actual wages and reported wages. However, the reported wage field does not require an entry, and if no entry is made, it defaults to zero. Therefore, FIA's failure to enter reported wages on CIS may result in caseworkers investigating erroneous wage discrepancies identified by wage/benefit matches. These administrative errors reduce both the effectiveness and efficiency of the wage/benefit match report process.
- c. In 35 (44%) of the cases, FIA did not resolve wage/benefit matches on a timely basis. FIA Local Office Report (LOR) Manual UB 040 requires that wage/benefit matches be resolved within 52 days of the date that the wage match report is produced.
- d. In 14 (18%) of the cases, FIA did not retain a copy of the client's budget in the client's case file. As a result, we could not determine whether FIA calculated the client's benefits correctly.
- e. In 9 (11%) of the cases, FIA did not retain the client's application for assistance (FIA-1171) in the case file. As a result, we could not determine the wage information used to calculate the client's benefits.
- f. In 47 (59%) of the cases, FIA did not retain the wage match report in the client's case file to document the caseworker's disposition of the wage/benefit match review. LOR Manual UB 120 requires caseworkers to record the disposition code on the wage match report and to sign and date the report. Also, LOR Manual UB 120 requires that the wage match report be retained in the clients' case files.
- g. In 29 (36%) of the cases, FIA used an incorrect disposition code to describe the resolution of the wage/benefit matches. An incorrect disposition code may indicate that FIA did not properly investigate a wage/benefit match.

Consistent with our findings, in April 2000, OIG issued the results of its review of 597 wage/benefit matches done in November 1998. OIG determined that 94 (16%) met the required elements for fraud. Also, 119 (20%) had administrative errors, such as wages that were reported but not budgeted on CIS, that resulted in overissuances ranging from under \$500 to \$4,100.

The number of FIA wage/benefit match referrals to OIG for potential fraud declined 69% from 20,992 in fiscal year 1995-96 to 6,608 in fiscal year 1998-99. A primary cause for this reduction was the low priority that FIA local offices gave to wage/benefit match resolution. For instance, as a result of staff reductions in fiscal year 1996-97, an FIA local office did not refer to OIG for investigation of potential fraud 1,466 valid wage/benefit match exceptions. We determined that the deferred referrals involved approximately \$4.2 million in unreported wages. Based on FIA's review of a sample of these deferrals, we estimate that FIA did not identify and recoup overissuances of approximately \$525,000.

The wage/benefit match process is one of FIA's primary methods of identifying clients who have not accurately reported their total wages, correcting clients' benefits accordingly, recouping any resulting overissuances, making referrals for determination of potential fraud, and acting as a deterrent to client fraud. The failure to comply with the wage/benefit match process increases FIA's risk of providing an inappropriate level of benefits to clients without detection and subsequent recoupment of overissuances. FIA's failure also increases the risk that clients will not be referred to OIG for investigation of potential fraud when the required elements of fraud are present.

### **RECOMMENDATION**

We recommend that FIA comply with its procedures to investigate differences between clients' actual wages and reported wages.

### **AGENCY PRELIMINARY RESPONSE**

FIA agreed and will comply with the recommendation.

## **FINDING**

### **3. Complaint Referrals**

FIA's controls were not effective in ensuring that OIG receives all complaint referrals for potential fraud which meet FIA's defined threshold for referral to OIG.

Generally, OIG receives complaint referrals for potential fraud from FIA local office recoupment specialists and certain hot line complaints received by the Payment and Document Control Division (PDC), Administration for Budget, Analysis, and Financial Management. It is OIG's responsibility to investigate these complaints; facilitate recoupment of any overissuances; and, if necessary, request legal action for fraud. Our review of FIA's intake process for potential fraud disclosed:

- a. FIA had not established procedures to ensure that OIG received complaint referrals made to OIG by local office recoupment specialists.

Recoupment specialists receive potential fraud cases from family independence specialists. Based on policy and procedures, the recoupment specialist will determine whether the case should be recorded on CIS and referred to OIG for investigation.

We reconciled CIS and the Automated Reporting System for the Office of Inspector General (ARSIG) and determined that 468 (5%) of the 9,178 complaints reportedly referred to OIG from January 1, 1997 through June 30, 1999 were not recorded on ARSIG. As a result, there is no assurance that OIG actually received and reviewed these complaint referrals.

- b. FIA had not established procedures to ensure that OIG received hot line complaint referrals.

PDC sends a small portion of hot line complaints relating to potential provider or FIA employee fraud directly to OIG for review. PDC sends most other hot line complaint referrals to FIA local offices for review. For fiscal years 1998-99, 1997-98, and 1996-97, PDC records indicate that it referred a total of 3,403, 3,758, and 4,296 hot line complaints, respectively.

Usually, PDC did not maintain a record showing where each complaint was referred or whether the complaint referral was actually received by OIG or a local office. However, PDC staff did identify the types of hot line complaints that were referred directly to OIG. We selected 36 of these referrals and determined that OIG had no record that it had received 13 (36%) of the complaints.

The lack of appropriate internal control over the complaint intake and referral process increases the risk that FIA will not investigate fraud complaints; recoup overissuances; and, if necessary, initiate legal action for fraud.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT FIA ESTABLISH CONTROLS EFFECTIVE IN ENSURING THAT OIG RECEIVES ALL COMPLAINT REFERRALS FOR POTENTIAL FRAUD WHICH MEET FIA'S DEFINED THRESHOLD FOR REFERRAL TO OIG.

### **AGENCY PRELIMINARY RESPONSE**

FIA agreed and will comply with the recommendation. FIA will review its options to determine the most effective method to ensure that OIG receives all appropriate complaint referrals.

## **COMPLAINT INVESTIGATION**

### **COMMENT**

**Audit Objective:** To determine whether FIA and its OIG safeguarded the integrity of alleged fraud referrals; effectively investigated referrals in compliance with applicable statutes, rules, policies, and procedures; and established effective controls to help ensure the recovery of public assistance overissuances.

**Conclusion:** We concluded that FIA and its OIG did not safeguard the integrity of alleged fraud referrals; that OIG effectively investigated referrals in compliance with applicable statutes, rules, policies, and procedures; and that FIA had not established effective controls to help ensure the recovery of public assistance

**overissuances.** Our assessment disclosed two material conditions. FIA and its OIG had not developed effective control procedures to ensure the security of the ARSIG database files. Also, FIA had not formally established effective controls to ensure that it recorded OIG recoupment agreements and court-ordered restitutions to facilitate the recovery of public assistance overissuances and to deter welfare fraud.

Our assessment also disclosed reportable conditions relating to the timely screening and assignment of complaint referrals and the timely purging of special investigation cases.

**Noteworthy Accomplishments:** Our stakeholder survey of prosecuting attorneys showed that the attorneys were generally satisfied with OIG operations related to fraud referrals and considered OIG investigations to be successful in acting as a fraud deterrent.

## **FINDING**

### **4. Database Security**

FIA and its OIG had not developed effective control procedures to ensure the security of the ARSIG database files.

In fiscal year 1998-99, FIA implemented ARSIG, which records the results of OIG investigations of potential recipient and/or employee fraud. FIA contracted for the design, implementation, and administration of ARSIG. Based on the sensitivity of this information, it is essential that FIA have control procedures that restrict access to and ensure the accountability and integrity of ARSIG.

Our review of ARSIG database security disclosed:

- a. FIA had an excessive number of database administrators and had not identified all individuals who were assigned the role of administrator.

A database administrator is an individual responsible for the design and management of the database. As such, this individual has unlimited rights to add, change, or delete information from the database. Most often, each system will have a primary and secondary administrator. ARSIG had four user names with administrator authority. Two of the user names were issued to

multiple users. As a result, FIA cannot specifically identify individuals who have the authority to and have made additions to, changes to, or deletions from ARSIG.

- b. The ARSIG application did not require that passwords have a minimum number of characters to help prevent unauthorized access.
- c. FIA did not require that current criminal history background checks be performed on all employees or contractors responsible for developing and administering ARSIG. FIA could not provide us with documentation showing that current background checks had been performed on FIA or contract employees responsible for developing and administering ARSIG.
- d. ARSIG did not cause the automatic disconnection of the terminal upon repeated unsuccessful attempts to gain access. Department of Management and Budget (DMB) Administrative Guide procedure 1310.02 requires that terminals be automatically logged off after repeated unsuccessful attempts to gain access.
- e. FIA did not require the contractor to immediately remove ARSIG access rights of departed employees as required by DMB Administrative Guide procedure 1310.02.
- f. ARSIG was not designed for automatic log-off of a user after a specific period of inactivity. DMB Administrative Guide procedure 1310.02 requires that terminals be automatically logged off when left unattended for a specific period of time.
- g. ARSIG was not designed to maintain an audit trail showing deletions from the database. As a result, there was no assurance that deletions were properly authorized.

### **RECOMMENDATION**

We recommend that FIA and its OIG develop effective control procedures to ensure the security of the ARSIG database files.

## **AGENCY PRELIMINARY RESPONSE**

FIA agreed and will comply with the recommendation. FIA responded:

- (a) Information Technology Management Services (ITMS) standards have evolved to implement each new application with one application administrator. Continued ARSIG development will follow this ITMS standard.
- (b) An enhancement request has been submitted to require that the ARSIG application passwords be a minimum of six characters.
- (c) Procedures will be developed to require that current criminal history background checks be performed on FIA employees as they are assigned to the development of new systems. FIA will work with DMB to determine the feasibility of including current criminal history background checks for contract employees related to system development for Statewide contracts administered by DMB.
- (d) An enhancement request has been made to require a lockout component for repeated unsuccessful access attempts to ARSIG.
- (e) The OIG ARSIG coordinator now has the ability to both add and remove an employee's ARSIG access rights on command.
- (f) The functions are currently achieved through the Windows NT operating system and are based on work station inactivity and not the application. An enhancement request has been made to require an automatic log-off after a period of inactivity.
- (g) ARSIG remains a system in development. FIA agrees that an audit trail is critical and will endeavor to ensure its completion and inclusion in ARSIG.

## **FINDING**

### **5. Overissuance Recoveries**

FIA's controls were not sufficient to ensure that it recorded OIG recoupment agreements and court-ordered restitutions to facilitate the recovery of public assistance overissuances and to deter welfare fraud.

OIG executes recoupment agreements with current and former public assistance recipients who agree that they received benefits for which they were not eligible. Also, OIG receives court-approved restitution orders for recipients who are found guilty of fraud. After receipt of the agreements and orders, OIG forwards the information to FIA local offices, which are responsible for recording the information and facilitating the recovery of these overissuances. However, FIA had not established a formal reconciliation procedure to ensure that local offices received and recorded the agreements and orders. To facilitate the recovery of overissuances and help deter recipient fraud, it is essential that FIA ensure that all agreements and orders are recorded and pursued for collection.

We obtained from ARSIG a listing of all agreements and orders from January 1, 1992 through June 30, 1999. We compared this listing to the overissuance recoveries established by the local offices on FIA's Automatic Recoupment System (ARS). Of the 57,136 agreements and orders recorded on ARSIG, 3,264 (6%), valued at \$6.1 million, were not on ARS. Of the 19,199 agreements and orders recorded on ARSIG between October 1, 1996 and June 30, 1999, 490 (3%), valued at \$1.1 million, were not on ARS.

FIA stated that some of the agreements and orders involve services that would be recorded on the local offices' accounts receivable records and would be collected by the local offices. However, FIA was unable to document that the items not on ARS were recorded only on local office records.

Also, FIA substantially reduced the number of recoupment agreements not recorded on ARS from 2,743 in fiscal year 1997-98 to 14 from October 1, 1998 through June 30, 1999. This reduction was the result of a PDC employee's informal and unilateral action of reconciling agreements referred by OIG and local office entries on ARS.

## **RECOMMENDATIONS**

We recommend that FIA establish sufficient controls to ensure that it records OIG recoupment agreements and court-ordered restitutions to facilitate the recovery of public assistance overissuances and to deter welfare fraud.

We also recommend that FIA take action, as necessary, to record the 3,264 agreements and orders identified to initiate the recovery process.

## **AGENCY PRELIMINARY RESPONSE**

FIA agreed and will comply with the first recommendation. FIA will review its options to determine the most effective procedures and use of available resources.

FIA agreed and will comply with the second recommendation.

## **FINDING**

### **6. Timely Screening and Assignment of Complaint Referrals**

OIG often did not screen and assign new complaint referrals to agents on a timely basis.

OIG pre-screens all new complaint referrals to ensure that they meet the criteria for OIG referral and to prioritize them for investigation. Also, effective September 1, 1999, OIG established a standard of promptness that requires the screening and assignment of new referrals to be completed within 5 working days.

We determined that between September 1, 1999 and January 1, 2000, OIG took 11 or more calendar days to screen and assign 194 (17%) of 1,169 complaint referrals.

The timely screening and assignment of complaint referrals is essential to ensure that limited OIG resources are used effectively and efficiently. Also, delays in assigning complaints could delay their investigation, which could reduce the potential for future overissuance recovery.

## **RECOMMENDATION**

We recommend that OIG screen and assign new complaint referrals to agents on a timely basis.

## **AGENCY PRELIMINARY RESPONSE**

FIA agreed and will comply with the recommendation.

## **FINDING**

### **7. Timely Purging of Special Investigation Cases**

OIG did not purge client and employee special investigation cases on a timely basis.

Statute and OIG policy require OIG to purge its special investigation case files if the investigation did not result in adverse action. To determine whether OIG had properly purged special investigation cases when required, we reviewed 45 cases that were closed with no adverse action. We determined that OIG had not purged 12 (27%) of the 45 cases. Our review of the 12 cases disclosed:

- a. Ten cases pertained to client investigations. Item 902 of the OIG Policy and Procedure Manual requires OIG to purge client-related cases closed with no adverse action after one year.
- b. Two cases pertained to employee investigations. Section 423.509(1) of the *Michigan Compiled Laws* states that upon completion of an employee investigation, if the employer does not take disciplinary action, the employer shall destroy the investigative file and all copies of the material in it. Also, item 902 of the OIG Policy and Procedure Manual requires OIG to purge the special investigations involving employees immediately after such cases are closed. At the time of our review, these cases still remained unpurged at least 153 days past the date that OIG had closed the cases.

Purging this information is necessary to prevent FIA from using it in the future when evaluating client eligibility/benefits or when considering an employee for promotion, transfer, additional compensation, or disciplinary action.

## **RECOMMENDATION**

We recommend that OIG purge client and employee special investigation cases on a timely basis as required.

## **AGENCY PRELIMINARY RESPONSE**

FIA agreed and informed us that it has complied with the recommendation.

## **PROGRAM ACCOUNTABILITY**

### **COMMENT**

**Audit Objective:** To determine whether OIG was effective in recommending ways to improve public assistance program accountability and to detect and deter related fraud.

**Conclusion:** We concluded that OIG was effective in recommending ways to improve public assistance program accountability and to detect and deter related fraud.

# SUPPLEMENTAL INFORMATION

OFFICE OF INSPECTOR GENERAL (OIG)  
Family Independence Agency (FIA)  
OIG Complaint Processing-Related Expenditures

	Fiscal Year		
	1998-99	1997-98	1996-97
Complaint Investigation Expenditures:			
OIG direct expenditures	\$ 6,571,757	\$ 6,743,702	\$ 7,689,026
FIA payments to prosecuting attorneys	1,707,423	1,821,046	2,739,294
Total Complaint Investigation Expenditures	<u>\$ 8,279,180</u>	<u>\$ 8,564,749</u>	<u>\$10,428,320</u>
OIG-Processed Overissuance Determinations:			
Amounts referred for prosecution	\$17,293,607	\$26,082,656	\$31,755,218
Court-ordered judgments and restitutions	\$16,610,592	\$11,927,625	\$26,728,196
OIG-Processed Cases:			
Fraud cases	6,748	10,737	13,605
Nonfraud cases	4,632	5,716	6,857
Total OIG-Processed Cases	<u>11,380</u>	<u>16,453</u>	<u>20,462</u>
Average OIG direct cost per processed case	\$ 577	\$ 410	\$ 376
Average court-ordered judgment and restitution per processed case	\$ 1,460	\$ 725	\$ 1,306

OFFICE OF INSPECTOR GENERAL (OIG)  
Family Independence Agency (FIA)  
FIA Recoupments of OIG-Processed  
Court-Ordered Judgments and Restitutions

	Fiscal Year		
	1998-99	1997-98	1996-97
OIG-processed court-ordered judgments and restitutions	\$16,610,592	\$11,927,625	\$26,728,196
Composite Automatic Recoupment System (ARS) collection rate*	51.29%	51.29%	51.29%
Estimated FIA recoveries based on ARS collection rate	\$ 8,519,573	\$ 6,117,679	\$13,708,892
OIG-processed cases	11,380	16,453	20,462
Average estimated FIA recoupment per OIG-processed case	\$ 749	\$ 372	\$ 670
FIA expenditures for OIG operations and payments to prosecuting attorneys	\$ 8,279,180	\$ 8,564,749	\$10,428,320
Ratio of average estimated FIA recoupment per OIG case to FIA expenditures for OIG operations and payments to prosecuting attorneys	1.03	0.71	1.31

\* This collection rate is based on court-ordered judgments and restitutions established in fiscal year 1992-93 and the resulting collections through October 26, 1999.

OFFICE OF INSPECTOR GENERAL (OIG)  
Family Independence Agency  
Prosecuting Attorneys' Fraud Referral Process  
Summary of Stakeholder Survey

Summary Overview

We sent surveys to 82 county prosecuting attorneys' offices and a survey to the assistant attorney general for welfare fraud prosecution in Wayne County. Each county office was encouraged to have all attorneys in the office who were directly involved in prosecuting welfare fraud complete the survey. Of the 82 county offices, 62 (76%) responded to the survey. The total number of responses for each item may not agree with the number of respondents because some respondents provided more than one response or did not answer all items. Overall, the comments were positive.

Following is a summary of the survey and the associated responses for each item.

1. Generally, how would you rate your level of satisfaction with the evidentiary material included in OIG case referrals?
  - a. 53 Very Satisfied
  - b. 10 Somewhat Satisfied
  - c. 2 Somewhat Dissatisfied
  - d. 1 Dissatisfied
  
2. When the evidentiary material you initially receive from OIG is not sufficient for either prosecution or review, how satisfied are you with OIG's timeliness in responding to your request(s) for additional material?
  - a. 44 Very Satisfied
  - b. 13 Somewhat Satisfied
  - c. 1 Somewhat Dissatisfied
  - d. 1 Dissatisfied
  - e. 4 Not Applicable
  
3. How would you rate your level of satisfaction with the additional evidentiary material received?
  - a. 52 Very Satisfied
  - b. 10 Somewhat Satisfied
  - c. 0 Somewhat Dissatisfied
  - d. 1 Dissatisfied

4. How satisfied are you with the OIG agents' ability to properly investigate cases based on their training and experience?
- a. 58 Very Satisfied
  - b. 5 Somewhat Satisfied
  - c. 3 Somewhat Dissatisfied
  - d. 0 Dissatisfied
5. If OIG agents interview subjects who are under review, how satisfied are you with the quality of these interviews?
- a. 49 Very Satisfied
  - b. 15 Somewhat Satisfied
  - c. 0 Somewhat Dissatisfied
  - d. 1 Dissatisfied
6. How often does the evidential material received from OIG confirm that the subject intentionally made untrue representation(s) about critical fact(s) or event(s)?
- a. 23 Always
  - b. 35 Almost Always
  - c. 5 Sometimes
  - d. 0 Seldom
  - e. 0 Never
7. How often does the evidential material received from OIG effectively confirm that the State relied on the information either provided or omitted by the subject?
- a. 36 All of the time
  - b. 27 Often
  - c. 1 Sometimes
  - d. 0 Seldom
  - e. 0 Never
8. How often did the evidential material received from OIG confirm that the State incurred a loss of money and/or property?
- a. 48 All of the time
  - b. 17 Often
  - c. 1 Sometimes
  - d. 0 Seldom
  - e. 0 Never

9. How often did OIG maintain a proper chain of evidence over the evidential material included with the case referral?
- a. 43 All of the time
  - b. 20 Often
  - c. 0 Sometimes
  - d. 0 Seldom
  - e. 0 Never
10. Rate the level of success that OIG investigations have had in acting as a deterrent to welfare fraud in your community.
- a. 31 Very Successful
  - b. 25 Somewhat Successful
  - c. 1 Somewhat Unsuccessful
  - d. 2 Unsuccessful
11. Overall, how satisfied are you with the results of OIG fraud investigations conducted in your community?
- a. 53 Very Satisfied
  - b. 10 Somewhat Satisfied
  - c. 2 Somewhat Unsatisfied
  - d. 1 Unsatisfied

## Glossary of Acronyms and Terms

ARS	Automatic Recoupment System.
ARSIG	Automated Reporting System for the Office of Inspector General.
<i>CFR</i>	<i>Code of Federal Regulations.</i>
CIS	Client Information System.
complaint referral	A complaint made to a recoupment specialist or to OIG that benefits may have been paid improperly to a client, based on the false claims of the client.
criminal justice agency	A governmental agency, or any subunit thereof, that engages in the administration of criminal justice pursuant to a statute or executive order and that allocates a substantial part of its annual budget for the administration of criminal justice.
DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
ESS	Employment Support Services.
FIA	Family Independence Agency.

FSS	Family Support Services.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
ITMS	Information Technology Management Services.
LOR Manual	Local Office Report Manual.
material condition	A serious reportable condition which could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the opinion of an interested person concerning the effectiveness and efficiency of the program.
mission	The agency's main purpose or the reason the agency was established.
OIG	Office of Inspector General.
outcomes	The actual impacts of the program. Outcomes should positively impact the purpose for which the program was established.
outputs	The products or services produced by the program. The program assumes that producing its outputs will result in favorable program outcomes.
overissuance	The issuance by FIA of more benefits than a client is eligible for.
PAM	Program Administrative Manual.
PDC	Payment and Document Control Division.

performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
prosecuting attorney	The chief law enforcement officer of a county who is responsible for reviewing, authorizing, and prosecuting violations of State felony and misdemeanor criminal laws and county ordinances committed inside the county.
recoupment	Action by FIA to identify and recover a benefit overissuance.
recoupment specialist	An FIA local office employee, usually assigned to a region, responsible for investigating overissuances and determining the disposition of the overissuances in accordance with FIA policy and procedure.
reportable condition	A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
TANF	Temporary Assistance to Needy Families.
wage/benefit match	The process by which a client's actual wages are compared to the wages reported by the client when applying for benefits.