

FOLLOW-UP REVIEW
OF THE
OFFICE OF INSPECTOR GENERAL AND RELATED
COMPLAINT REFERRAL AND DISPOSITION PROCESSES
FAMILY INDEPENDENCE AGENCY

January 2003

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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AUDITOR GENERAL

January 23, 2003

Ms. Nannette M. Bowler, Director
Family Independence Agency
Grand Tower
Lansing, Michigan

Dear Ms. Bowler:

This is our report on our follow-up review of the 5 material findings (Findings 1 through 5) and 6 related recommendations reported in the performance audit of the Office of Inspector General and Related Complaint Referral and Disposition Processes, Family Independence Agency. That audit report was issued and distributed in January 2001; however, additional copies are available on request.

Our review disclosed that the Family Independence Agency had initiated corrective action but had not yet complied with 2 recommendations and had not complied with 4 recommendations.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Director of Audit Operations.

AUDITOR GENERAL

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**OFFICE OF INSPECTOR GENERAL
AND RELATED COMPLAINT REFERRAL
AND DISPOSITION PROCESSES
FAMILY INDEPENDENCE AGENCY
FOLLOW-UP REVIEW**

INTRODUCTION

This report contains the results of our follow-up review of the material findings and related recommendations reported in the performance audit of the Office of Inspector General (OIG) and Related Complaint Referral and Disposition Processes, Family Independence Agency (FIA). The performance audit contained 5 material findings (Findings 1 through 5) and 2 other reportable conditions.

PURPOSE OF REVIEW

The purpose of this follow-up review was to determine whether FIA had taken appropriate corrective measures in response to the 5 material findings.

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. 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 Automated Recoupment System (ARS). 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 operations provide an intangible benefit to FIA of fraud deterrence, which is derived from the prosecution and conviction of clients and/or employees for fraud.

SCOPE

We reviewed FIA policies and procedures to determine whether there were any changes since our audit. We interviewed FIA personnel and performed various tests to determine whether the corrective action taken to comply with the recommendations related to our material findings was working as FIA had intended. In addition, FIA's compliance with the recommendation related to Finding 2 (Wage/Benefit Match) was reviewed as part of our concurrent performance audit of FIA's Food Assistance Program.

FOLLOW-UP REVIEW RESULTS

COMPLAINT REFERRAL

FINDING

1. Management Support

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 Employment Support Services/Family Support Services (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.

FOLLOW-UP REVIEW CONCLUSION

We conclude that FIA's efforts were not adequate to ensure that FIA will identify and pursue potential fraud and, therefore, that FIA had not complied with this recommendation.

FIA increased the number of positions for recoupment specialists Statewide from 44 in June 1999 to 53 in August 2002. However, family independence specialist/eligibility specialist (FIS/ES) workers identify and refer potential fraud. Recoupment specialists only process these fraud referrals and forward them to the OIG when appropriate. Therefore, additional recoupment specialists do not ensure that FIS/ES workers identify and properly refer potential fraud. For instance, the average number of complaint referrals that recoupment specialists forwarded each month to OIG decreased 31% from 488 in fiscal year 1998-99 to 337 through August of fiscal year 2001-02. Therefore, on average, each recoupment specialist forwarded 57 fewer fraud referrals annually than in fiscal year 1998-99.

Also, of the improper case deferrals noted during the audit, FIA initiated a follow-up of the 1,209 open cases by planning to review 40 cases each month starting in December 2001. As of July 31, 2002, FIA had reviewed 280 cases but made no referrals to OIG for investigation. Of the 280 cases, FIA could not process 78 (28%) cases because documentation or files were missing or purged and 19 (7%) cases could not be pursued because they were beyond the statute of limitations.

In addition, FIA initiated a follow-up of the 582 improperly deferred closed cases. Of these cases, FIA could not process 253 (43%) cases because documentation or files were missing or purged. Also, FIA stated that 108 (19%) cases were referred to OIG for investigation. However, although FIA requires recoupment specialists to

make referrals to OIG, there is no record that recoupment specialists referred 48 (44%) of the 108 cases.

As noted in the finding in our audit report, a U.S. General Accounting Office audit report stated that ". . . recovering amounts owed decreases dramatically with the age of delinquency of the debt. Thus, the old adage that 'time is money' is very relevant" Likewise, the probability that FIA will be able to follow up on any of the improper case deferrals and recover funds decreases the longer FIA delays completing its reviews.

FINDING

2. Wage/Benefit Match

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.

FOLLOW-UP REVIEW CONCLUSION

We conclude that FIA had not complied with this recommendation.

Our review of FIA's compliance with policies and procedures requiring differences between actual wages and reported wages to be investigated during our concurrent performance audit of the Food Assistance Program disclosed that FIA continued to frequently not comply with prescribed controls.

FINDING

3. Complaint Referrals

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.

FOLLOW-UP REVIEW CONCLUSION

We conclude that FIA had initiated corrective action but had not yet complied with this recommendation.

Statewide, recoupment specialists have been given direct access to the Automated Reporting System for the Office of Inspector General (ARSIG) and now enter complaint referrals directly onto the database. As a result, OIG should receive all complaint referrals made through recoupment specialists. However, FIS/ES workers continue to manually prepare and directly submit child care program complaint referrals to OIG. This is the same process that was in place during our audit, and it does not ensure that OIG receives all complaint referrals.

Also, the Office of Quality Assurance's (OQA's) Survey Center Fraud Hotline staff receive complaint referrals which they refer on to OIG's fraud referral Web site or for which they make paper referrals to OIG. In response to our follow-up inquiries, OIG compared OQA referral records and OIG referral receipt records. However, OIG's process included only a comparison of summary totals of paper referrals. Therefore, if total referral and receipt records did not match, omitted referrals cannot be identified for follow-up. After we brought this to their attention, OIG and OQA recommended enhancements to the reconciliation process to identify and research all unaccounted for referrals.

COMPLAINT INVESTIGATION

FINDING

4. Database Security

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 the Department of Management and Budget (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.

FOLLOW-UP REVIEW CONCLUSION

We conclude that FIA had initiated corrective action but had not yet fully complied with this recommendation.

FIA responded that it had not yet fully complied with this recommendation. OIG had established other controls that provide for six-character passwords (item 4(b)), the ability to directly remove departed employees' ARSIG access rights (item 4(e)), and the automatic log-off of the computer after a period of inactivity (item 4(f)). FIA stated that the other items would be addressed when ARSIG is upgraded.

FINDING

5. Overissuance Recoveries

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.

FOLLOW-UP REVIEW CONCLUSION

We conclude that FIA had not complied with either recommendation:

- a. FIA sends the original copy of all signed recoupment agreements and court orders to the Payment/Document Control Division of the Administration for Budget, Analysis, and Financial Management for retention. Also, OIG sends a copy of the recoupment agreements and court orders to local offices for entry onto the Automated Recoupment System (ARS). However, the Payment/Document Control Division only sporadically reconciles, on a test basis, its original recoupment agreements and court orders with amounts recorded in ARS. As a result, controls were not sufficient to ensure that all original recoupment agreements are recorded for subsequent collection.
- b. FIA did not take necessary action to verify and record, when appropriate, the 3,264 recoupment agreements we identified on ARSIG that local offices had not recorded on ARS.