



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

“...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

Audit report information may be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Recovery Process for Overissuances of
Public Assistance Benefits
Department of Human Services

Report Number:
 43-150-04

Released:
 August 2006

The Department of Human Services' (DHS's) responsibilities include recovering overissuances of public and food assistance benefits made to DHS recipients. An overissuance occurs when benefits in excess of those legally due are provided to a public assistance recipient. Overissuances, identified by a variety of sources, are processed by recoupment specialists and fiscal office staff at DHS local offices.

Audit Objective:

To assess the effectiveness of DHS in identifying and validating overissuances of public assistance benefits.

Audit Conclusion:

We concluded that DHS was moderately effective in identifying and validating overissuances of public assistance benefits. Our assessment disclosed reportable conditions related to recipient wage data matches, new employment data matches, welfare fraud hotline referrals, supervisory case reads, and the Recoupment Tracking System (Findings 1 through 5).

~ ~ ~ ~ ~

Audit Objective:

To assess the completeness of DHS's efforts in pursuing overissuance recoveries.

Audit Conclusion:

We concluded that DHS's efforts were substantially complete in pursuing overissuance recoveries. Our assessment disclosed reportable conditions related to unrecorded Local Accounting System Replacement (LASR) overissuances, debt collection status listing, and local fiscal office internal control (Findings 6 through 8).

~ ~ ~ ~ ~

Agency Response:

Our audit report contains 8 findings and 13 recommendations. DHS's preliminary response indicated that it agreed with 11 of the recommendations. In addition, DHS indicated that it either had implemented corrective action or was in the process of implementing corrective action for 6 of the recommendations.

~ ~ ~ ~ ~

A copy of the full report can be
obtained by calling 517.334.8050
or by visiting our Web site at:
<http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

August 16, 2006

Mrs. Marianne Udow, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

This is our report on the performance audit of the Recovery Process for Overissuances of Public Assistance Benefits, Department of Human Services.

This report contains our report summary; description of process; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; four exhibits, 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

TABLE OF CONTENTS

RECOVERY PROCESS FOR OVERISSUANCES OF PUBLIC ASSISTANCE BENEFITS DEPARTMENT OF HUMAN SERVICES

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Process	7
Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	9
COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES	
Identifying and Validating Overissuances	13
1. Recipient Wage Data Matches	14
2. New Employment Data Matches	16
3. Welfare Fraud Hotline Referrals	18
4. Supervisory Case Reads	19
5. Recoupment Tracking System (RTS)	21
Recovering Overissuances	23
6. Unrecorded LASR Overissuances	24
7. Debt Collection Status Listing	26
8. Local Fiscal Office Internal Control	27

SUPPLEMENTAL INFORMATION

Exhibit 1 - ARS Outstanding Overissuances by Recorded Fiscal Year	32
Exhibit 2 - ARS Outstanding Overissuances by Overissuance Type	33
Exhibit 3 - Recovery of ARS Overissuances by Collection Source and Fiscal Year	34
Exhibit 4 - Disposition of ARS Overissuances by Fiscal Year	35

GLOSSARY

Glossary of Acronyms and Terms	37
--------------------------------	----

Description of Process

The Department of Human Services (DHS) administers several public assistance programs, including the Family Independence Program (FIP), Food Assistance Program (FAP), State Disability Assistance Program, and Child Day Care Services. According to DHS records, DHS incurred public assistance expenditures directly to DHS recipients* of approximately \$1.5 billion during fiscal year 2002-03.

State statutes and federal regulations require DHS to recover overissuances of FAP benefits made to DHS recipients. Also, State statutes require DHS to recover overissuances of other public assistance programs.

DHS's Field Operations Administration is responsible for issuing public assistance to eligible recipients. An overissuance occurs when benefits in excess of those legally due are provided to a public assistance recipient. Overissuances may be recovered by reducing any future public assistance payments or by collecting reimbursement from the individual. DHS often experiences inherent difficulties in recovering overissuances from individuals with limited resources. As a result, DHS refers eligible delinquent overissuances to the Michigan Department of Treasury and the U.S. Department of Treasury (FAP overissuances only) for additional collection efforts. When delinquent overissuances are deemed uncollectible, DHS cancels those overissuances in accordance with program and accounting policies.

DHS records overissuances on two automated systems. The Automated Recoupment System* (ARS), implemented in 1985, maintains overissuance data for FIP, FAP, the State Disability Assistance Program, and the Refugee Assistance Program. The Local Accounting System Replacement* (LASR), fully implemented in 1999, maintains overissuance data related to Medicaid, Child Day Care Services, State Emergency Relief, and Employment Support Services. Also, each DHS recoupment specialist* maintains a stand-alone database, the Recoupment Tracking System (RTS), to track suspected overissuances.

Overissuances may be identified by a variety of sources, including computer data matching reports, daily casework, DHS's Office of Quality Assurance case record* reviews, supervisory case reads, and DHS's welfare fraud hotline referrals. Potential

* See glossary at end of report for definition.

overissuances are referred to recoupment specialists. As of July 31, 2004, 44 recoupment specialists were responsible for validating and recording overissuances related to the public assistance programs on ARS. DHS local fiscal office staff were responsible for recording overissuances on LASR.

As of July 31, 2004, there were 92,945 overissuances totaling \$96.7 million recorded on ARS and 14,661 overissuances totaling \$10.0 million on LASR.

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

Audit Objectives

Our performance audit* of the Recovery Process for Overissuances of Public Assistance Benefits, Department of Human Services (DHS), had the following objectives:

1. To assess the effectiveness* of DHS in identifying and validating overissuances of public assistance benefits.
2. To assess the completeness of DHS's efforts in pursuing overissuance recoveries.

Audit Scope

Our audit scope was to examine the program and other records of the Department of Human Services related to the recovery process for overissuances of public assistance benefits. 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

We performed our initial audit procedures from April 2004 through January 2005. We performed additional audit procedures from January through February 2006 primarily to provide updated analyses of Automated Recoupment System (ARS) data, presented as supplemental information in the audit report. Our audit procedures included an examination of DHS records and activities primarily for the period of October 1, 2001 through July 31, 2004.

To accomplish our objectives, we reviewed applicable laws, regulations, policies, and procedures. We performed a preliminary survey to obtain an understanding of the processes used by DHS to identify, validate, record, and recover overissuances. Our audit included examining various records at four DHS local offices in Bay, Kalamazoo, Kent, and Wayne counties.

* See glossary at end of report for definition.

In connection with our first objective, we reviewed internal control* and policies and procedures at the DHS central office and four DHS local offices for identifying and validating overissuances. We reviewed recipient case records and recoupment specialists' files to assess whether DHS staff had properly investigated and resolved possible instances of unreported recipient income and new employment. We reviewed referrals received from DHS's welfare fraud hotline to assess whether DHS local office staff investigated the referrals, documented their investigation results on a timely basis, and referred suspected overissuances to the recoupment specialists. We reviewed supervisory case read controls and tested records to assess whether local office supervisors complied with case read requirements. We assessed DHS's use of the Recoupment Tracking System (RTS) to track recoupment specialists' activities related to validating suspected overissuances. We followed up on discrepancies between ARS and the Automated Reporting System of the Office of Inspector General (ARSIG) to assess whether recoupment specialists referred suspected welfare fraud cases to DHS's Office of Inspector General and whether recoupment specialists recorded the results of closed Office of Inspector General investigations on ARS. We also reviewed DHS local fiscal office controls over the recording of overissuances on the Local Accounting System Replacement (LASR).

In connection with our second objective, we reviewed internal control and policies and procedures at the DHS central office and four DHS local offices for recovering overissuances recorded on ARS and LASR. We reviewed local fiscal office controls and reconciliations of cash collections received at DHS local fiscal offices and the posting of cash collections to ARS and LASR overissuance accounts. We reviewed DHS's controls over referrals of delinquent overissuances to the Michigan Department of Treasury for additional recovery efforts. We also reviewed DHS's controls over identifying and canceling overissuances from ARS and LASR.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 8 findings and 13 recommendations. DHS's preliminary response indicated that it agreed with 11 of the recommendations. In addition, DHS indicated that it either had implemented corrective action or was in the process of implementing corrective action for 6 of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit

* See glossary at end of report for definition.

fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DHS to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance and financial related audit of the Recovery Process for Overissuances of Public Assistance and Food Stamp Program Benefits, Department of Social Services (#4315091), in October 1992. Within the scope of this audit, we followed up 9 of the 10 prior audit recommendations. DHS complied with 4 prior audit recommendations, 2 prior audit recommendations were repeated in this report, and 3 prior audit recommendations were rewritten for inclusion in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

IDENTIFYING AND VALIDATING OVERISSUANCES

COMMENT

Background: The Department of Human Services (DHS) uses several methods to identify potential overissuances. The primary method for identifying overissuances is to run computer data matches of DHS recipient and applicant data against data from other public and private agencies. DHS uses the computer data matching reports to identify discrepancies in recipient-reported information, such as earned income, new employment information, unearned income, recipient information, and federal-issued assistance (e.g., Supplemental Security Income). Also, DHS identifies potential overissuances through daily casework, Office of Quality Assurance case record reviews, supervisory case reads, and welfare fraud hotline referrals.

DHS classifies overissuances as one of three types: agency error, client error, or intentional program violation (IPV). An agency error results from an incorrect action by DHS staff or agency processes. A client error results when a recipient receives more public assistance benefits than he/she was entitled to because the recipient gave incorrect or incomplete information to DHS. A suspected IPV results when the recipient intentionally fails to report information or intentionally provides incorrect information and the recipient was clearly instructed regarding his/her reporting responsibility and the recipient has no apparent physical or mental impairment that limits his/her understanding or ability to fulfill his/her reporting responsibilities.

DHS local office staff are responsible for substantiating overissuances and recording valid overissuances on the Automated Recoupment System (ARS) or the Local Accounting System Replacement (LASR) within time lines established in DHS program and accounting policy. For suspected IPV's, local office staff are required to refer overissuances to the Office of Inspector General for investigation. Based on the investigation results, Office of Inspector General staff refer these overissuances to a prosecuting attorney, an administrative law judge, or a recoupment specialist for non-IPV overissuances. If the case is returned without disposition, the recoupment specialist must determine if an overissuance still occurred and initiate recovery as if it were a client error.

Audit Objective: To assess the effectiveness of DHS in identifying and validating overissuances of public assistance benefits.

Conclusion: We concluded that DHS was moderately effective in identifying and validating overissuances of public assistance benefits. Our assessment disclosed reportable conditions* related to recipient wage data matches, new employment data matches, welfare fraud hotline referrals, supervisory case reads, and the Recoupment Tracking System (Findings 1 through 5).

FINDING

1. Recipient Wage Data Matches

DHS frequently did not investigate and resolve differences between recipient wages reported by employers and wages reported to DHS by the recipients. Also, DHS did not always provide wage match reports to DHS local offices in a timely manner.

Based on case record reviews, DHS's Office of Quality Assurance projected that \$25.5 million in Food Assistance Program (FAP) overissuances for fiscal year 2002-03 occurred because FAP eligibility determinations did not include all recipient wages. Because \$14.8 million (58%) of these projected overissuances were attributable to incorrect or delayed actions by DHS local offices, DHS's efforts in identifying and validating overissuances for recovery were diminished.

DHS conducts a quarterly computer data match that compares employee wages reported by employers to the Michigan Unemployment Insurance Agency with the wage earnings that the recipients reported to DHS. DHS program policy requires specialists* to investigate recipient wage match differences and report the results of their investigation on the Client Information Management System and the recipient's case record within 45 calendar days of receipt of the wage match report. If the specialist concluded that the recipient's reported wages were inaccurate, he or she should adjust the recipient's benefits and, when appropriate, initiate recovery efforts. DHS management considers this quarterly wage match process to be a key control in its efforts to identify and recover overissuances of public assistance benefits.

For the 4 DHS local offices that we visited, the DHS central office identified 2,406 recipient wage match differences pertaining to 1,142 different recipients for the quarter ended December 31, 2003 and referred the differences to the 4 DHS

* See glossary at end of report for definition.

local offices for follow-up in January 2004. Our review of local office specialists' actions for 116 randomly selected recipient wage match differences disclosed:

- a. Local office specialists did not investigate and resolve or could not support wage match difference resolutions for 75 (65%) of the 116 recipients.
- b. Local office specialists did not complete and report the results of their investigations within the 45-day standard of promptness for 9 (8%) of the 116 recipients with wage match differences.

Per DHS program policy, the decision to pursue an overissuance and the amount to pursue depends on the cause, whether DHS acted on the overissuance in a timely manner, and the amount of the overissuance. As a result, those overissuances identified by DHS after the 45-day standard of promptness may not be fully recoverable.

- c. For 7 (54%) of the 13 instances in which the investigation resulted in a potential overissuance, the specialist did not initiate a referral to the recoupment specialist. As a result, recoupment specialists were unable to substantiate and record on ARS these 7 potential overissuances totaling \$19,427.

In addition, we determined that the DHS central office did not have a process to ensure that the wage match reports were produced and distributed on a timely basis. Local office staff informed us that the DHS central office did not produce and issue wage match reports for the quarter ended June 30, 2004 until August 24, 2004, approximately 50 days late, because of DHS central office oversight. A delay in sending wage match reports to DHS local offices impedes wage match investigations and may result in the continuation of excessive public assistance payments and unidentified overissuances.

Our report on the performance audit of the Food Assistance Program (#4332000), issued in February 2003, included a similar finding and corresponding recommendation regarding deficiencies in DHS's wage match process. DHS agreed and informed us that it was investigating a more unified presentation of match results to field staff to increase the efficiency of the reduced staff. Based on items a. through c., we conclude that DHS's corrective actions have not fully yielded their intended results.

RECOMMENDATIONS

We recommend that DHS investigate and resolve differences between recipient wages reported by employers and wages reported to DHS by the recipients.

We also recommend that DHS provide wage match reports to DHS local offices in a timely manner.

AGENCY PRELIMINARY RESPONSE

DHS agreed with the recommendations. DHS informed us that the wage match system analyst now checks to make sure that the report is run in a timely manner.

FINDING

2. New Employment Data Matches

DHS frequently did not investigate and resolve reports that identified public assistance recipients who may not have reported new employment. Also, DHS frequently did not complete and record the results of its new employment data match investigations in a timely manner.

DHS's failure to act or delay in acting on reported information reduces the likelihood that DHS will identify the related overissuances. Also, DHS's Office of Quality Assurance has determined that two of the most common causes for DHS's FAP overpayment errors are DHS's failure to act on reported information and public assistance recipients' failure to report new employment.

DHS performed a weekly computer data match that identified public assistance recipients' new employment of which DHS did not have a record. DHS program policy requires that specialists determine the impact of the reported new employment on the recipients' public assistance benefits within 15 days and record their resolutions on DHS's Local Office Automation II (LOA2) information system.

Our review of the new employment data matches disclosed:

- a. DHS specialists often did not document, or did not document on a timely basis, the results of their investigations. DHS's new employment data matches identified 125,430 instances of new employment that occurred from

December 9, 2002 through June 7, 2004. Our computer analysis of the new employment data matches disclosed:

- (1) Specialists either did not perform or did not record on LOA2 as of June 22, 2004 the results of their investigations for 5,279 (4%) of the matches.
- (2) Specialists did not record their resolutions on LOA2 on a timely basis for 55,540 (44%) of the matches. Specialists documented the resolutions of their investigations on LOA2 from 1 to 512 days (an average of 27 days) after the 15-day allotted time period:

Number of Days Late	Number of New Employment Matches Resolved After the 15-Day Requirement	Percent of Total
1 - 9	28,347	51%
10 - 29	13,389	24%
30 - 49	4,908	9%
50 - 99	5,170	9%
100 - 199	2,793	5%
200 - 399	891	2%
Over 399	42	0%
Totals	<u>55,540</u>	<u>100%</u>

As previously noted in Finding 1.b., DHS may only be able to pursue the recovery of some of these identified overissuances.

- b. Specialists could not always support their resolutions of new employment data matches reported on LOA2. Our review of a random sample of 72 new employment data matches investigated at 4 DHS local offices disclosed that the specialists could not support their resolutions for 24 (33%) of the 72 matches. In 17 (71%) of the 24 instances, specialists could not provide case file documentation that supported their investigation results as recorded on LOA2.

Our report on the performance audit of the Food Assistance Program (#4332000), issued in February 2003, included a similar finding and corresponding

recommendation regarding deficiencies in DHS's new employment match process. DHS agreed that the new hires processing and resolution should occur. DHS informed us that several systems requests were under development to present the new hire information in a more streamlined and less duplicative manner to field staff in an effort to increase the efficiency of the reduced staff. Based on items a. and b., we conclude that DHS's corrective actions have not fully yielded their intended results.

RECOMMENDATIONS

We recommend that DHS investigate and resolve reports that identify public assistance recipients who may not have reported new employment.

We also recommend that DHS complete and record the results of its new employment data match investigations in a timely manner.

AGENCY PRELIMINARY RESPONSE

DHS agreed with the recommendations.

FINDING

3. **Welfare Fraud Hotline Referrals**

DHS did not ensure that its local offices investigated and documented the results of their investigations of referrals from the welfare fraud hotline and that local offices completed their investigations within DHS's standard of promptness. Failure to investigate these referrals could result in individuals fraudulently receiving public assistance benefits and DHS's inability to identify the related overissuances.

DHS has established a toll-free hotline number within its central office to assist the public in reporting possible welfare recipient fraudulent activity.

DHS local offices did not have a formalized process to ensure the receipt and disposition of all referrals. Our review of 4 local offices' processes for handling welfare fraud hotline referrals disclosed that 2 local offices did not document the receipt and disposition of hotline referrals. One local office informed us that it discontinued recording hotline referrals because the DHS central office did not monitor the local office's disposition of the referrals.

In addition, our review of 60 welfare fraud hotline referrals issued from the DHS central office to the 4 local offices disclosed:

- a. One local office did not have a record of receiving 11 (18%) of the 60 referrals.
- b. The 4 local offices either failed to investigate or did not document the results of their investigation for 26 (53%) of 49 referrals. In 5 (19%) of the 26 instances, 2 local offices did not investigate the referrals because the recipients in question did not receive public assistance at the time that the local offices received the referral. However, the local offices did not investigate to ensure that the recipients were not improperly receiving public assistance benefits at the time of the allegation.
- c. Three (13%) of 23 completed referral investigations exceeded the standard of promptness for disposition of 30 days, ranging from 165 to 191 days.

RECOMMENDATION

We recommend that DHS ensure that its local offices investigate and document the results of their investigations of referrals from the welfare fraud hotline and that local offices complete their investigations within DHS's standard of promptness.

AGENCY PRELIMINARY RESPONSE

DHS agreed with the recommendation. DHS informed us that it is working with the Department of Information Technology to develop an electronic solution.

FINDING

4. Supervisory Case Reads

DHS did not ensure that all DHS local offices performed the minimum number of supervisory case reads in accordance with DHS program policy. Also, DHS local offices did not ensure that they referred all overissuances identified through supervisory case reads to their recoupment specialists.

By not performing the minimum number of supervisory case reads, DHS missed opportunities to identify overissuances made to public assistance recipients. DHS also may be lacking sufficient data to identify specialists in need of additional supervision or training.

Supervisory case reads are an effective management tool to identify and correct public assistance payment errors and identify overissuances to be recovered from DHS recipients. DHS program policy defines "case read" as a review of the information in a recipient case record to determine whether a specialist correctly applied policy in a timely manner in determining a recipient's eligibility and/or benefits.

DHS issued a case read directive in September 2002 requiring supervisory staff to read two FAP cases per recoupment specialist per month up to a maximum of 20 FAP cases each month. DHS's Case Read Information System (CRIS) randomly selects the required case reads and generates reports for the local offices. Upon completing the case reads, DHS requires supervisory staff to enter their case read results into CRIS for subsequent management analysis.

Our review of supervisory case read reports and a sample of 75 selected FAP case reads for the quarter ended December 31, 2003 at 4 DHS local offices disclosed:

- a. One of the 4 local offices either did not meet or did not document that it met the required number of supervisory case reads. Our review disclosed that 2 supervisors who reported their case read results in CRIS did not meet the quarterly case read requirements, performing only 86 (65%) of 132 required case reads.
- b. In 17 (23%) of the 75 completed case reads, supervisors identified overissuances meeting the minimum threshold for referral to the recoupment specialist. However, in 2 (12%) of the 17 instances, neither the supervisor nor the local office specialist referred the overissuances, totaling \$996, to the recoupment specialist.

RECOMMENDATIONS

We recommend that DHS ensure that all DHS local offices perform the minimum number of supervisory case reads in accordance with DHS program policy.

We also recommend that DHS local offices ensure that they refer all overissuances identified through supervisory case reads to their recoupment specialists.

AGENCY PRELIMINARY RESPONSE

DHS disagreed with the recommendations. DHS informed us that there was no requirement that it maintain documentation of other case reads it is doing in addition to case reads for FAP.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

The point of the recommendation is that DHS has established a requirement for a minimum number of case reads, in an effort to identify and correct the eligibility and benefit determination errors. Without documentation of the completion of the case reads, the DHS central office cannot be assured that the case reads are being completed. In addition, as noted in the finding, we identified errors that should have been referred for recoupment but were not.

FINDING

5. Recoupment Tracking System (RTS)

DHS did not use RTS as a Statewide database for storing and sharing all suspected overissuance information. Also, DHS did not ensure that its RTS databases contained complete and accurate data.

As a result, recoupment specialists could not share suspected overissuance data with other recoupment specialists. Because RTS data was not complete and accurate, DHS could not collect and compile key performance data, such as the number of suspected overissuance referrals received, the number of referrals rejected or substantiated as valid overissuances, and the number of suspected overissuance referrals outstanding. Without key performance data, DHS management could not assess the performance of recoupment specialists and their outstanding work loads.

Local office specialists identify and refer suspected overissuances to recoupment specialists. DHS program policy requires that recoupment specialists determine the validity of suspected overissuances. DHS designed RTS for use by recoupment specialists to record and track the status of suspected overissuance reviews. Recoupment specialists record suspected overissuances that they have determined to be valid on ARS.

Except for the recoupment specialists in Wayne County, who used a centralized RTS database, each recoupment specialist used a separate, individual database that was not networked to ARS or any other DHS automated information system. Because DHS did not network RTS among DHS local offices, it required that recoupment specialists record the same data on multiple RTS databases when public assistance recipients moved between DHS local office jurisdictions.

DHS central office and local office staff informed us that they did not monitor RTS and associated overissuance validating activities. DHS central office staff requested and received copies of RTS databases on a monthly basis; however, they did not review the databases for accuracy and completeness or attempt to combine them into an overall database for analysis, such as compiling an aging schedule of outstanding overissuance validations or calculating the average length of time to validate an overissuance. Such analysis could be beneficial in evaluating recoupment specialist work loads and assessing overissuance validating activities on a departmental basis.

In addition, our review of the accuracy of RTS data at the 4 DHS local offices noted:

- a. For 25 (30%) of the 84 suspected overissuances that we reviewed, recoupment specialists recorded the incorrect referral status on RTS. In most instances, recoupment specialists listed the referral status as "unworked" when, in fact, they had completed their validation.

We also noted a lack of consistency in recording the status of referrals as "worked" versus "unworked" on RTS. At 3 local offices, recoupment specialists did not change the referral status from "unworked" to "worked" until they had completed their validation activities. However, one local office recoupment specialist changed the status of all suspected overissuances to "worked" upon initiating validation efforts. As a result, RTS would not accurately or consistently reflect each recoupment specialist's outstanding work load.

- b. For 6 (25%) of 24 instances of suspected recipient fraudulent activity, recoupment specialists did not update both RTS and ARS to reflect the correct status of validated overissuances. In these instances, the Office of Inspector

General had completed its investigations and returned its dispositions to the local office to commence recoupment.

- c. For 3 (7%) of 42 overissuances determined to be valid by the recoupment specialist, the recoupment specialist did not record an overissuance on ARS.

RECOMMENDATIONS

We recommend that DHS further develop and use RTS as a Statewide database for storing and sharing all suspected overissuance information.

We also recommend that DHS ensure that its RTS databases contain complete and accurate data.

AGENCY PRELIMINARY RESPONSE

DHS agreed with the recommendations. DHS informed us that a new Web-based system was implemented in May 2005.

RECOVERING OVERISSUANCES

COMMENT

Background: DHS uses several methods to recover overissuances recorded on ARS and LASR. For overissuances recorded on ARS, active public assistance recipients are subject to administrative recoupment (i.e., reduction in the amount of benefits received) but may submit cash payments when ordered by a court. If the recipient no longer receives public assistance, DHS attempts to recover the overissuances via monthly or lump-sum cash payments. When DHS has not received payment, ARS sends a series of automated delinquency notices.

For overissuances recorded on LASR, local fiscal office staff are responsible for collecting and recording cash payments. Also, local fiscal office staff are responsible for sending collection notices.

Once a reasonable attempt to recover the overissuances has been made, DHS's Welfare Debt Collection Unit refers delinquent ARS and LASR recorded overissuances to the Michigan Department of Treasury for additional recovery efforts. The Michigan Department of Treasury recovers overissuances through regular cash payments,

garnishment of wages, liens on bank accounts, and State income tax offset. Also, delinquent FAP overissuances are referred to the U.S. Department of Treasury. The U.S. Department of Treasury obtains offsets through federal salaries, federal benefits, and federal income tax returns.

On a quarterly basis, ARS cancels overissuances that are deemed uncollectible based on the length of time and amount as established in federal regulations and DHS program policy. DHS local fiscal offices are responsible for manually identifying uncollectible LASR recorded overissuances for cancellation in accordance with DHS accounting policy. Uncollectible LASR recorded overissuances are submitted to the DHS central office for review and forwarded to the Michigan Department of Treasury for final approval of write-off.

Audit Objective: To assess the completeness of DHS's efforts in pursuing overissuance recoveries.

Conclusion: We concluded that DHS's efforts were substantially complete in pursuing overissuance recoveries. Our assessment disclosed reportable conditions related to unrecorded LASR overissuances, debt collection status listing, and local fiscal office internal control (Findings 6 through 8).

FINDING

6. Unrecorded LASR Overissuances

DHS did not ensure that DHS local fiscal offices recorded all identified overissuances on LASR. We identified approximately \$159,600 of unrecorded overissuances, some dating back to 1979. Because DHS local fiscal office staff had not recorded these overissuances on LASR, DHS's ability to recover the overissuances was diminished.

DHS accounting policy requires DHS local fiscal offices to record on LASR overissuances of public assistance programs that are not recorded on ARS.

Our review of overissuances at 4 DHS local fiscal offices disclosed:

- a. Two of the 4 local fiscal offices had not recorded on LASR 154 overissuances totaling in excess of \$106,000. These overissuances dated back to 1995 and ranged in amount from \$13 to \$7,467.

Local fiscal office staff informed us that they did not record some overissuances in LASR because DHS could not electronically convert overissuance data from its previous accounting system to LASR in October 1999. Instead, local fiscal office staff recorded the overissuances in LASR only as time permitted.

- b. Either recoupment specialists did not refer 29 (69%) of 42 overissuances to DHS local fiscal offices for recording on LASR or the DHS local fiscal offices did not record on LASR these overissuances referred to them by the DHS recoupment specialists. These 29 overissuances, some dating back to 1979, totaled in excess of \$53,600 and ranged in amount from \$53 to \$33,207. At 1 local fiscal office, we located 16 of the unrecorded overissuances, totaling \$47,254 and dating back to November 2001, in a folder awaiting to be recorded on LASR. For the 13 remaining unrecorded overissuances, DHS could not determine why it did not record the overissuances on LASR. Also, two recoupment specialists informed us that they had not referred valid overissuances without signed repayment agreements to their local fiscal offices because they were not aware of the requirement in DHS accounting policy.

DHS accounting policy allows DHS local fiscal offices to submit LASR overissuances to the Michigan Department of Treasury for approval to be canceled when no payment activity has occurred within the past six years. We determined that at least \$47,400 (30%) of the \$159,600 in unrecorded overissuances were six years or older and, therefore, met the criteria to be submitted to the Michigan Department of Treasury for approval to be canceled.

RECOMMENDATION

We recommend that DHS ensure that DHS local fiscal offices record all identified overissuances on LASR.

AGENCY PRELIMINARY RESPONSE

DHS agreed with the recommendation and informed us that the local fiscal offices have received training.

FINDING

7. Debt Collection Status Listing

DHS had not established a process for notifying recoupment specialists of the public assistance benefit overissuances that are eligible for debt collection hearings. As a result, DHS did not obtain binding appropriate repayment agreements on 8,286 overissuances totaling \$13.9 million.

When DHS has not received payment on an outstanding overissuance within time frames specified in DHS program policy, DHS can refer the overissuance to the Michigan Department of Treasury for additional collection measures, including State income tax refund and lottery winning offsets. However, DHS cannot refer the overissuance to the Michigan Department of Treasury until it has obtained an appropriate repayment agreement.

As an effective method of obtaining an appropriate repayment agreement, DHS may request a debt collection hearing when the overissuance is the result of client error or an IPV. Through calendar year 2000, ARS generated a debt collection status listing that identified all overissuances eligible for debt collection hearings for follow-up by recoupment specialists. However, DHS discontinued the debt collection status listing because of technical difficulties in producing the listing.

DHS personnel informed us that client error overissuances, subject to a \$1,000 minimum threshold, were eligible for debt collection hearings. Our analysis of outstanding overissuances recorded on ARS as of May 28, 2004 disclosed 8,286 client error overissuances, totaling \$13.9 million, with outstanding balances greater than \$1,000. While we recognize that DHS likely would not obtain appropriate repayment agreements for all 8,286 overissuances, we believe that DHS should pursue all opportunities to obtain appropriate repayment agreements that would maximize DHS's ability to recover the overissuances.

RECOMMENDATION

We recommend that DHS establish a process for notifying recoupment specialists of the public assistance benefit overissuances that are eligible for debt collection hearings.

AGENCY PRELIMINARY RESPONSE

DHS agreed with the recommendation and informed us that it would develop corrective action.

FINDING

8. Local Fiscal Office Internal Control

Local fiscal office controls over LASR did not ensure that overissuance information on LASR was accurate and complete. Also, local fiscal offices did not comply with internal control procedures established to maximize public assistance benefit overissuance recovery efforts.

Requiring local fiscal offices to comply with established recovery procedures should help increase recoveries of overissuances.

DHS local fiscal offices are responsible for recording certain overissuances on LASR as well as performing ARS and LASR overissuance recovery activities. An important aspect of an effective recovery process is the timeliness of collection efforts. Collection professionals advise that the probability of collecting a delinquent account drops dramatically with the length of the delinquency. Our review of overissuance recovery efforts at 4 local fiscal offices disclosed:

- a. Local fiscal offices did not maintain documentation for all overissuances recorded on LASR, did not perform standard recovery activities, and did not record overissuances on LASR in a timely manner. As a result, local fiscal offices' recovery efforts were weakened and the likelihood of recovery diminished with time. Our review of 52 LASR overissuances, totaling \$83,842, disclosed:
 - (1) For 5 (10%) of 52 overissuances recorded on LASR, the local fiscal offices could not provide us with the overissuance file. Without documentation, the local fiscal offices could neither support the existence of the 5 overissuances nor initiate further recovery efforts.
 - (2) In 39 (83%) of 47 overissuances, the local fiscal offices did not send delinquency notices to the clients requesting payment. DHS accounting policy requires local fiscal offices to send a delinquency notice when the

recipient has signed a repayment agreement and is 60 days in arrears. For those overissuances with a court order, a recipient demand letter must be sent if the overissuance is 30 days in arrears and a follow-up demand letter must be sent to the recipient if the overissuance is 90 days in arrears.

- (3) In 41 (87%) of 47 cases, the local fiscal offices did not record the overissuance on LASR in a timely manner. The local fiscal offices recorded the overissuances up to 16 years after the date they were referred to the offices. Entering overissuances on LASR in a timely manner would help to ensure that the local fiscal offices initiate recovery activities while the overissuance is current, thus enhancing recovery efforts.

- b. Local fiscal offices did not comply with established internal control procedures that require performing reconciliations of recovery activities, updating overissuance records for received income tax offset collections, and maintaining proper separation of duties. The risk for errors related to overissuance account balances increases when controls are not in operation. Our review disclosed:

- (1) One of the 4 local fiscal offices did not reconcile monthly ARS activities as required by DHS program policy. Also, 2 of the 4 local fiscal offices did not sign and/or date their reconciliations. In addition, 1 local fiscal office did not maintain its reconciliation documentation for the required reconciliation retention period.

DHS program policy requires local fiscal offices to reconcile ARS activities on a monthly basis and to maintain the reconciliations for three years or one year subsequent to a federal audit. Local fiscal office employees informed us that they were not aware of the reconciliation requirements or the associated reconciliation retention period. Reconciling ARS activities should help to detect recording errors and ensure accurate client overissuance records.

- (2) Two of the 4 local fiscal offices did not update overissuance records on LASR when DHS received income tax offset collections.

DHS accounting policy requires local fiscal offices to use the collection detail report to adjust overissuance records for income tax offset collections received by DHS and to answer any questions that the client may have about the amount withheld. Also, the collection detail report provides local fiscal offices with the recipient's current address. Employees at one local fiscal office informed us that they had not received the collection detail report from the DHS central office.

Using the collection detail report would help ensure accurate overissuance balances on LASR and improve subsequent recovery efforts.

- (3) All 4 local fiscal offices failed to maintain adequate separation of duties over accounting for overissuance activities. In addition, the 4 local fiscal offices had not considered alternative methods to ensure proper accounting control for overissuance activities.

DHS accounting policy requires local fiscal offices to maintain proper separation of duties over processing and reconciling accounts receivable transactions. Our review disclosed that 3 of the 4 local fiscal offices did not separate the duties of collecting cash payments and recording and reconciling overissuance records. Two of the 4 local fiscal offices did not properly separate key duties and responsibilities for authorizing, processing, recording, and reconciling transactions related to overissuances. Also, 2 of the 4 local fiscal offices did not perform supervisory reviews of recorded transactions and reconciliations. As a result, we noted an instance in which 1 local fiscal office recorded an overissuance record on LASR twice, resulting in a \$300 overstatement of overissuance for one account. Also, we noted a separate instance in which a local fiscal office never recorded a \$100 overissuance on LASR.

Local fiscal office employees informed us that they were unable to maintain proper separation of duties because of staffing limitations. However, the local fiscal offices did not consider alternatives to ensure proper accounting control for the overissuance activities, such as having supervisors periodically review selected control procedures and rotating procedures among different employees.

RECOMMENDATIONS

We recommend that local fiscal offices improve controls over LASR to ensure that overissuance information on LASR is accurate and complete.

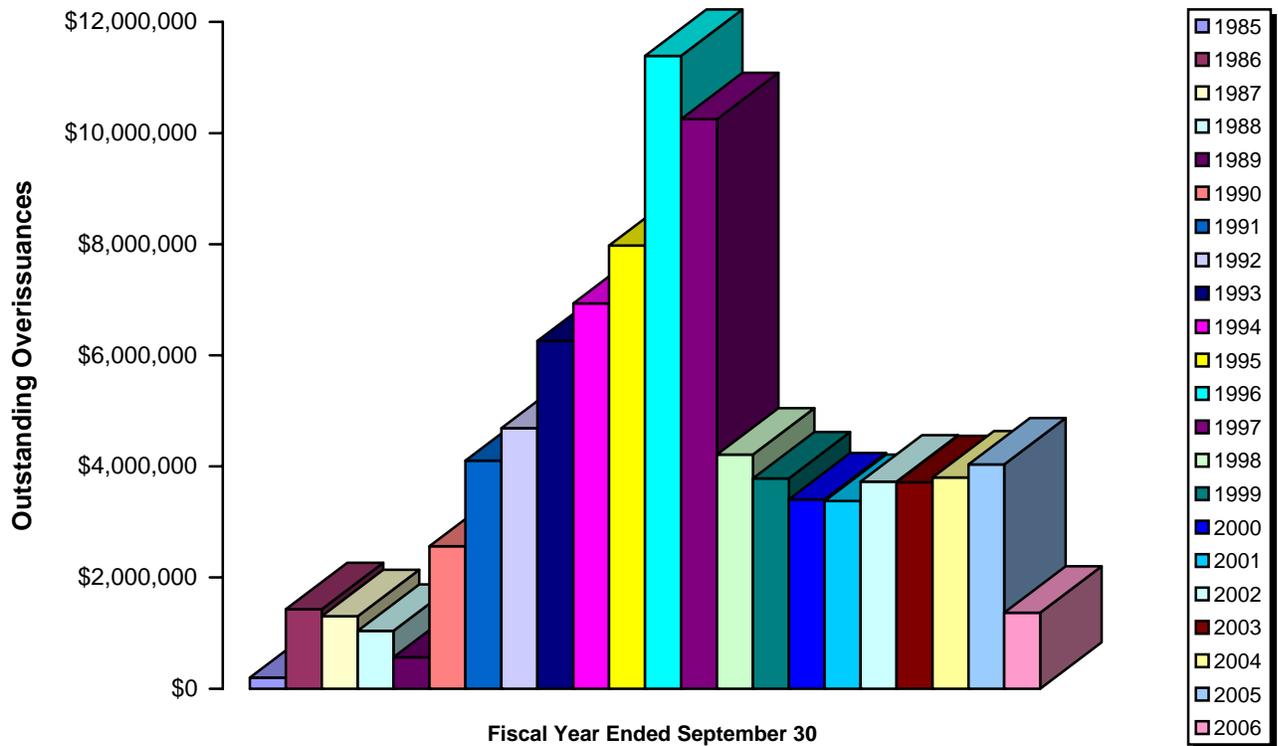
We also recommend that local fiscal offices comply with internal control procedures established to maximize public assistance benefit overissuance recovery efforts.

AGENCY PRELIMINARY RESPONSE

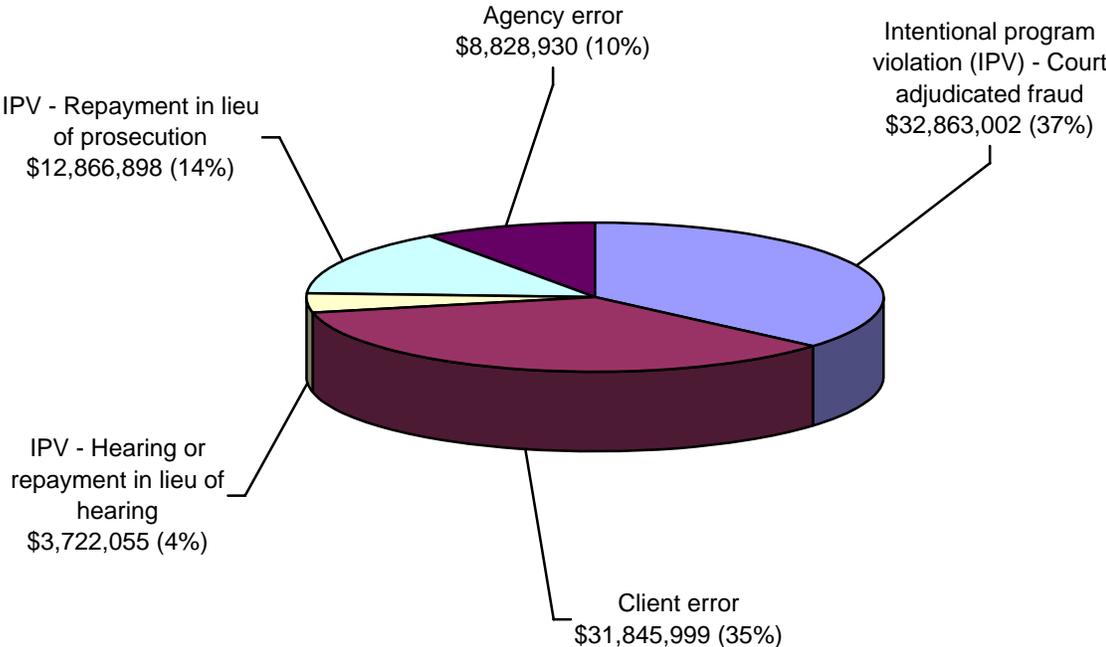
DHS agreed with the recommendations and informed us that it has provided additional training to the local fiscal offices.

SUPPLEMENTAL INFORMATION

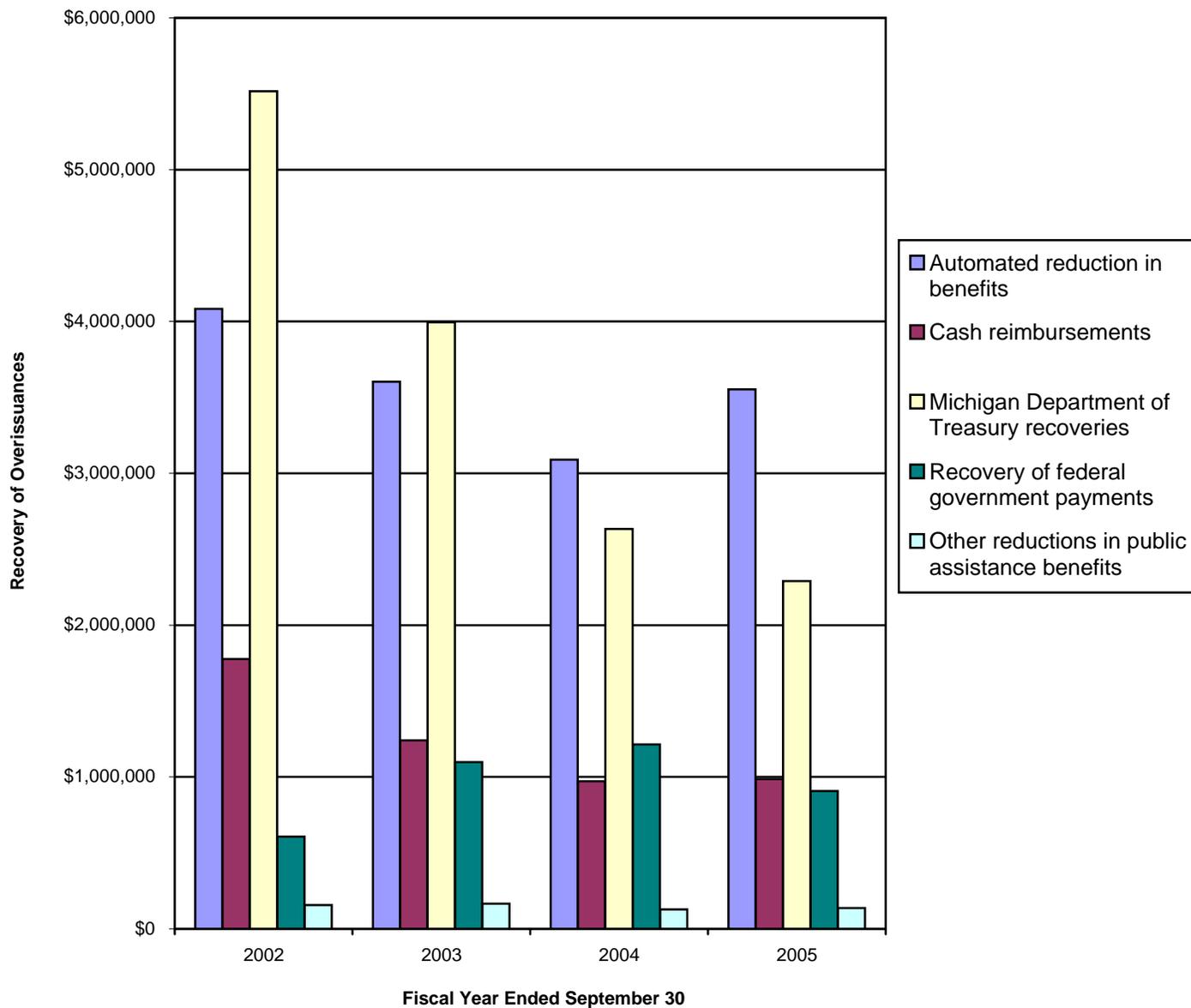
RECOVERY PROCESS FOR OVERISSUANCES OF PUBLIC ASSISTANCE BENEFITS
 Automated Recoupment System (ARS) Outstanding Overissuances by Recorded Fiscal Year
As of January 17, 2006



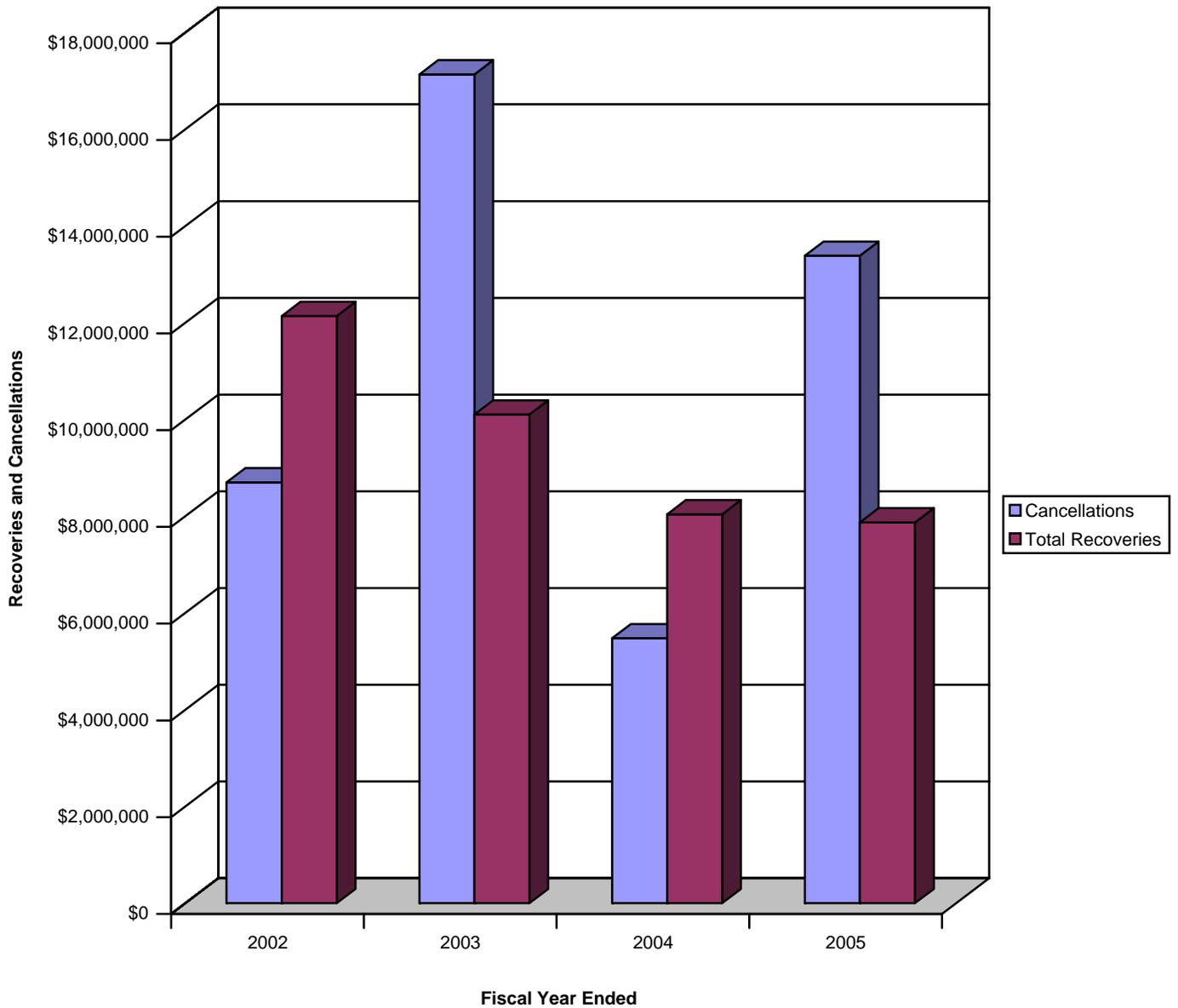
RECOVERY PROCESS FOR OVERISSUANCES OF PUBLIC ASSISTANCE BENEFITS
Automated Recoupment System (ARS) Outstanding Overissuances by Overissuance Type
As of January 17, 2006



RECOVERY PROCESS FOR OVERISSUANCES OF PUBLIC ASSISTANCE BENEFITS
Recovery of Automated Recoupment System (ARS) Overissuances by Collection Source and Fiscal Year
For Fiscal Years 2001-02 through 2004-05



RECOVERY PROCESS FOR OVERISSUANCES OF PUBLIC ASSISTANCE BENEFITS
Disposition of Automated Recovery System (ARS) Overissuances by Fiscal Year
For Fiscal Years 2001-02 through 2004-05



GLOSSARY

Glossary of Acronyms and Terms

Automated Recoupment System (ARS)	The system that tracks all Family Independence Program, Food Assistance Program, State Disability Assistance Program, and Refugee Assistance Program overissuances and payments; issues automated collection notices; and triggers automated benefit reductions for active public assistance recipients.
case record	Documents arranged in a series of packets and information related to a given case (one or more programs) contained in a folder with a number tab(s).
CRIS	Case Read Information System.
DHS	Department of Human Services.
effectiveness	Program success in achieving mission and goals.
FAP	Food Assistance Program.
FIP	Family Independence Program.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
IPV	intentional program violation.
LOA2	Local Office Automation II.
Local Accounting System Replacement (LASR)	The accounting system used in DHS local offices.

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.
recipient	A person receiving public and/or food assistance benefits.
recoupment specialist	A designated DHS local office staff person responsible for validating and recording overissuances related to DHS's public assistance programs.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
RTS	Recoupment Tracking System.
specialist	A DHS local staff member responsible for determining recipient public assistance eligibility and benefits, maintaining recipient case files, calling on recipients in their homes, and providing social work services.

