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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

March 11, 2008

Mr. Ismael Ahmed, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mr. Ahmed:

This is our report on our follow-up of the 4 material findings (Findings 1, 3, 4, and 11) and 4 corresponding recommendations reported in the performance audit of the Food Assistance Program, Family Independence Agency. That audit report was issued and distributed in February 2003; however, additional copies are available on request or at <<http://www.audgen.michigan.gov>>. Subsequent to our original audit, Executive Order No. 2004-38 renamed the Family Independence Agency as the Department of Human Services.

Our follow-up disclosed that the Department of Human Services had complied with 1 recommendation, had partially complied with 1 recommendation, and had not complied with 2 recommendations.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General.

AUDITOR GENERAL

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FOOD ASSISTANCE PROGRAM DEPARTMENT OF HUMAN SERVICES FOLLOW-UP REPORT

INTRODUCTION

This report contains the results of our follow-up of the material findings and corresponding recommendations and the agency's preliminary response as reported in our performance audit* of the Food Assistance Program, Family Independence Agency (FIA) (43-320-00), which was issued and distributed in February 2003. That audit report included 4 material conditions* (Findings 1, 3, 4, and 11) and 7 other reportable conditions*.

Subsequent to our original audit, Executive Order No. 2004-38 renamed the Family Independence Agency as the Department of Human Services (DHS).

PURPOSE OF FOLLOW-UP

The purpose of this follow-up was to determine whether DHS had taken appropriate corrective measures in response to the 4 material findings and 4 corresponding recommendations.

BACKGROUND

The Food Assistance Program (formerly the Food Stamp Program) operates under the federal Food Stamp Act of 1977. The Program is one of the federal safety net programs, and its purpose is to help low-income households buy the food they need for good health.

The Food and Nutrition Service (FNS), U.S. Department of Agriculture, administers the Program at the federal level, and DHS administers the Program in Michigan. DHS's stated goal* for the Program is to raise the food purchasing power of low-income persons. Eligible persons receive benefits based on net income and the size of the

* See glossary at end of report for definition.

group in order to increase the food purchasing power of the group. Generally, all persons who live together and purchase and prepare food together are members of the same food assistance group. DHS is responsible for determining eligibility and providing benefits through electronic debit cards (known as EBT cards*). The federal government funds 100% of the cost of the food assistance provided to recipients. Generally, the State and the federal government share equally the administrative costs of operating the Program, and there is no cap on the federal amount of funds available to reimburse the State for 50% of the allowable administrative costs. However, federal administrative reimbursement is not allowed for State expenditures for reinvestment activities undertaken as a condition of settlement of claims against the State for its high payment error rates*.

For fiscal years 1995-96 through 2002-03, Michigan's payment error rates exceeded the national performance levels. FNS imposed a total of \$89.3 million of sanctions through fiscal year 2001-02, and DHS entered into various settlement agreements with FNS for reinvestment activities totaling \$69.5 million. For fiscal year 2002-03, FNS did not impose sanctions because of revisions to the 2002 Food Stamp Act that changed the way that states' payment error rates were measured. Under the new provisions, only states with persistently high error rates faced sanctions and a state was not sanctioned unless there was a statistical probability that its payment error rate exceeded 105% of the national average for two consecutive years. The sanction amount was to be calculated as 10% of the cost of errors above 6%. In June 2007, FNS notified Michigan that its fiscal year 2005-06 payment error rate exceeded the national performance measure. Michigan will face sanctions if its fiscal year 2006-07 payment error rate again exceeds the national performance measure.

As of July 2007, 2,969 specialists* located at DHS local offices throughout the State were responsible for determining initial and continued eligibility of Program recipients and performing other functions related to the Program and other programs at DHS. For the same month, 562,080 households, representing 1,219,200 individuals, participated in the Program and received monthly benefits totaling \$116.3 million. Fiscal year 2005-06 administrative and benefit expenditures totaled \$186 million and \$1.2 billion, respectively.

* See glossary at end of report for definition.

SCOPE

Our fieldwork was conducted between August and October 2007. We interviewed DHS personnel and reviewed corrective action plans to determine the status of compliance with our recommendations for Findings 1, 3, 4, and 11. We reviewed DHS policies and legislation to determine whether there were any changes since our performance audit of the Food Assistance Program, Family Independence Agency, issued in February 2003. We examined DHS's Program outreach plans submitted to FNS and verified that outreach activities had occurred. We obtained documentation and reviewed DHS's efforts to reduce its payment error rates and improve internal control*, including error review committees, technical assistance, front-end eligibility initiatives, and training. We obtained and reviewed documentation related to automated applications designed to improve Program accuracy and verified their implementation, including the Case Read* Information System, Automated Find and Fix (AFF), and Consolidated Inquiry within DHS's Client Information Management System. We met with DHS personnel and observed certain features of DHS's new integrated eligibility and benefit determination system, Bridges*, which was under development. We obtained employee and Program statistics from departmental reports and prepared a graph that is presented as supplemental information.

* See glossary at end of report for definition.

FOLLOW-UP RESULTS

MAXIMIZATION OF PROGRAM PARTICIPATION

RECOMMENDATION AND RESPONSE AS REPORTED IN FEBRUARY 2003:

1. Recipient Outreach Plan

RECOMMENDATION

We recommend that FIA develop a Statewide recipient outreach plan to help increase Program participation.

AGENCY PRELIMINARY RESPONSE

FIA agrees with this recommendation. FIA acknowledges the value of a Statewide outreach plan for potential customers and will pursue outreach activities including increasing the availability of Web-based program eligibility screening to encourage program application. FIA expects that formal outreach activities will result in increased applications and ongoing approved cases. This caseload increase will directly impact on the workload of current Family Independence Specialist/Eligibility Specialist (FIS/ES) staffing resources. The FIS/ES workload study discussed in response to Finding 10 will identify the extent of this impact and the need for additional resources based on outreach plan results. If the agency is to increase service provision, an acknowledgement of the workload impact is needed.

In lieu of a formal plan during the audit review period, FIA very carefully managed outreach efforts with resources available. In addition, FIA did make significant efforts to serve those needing food assistance by distributing literature and working with other human services agencies that could inform potential customers where food assistance was available. For example, FIA distributed approximately 5,000 posters, 67,000 brochures, and 25,000 pamphlets to such agencies as the Michigan State University Extension Offices, Office on Aging, Food Bank Council, Social Security Administrative Offices, Community Action Agencies, FIA local offices, and the cities of Detroit and Grand Rapids. These human services agencies are where those in need turn for assistance. Inserts were also included with Medical Assistance warrants and payments to day care providers. In addition, reading L-Letter 01-166 [which was presented as Exhibit A in the audit report] in its entirety demonstrates the numerous outreach activities provided by local FIA offices.

FOLLOW-UP CONCLUSION

We concluded that DHS had complied with this recommendation. Specifically, our follow-up disclosed:

- a. DHS developed and implemented annual outreach plans beginning in fiscal year 2004-05 and submitted them to FNS. These plans included partnerships with advocacy groups to support various outreach activities, including preparing and distributing outreach materials; expanding a Statewide help line; providing diverse access sites to elderly program applicants, including an Internet-based application process; partnering with food pantries to provide program information; and providing training and application assistance to non-English-speaking families.
- b. DHS conducted various other outreach activities at local offices, implemented policy changes to update Program allowances, and collaborated in a national pilot outreach activity.
- c. The most current (2005) state program participation rates* from FNS ranked Michigan's Program participation rate of 75% as 10th nationally, which was cited as being significantly higher than the national average of 65%. Michigan's rate was 1st for large programs (states with greater than 1 million eligible). Michigan ranked 7th nationally at 75% for participation by the working poor, which also was significantly higher than the national average of 57%.

PREVENTION AND/OR IDENTIFICATION OF PROGRAM PAYMENT ERRORS

RECOMMENDATION AND RESPONSE AS REPORTED IN FEBRUARY 2003:

3. Program Payment Error Rates and Federal Sanctions

RECOMMENDATION

We recommend that FIA take appropriate action to achieve acceptable Program payment error rates.

* See glossary at end of report for definition.

AGENCY PRELIMINARY RESPONSE

FIA agrees with the recommendation and will comply. FIA informed us that it continues to implement new strategies in order to increase Program payment accuracy. Current payment accuracy strategies are being defined by chartered work groups consisting of representation across FIA. The following is a list of work group activities that will improve Program payment accuracy:

- a. Workload Management - This group has provided a number of options to address workload reductions to allow workers to concentrate on improving payment accuracy. Field implementation is ongoing.
- b. Change Centers - This work group is coordinating the implementation of a change center pilot in five field locations. The change center process provides an opportunity to manage client-reported changes, thus decreasing agency failure-to-act errors. The change center concept will also encourage client reporting, thus decreasing client failure-to-report errors. All five pilots should be in operation by March 2003.
- c. Client Error Strategies - This work group is providing oversight on various payment accuracy initiatives, such as front-end eligibility and interviewing for accuracy.
- d. Performance Management Strategies - In order to create an environment of continuous improvement and to address professional growth, performance standards are being instituted for January 2003. These standards will be incorporated in performance management and development programs and performance architect. In addition, all local offices with a Program error rate over 8% must submit a performance improvement plan (PIP) that will establish local office strategies for payment accuracy improvement. PIPs must also specify performance measurements and plan evaluation methods and be submitted for approval by mid-February 2003.
- e. Policy Simplification and Information Technology Solutions - This work group focused on workload reduction and policy simplification. Its recommendations focused on the use of technology to assist in the determination of eligibility. This work group also incorporated options from the recent federal 2003 Farm

Bill that will allow FIA to substantially increase the number of clients considered as simplified reporters.

FOLLOW-UP CONCLUSION

We concluded that DHS had partially complied with this recommendation. Although DHS implemented various initiatives and significantly reduced its payment error rates, these initiatives did not reduce the payment error rates to acceptable levels to avoid the risk of sanctions from the federal government. The following table shows the national average payment error rates, Michigan's payment error rates, the differences and variances between the national and Michigan's payment error rates, and the overall rate decrease for both:

	Payment Error Rates for Fiscal Year					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
National average	8.26%	6.64%	5.88%	5.84%	5.99%	
Michigan	14.10%	11.10%	7.19%	7.34%	7.53%	8.29%
Difference	5.84%	4.46%	1.31%	1.50%	1.54%	
Variance	70.70%	67.17%	22.28%	25.68%	25.71%	

Rate of decline - U.S. from fiscal year 2001-02 to fiscal year 2005-06: 27.48%

Rate of decline - Michigan from fiscal year 2001-02 to fiscal year 2005-06: 46.60%

* Preliminary through June 2007.

In June 2007, FNS notified Michigan that there was a 95% statistical probability that its fiscal year 2005-06 payment error rate of 7.53% exceeded 105% of the national performance measure of 5.99%. Consequently, Michigan is again in a position of potential future liability if the fiscal year 2006-07 payment error rate exceeds the national performance measure. In addition, based on the fiscal year 2005-06 payment error results, Michigan incurred a \$1.2 million liability because it exceeded its contingency performance target agreed to under the 2001 settlement agreement with FNS.

In contrast to the lowered payment error rate, we noted that Michigan's negative error rate* increased significantly during the same period. A negative error occurs when an applicant for benefits is inappropriately terminated, suspended, or denied Program benefits. The following table shows the national average negative error

* See glossary at end of report for definition.

rates, Michigan's negative error rates, the differences and variances between the national and Michigan's negative error rates, and the overall rate increase for both:

	Negative Error Rates for Fiscal Year					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
National average	7.87%	7.64%	6.52%	6.91%	8.02%	
Michigan	14.92%	17.78%	14.97%	14.36%	17.95%	22.04%
Difference	7.05%	10.14%	8.45%	7.45%	9.93%	
Variance	89.58%	132.72%	129.60%	107.81%	123.82%	

Rate of increase - U.S. from fiscal year 2001-02 to fiscal year 2005-06: 1.91%

Rate of increase - Michigan from fiscal year 2001-02 to fiscal year 2005-06: 20.31%

* Preliminary through June 2007.

In June 2007, FNS notified Michigan that its validated negative error rate for fiscal year 2005-06 was 17.95% compared to the national negative error rate of 8.02%, which ranked Michigan next to last in the country. FNS required DHS to prepare a corrective action plan to address this high negative error rate. DHS anticipates that, when its new integrated eligibility and benefit determination system, Bridges, is operational, it will assist by automating several important processes, including an edit to preclude denials before the required time frame permitted and automated mailing of notification letters. In the interim, DHS proposed several measures, including staff training and requiring local office attendance at the Error Review Committee meeting for negative case errors.

DHS identified various strategies, such as technology solutions, to reduce the payment error rate. Our follow-up disclosed that DHS implemented the following initiatives:

- a. DHS established a team representing all of its organizational levels to review aspects of the Program. This review included identifying available resources, budget implications, staffing and case distribution levels, intake procedures, policy issues, and technology and developing action plans to address critical issues.
- b. DHS implemented a new quality control process to review cases with cited eligibility and payment errors. The Error Review Committee, which consisted of representatives from various organizational units throughout DHS, met weekly to identify reasons for the errors and needed corrective actions.

- c. DHS provided Program training to staff during 2003 through 2007 in a variety of formats, such as classroom sessions, individual mentoring, and conferences. Examples of training topics included policy, prospective budgeting and client income, interviewing, workload management, and technology updates. In addition, the training included both DHS management required and recommended staff training areas.
- d. DHS implemented several automated initiatives, such as the Case Read Information System to assist with supervisory case readings and an AFF application used to identify discrepancies in client-reported income through automated data matches with other systems.
- e. DHS implemented a process used by DHS local office workers to refer cases to the DHS Office of Inspector General for investigation before an applicant receives Program benefits. This process is currently used in three large counties.
- f. DHS implemented a centralized unit to provide workload relief to local office staff. The unit updated client cases based on income information from automated data matches from external systems. Effective August 2006, the central change unit was disbanded when the AFF application became available for local offices. In its Reinvestment Plan V-C dated July 2007 to FNS, DHS proposed a "fix-it team" consisting of eligibility specialists that would assist in making needed case corrections.
- g. DHS undertook various other actions to address payment accuracy, such as simplifying policy, establishing a minimum standard of protected time* for local office staff, and reviewing local offices' practices to identify areas in need of improvement.

* See glossary at end of report for definition.

RECOMMENDATION AND RESPONSE AS REPORTED IN FEBRUARY 2003:

4. Program Internal Controls

RECOMMENDATION

We recommend that FIA implement effective internal controls for reducing Program payment errors.

AGENCY PRELIMINARY RESPONSE

FIA agrees with the recommendation. FIA informed us that it is committed to quality customer service through payment accuracy. For recipients, payment accuracy ensures that customers are receiving correct benefits to improve their health through improved nutrition and avoids repayments. For the taxpayer, payment accuracy ensures efficient and accurate use of taxpayer monies. Internal program controls are one of the tools necessary to accomplish that reduction. Prior to the results of the performance audit, as part of payment management strategies, FIA developed plans for improvement of internal controls, illustrated as follows:

- a. The case reading format was improved to be more efficient and effective by focusing on error-prone areas and identifying the type of error and the reason for the error. The case reading results have been automated to provide the data to local offices. The data collection includes an automated report detailing the number of cases read against agency expectations.
- b. In March 2002, the data from case readings was utilized by FIA's largest 14 county offices to develop their own PIPs, which were approved in August 2002. PIPs will be due from the remaining county offices in January 2003. Policies have been established to have a quarterly update of plans.
- c. In comparison to the new hire reports, wage match reports have limited value. Approximately 22,000 reports monthly are sent to the field for review. In the six-month period for quality control sample months from December through May, there were no errors found as a result of the wage match reports. For that reason, to increase efficiency and effectiveness, FIA will review only those matches in excess of \$2,000.
- d. New hire reports are the most effective of the tape matches available to FIA. As a part of the information technology solutions to payment accuracy, new

hire reports will automatically be channeled through a change center concept process that will automatically monitor reports to ensure that they have been appropriately addressed.

FOLLOW-UP CONCLUSION

We concluded that DHS had not complied with this recommendation. Our conclusion was based primarily on our follow-up of Findings 3 and 11. In our follow-up of Finding 3, we determined that, although DHS implemented various initiatives, DHS is still above the acceptable national Program payment error rate. As a result, Michigan is again in a position of potential future liability if the fiscal year 2006-07 payment error rate exceeds the national performance measure. In our follow-up of Finding 11, we determined that DHS had not implemented effective procedures and internal controls to help prevent the possible misuse of Program benefits by convicted drug felons*.

In addition, in a June 2007 letter to DHS, FNS expressed concern about Michigan's high error rates and attributed them to a lack of adequate resources being devoted to the administration of the Program. The letter also stated that, although FNS appreciated DHS's efforts toward implementing a new eligibility system that should reduce workloads, it was concerned that adequate systems and resources were not in place to ensure a high level of service and Program accuracy. A graph entitled "Caseloads and Program Error Rates" is presented as supplemental information.

CONTROL OVER PROGRAM BENEFITS FOR INDIVIDUALS CONVICTED OF DRUG FELONIES

RECOMMENDATION AND RESPONSE AS REPORTED IN FEBRUARY 2003:

11. Convicted Drug Felons Receiving Program Benefits

RECOMMENDATION

We recommend that FIA establish effective procedures and internal controls to help prevent the possible misuse of Program benefits by convicted drug felons.

* See glossary at end of report for definition.

AGENCY PRELIMINARY RESPONSE

FIA agrees with the recommendation. FIA will pursue an ongoing computer data match between the Client Information System and the Michigan Department of State Police's criminal history to identify approved applicants and current recipients who are convicted drug felons. Reports/alerts will be provided to local office specialists to identify those recipients requiring an authorized representative. The convicted drug felon recipient will need to provide an authorized representative, as there are no current resources to identify or fund authorized representatives. FIA will develop information material describing the duties of an authorized representative in these situations. This information will be provided to authorized representatives at time of appointment. FIA believes that both the authorized representative and recipient need access to the EBT benefits, as the authorized representative may not always be available when the household needs food. FIA believes that these two actions will strengthen program integrity but cannot guarantee the prevention of misuse of program benefits as vendor fraud also occurs.

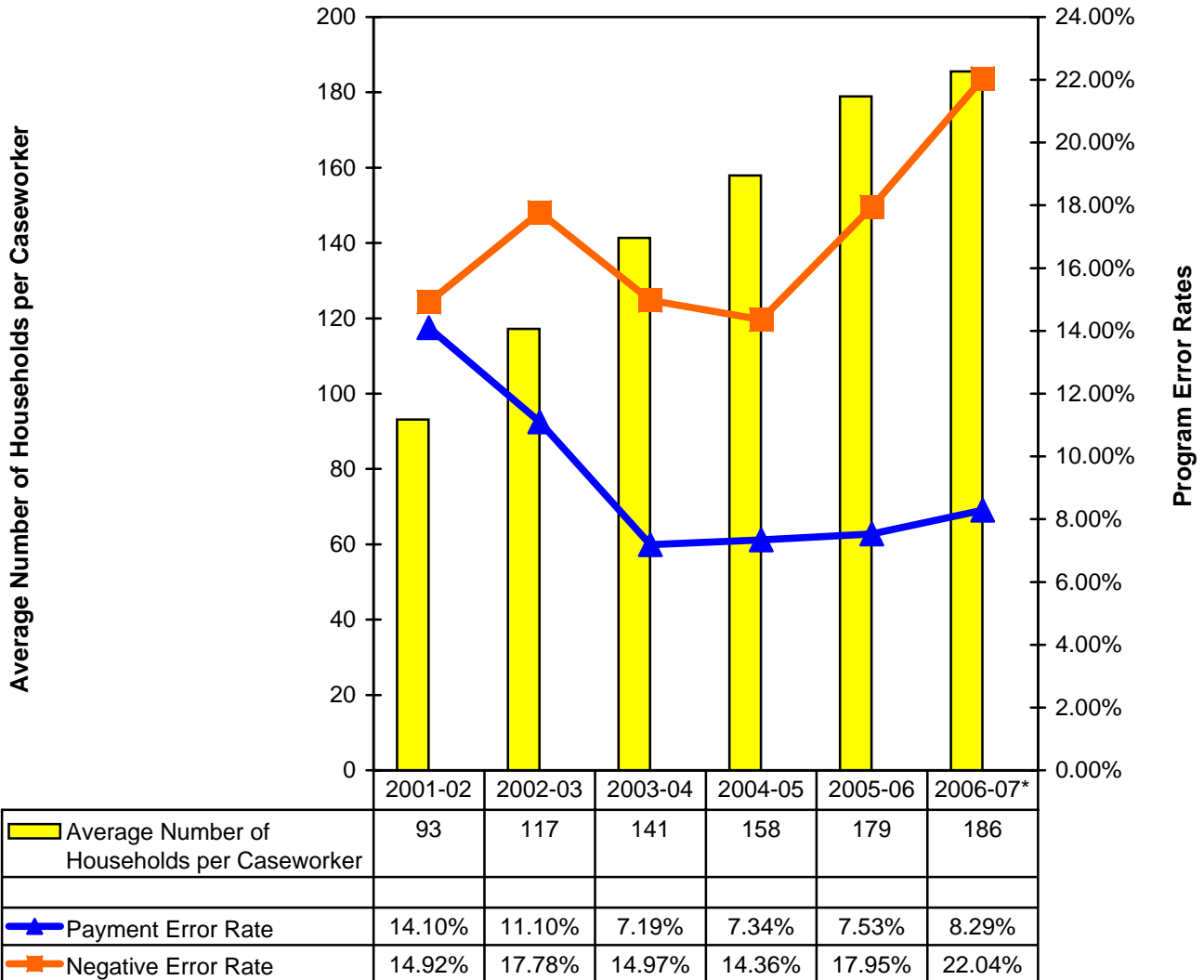
FOLLOW-UP CONCLUSION

We concluded that DHS had not complied with this recommendation. We determined:

- a. DHS did not develop a computer match to identify and alert local offices of those recipients and applicants in need of an authorized representative.
- b. Although DHS developed screens in Bridges to collect felony drug conviction information from the client and authorized representative data, the system is not yet operational. Furthermore, the information to be collected will be client self-reported. Without a data match to an external source, DHS lacks a method to monitor the accuracy of this self-reporting by clients.
- c. DHS did not plan to implement a criminal conviction match for future incorporation into Bridges that will automatically alert local offices when an authorized representative is required.

SUPPLEMENTAL INFORMATION

FOOD ASSISTANCE PROGRAM
 Department of Human Services (DHS)
 Caseloads and Program Error Rates
 Fiscal Years 2001-02 through 2006-07



* Through June 2007.

Sources: The average number of households per caseworker is based on DHS's Full-Time Equated Reports to the Legislature and Program caseload statistics from reports prepared by DHS's Budget and Policy Analysis Division.

Program error rates for fiscal years 2001-02 through 2005-06 are official FNS-determined rates. The program error rates for fiscal year 2006-07 are the preliminary rates determined by DHS's Office of Quality Assurance.

GLOSSARY

Glossary of Acronyms and Terms

AFF	Automated Find and Fix.
Bridges	An automated, integrated service delivery system for Michigan's cash assistance, medical assistance, food assistance, and child care assistance programs.
case read	A process to select and review client case files comparing the actions taken by the specialist to the verification and documentation in the record and determining whether policy was correctly applied in a timely manner. DHS establishes case reading requirements for its managers to read case files.
DHS	Department of Human Services.
drug felon	An individual convicted of violating Sections 333.7401 - 333.7461 of the <i>Michigan Compiled Laws</i> (controlled substance provisions of the Michigan Public Health Code) for which the penalty was considered a felony (i.e., generally results in incarceration for one or more years).
EBT card	A debit card permitting electronic benefits transfer to the client.
FIA	Family Independence Agency.
FIS/ES	Family Independence Specialist/Eligibility Specialist.
FNS	Food and Nutrition Service.
goal	The agency's intended outcome or impact for a program to accomplish its mission.

internal control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
negative error rate	A measure of the correctness of a state agency's action to deny an application or suspend or terminate benefits for a participating household.
participation rate	The ability of the Program to reach its targeted population and calculated as the percentage of eligible people who actually participate in the program.
payment error rate	The combined overpayment error rate and underpayment error rate determined by FNS. Overpayments reflect benefits issued over the amount that a household is entitled to receive, whereas underpayments reflect benefits that a household is entitled to receive but did not.
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.

PIP	performance improvement plan.
protected time	A block of time, established at eight hours per pay period, provided to an FIS/ES that is free from interruptions such as non-emergency application interviews and telephone calls.
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.
specialist	A DHS staff member responsible for determining recipient Program eligibility and benefits, maintaining recipient case files, calling on recipients in their homes, and providing social work services.

