Department of Human Services
Division of Family Development
General Assistance Program

July 1, 2003 to February 28, 2005

Richard L. Fair
State Auditor
The Honorable Richard J. Codey  
Acting Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albie Sires  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Human Services, Division of Family Development, General Assistance Program for the period July 1, 2003 to February 28, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
May 17, 2005
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Department of Human Services  
Division of Family Development

Scope

We have completed an audit of the Department of Human Services, Division of Family Development, General Assistance Program for the period July 1, 2003 to February 28, 2005. The scope of this audit was limited to the 15 municipalities using zero balance accounts to draw General Assistance funds. Our audit included financial activities accounted for in the state's General Fund.

Calendar year 2004 assistance payments were $36 million for the 15 municipalities. The prime responsibility of the Department of Human Services, Division of Family Development is to administer the Work First New Jersey program while providing leadership and support to public agencies responsible for administering programs for New Jersey's needy individuals and families. General Assistance provides financial assistance to single persons and couples without children.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.
In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

Our field testing included a review of 11 municipal welfare agencies: Atlantic City, Brick, Freehold, Hillside, Linden, Middletown, Newark, Ocean City, Perth Amboy, West Orange, and Woodbridge. Statistical and nonstatistical sampling approaches were used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Some sample populations were sorted and transactions were judgmentally selected for testing.

Conclusions

We found that the financial transactions included in our testing were related to the agency's programs and were recorded properly in the accounting systems. However, we were unable to determine the reasonableness of transactions due to the City of Newark's lack of documentation and not following prescribed procedures. In making these determinations, we noted certain internal control weaknesses and matters of noncompliance with laws and regulations merit management's attention.
The City of Newark did not consistently follow procedures.

Intake and Redetermination Procedures

Work First New Jersey regulations require welfare agencies issuing General Assistance (GA) benefits to maintain a permanent case file for all clients. These files must contain a copy of a form of identification, a signed application for benefits, a work registration form, and documentation of eligibility redetermination every six months. The risk of program benefits being paid to ineligible individuals increases when agencies do not follow these control procedures.

We reviewed case files at 11 of the 15 municipal welfare agencies using zero balance accounts. Based on our testing, the agencies generally followed required procedures with the exception of the City of Newark whose expenditures represented 82 percent of these municipalities. The city did not consistently follow procedures during the initial intake process and did not perform redeterminations every six months. The city's case files also did not contain documentation to support payments in 35 percent of the cases reviewed. Based on the total annual statewide assistance expenditures during 2004, we estimated $8.6 million in payments did not have supporting documentation in the case files.
The following table shows our sample error rates for the City of Newark and for the other ten municipalities reviewed.

<table>
<thead>
<tr>
<th>Control Procedure</th>
<th>Error Rates</th>
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<tbody>
<tr>
<td></td>
<td>Newark</td>
</tr>
<tr>
<td>Client's identification was documented</td>
<td>20%</td>
</tr>
<tr>
<td>Signed application was filed</td>
<td>34%</td>
</tr>
<tr>
<td>Work registration form was filed</td>
<td>51%</td>
</tr>
<tr>
<td>Six-month redetermination was documented</td>
<td>91%</td>
</tr>
<tr>
<td>Benefit payment amount was documented</td>
<td>35%</td>
</tr>
</tbody>
</table>

A high caseload and a lack of effective monitoring were factors contributing to the city’s inability to properly document that procedures were performed and payment amounts were supported.

In one example of how a lack of controls led to improper payments, the City of Newark continued to pay benefits to a client who was serving a sentence in a state prison. When asked for this file the city was unable to locate it. State law prohibits individuals from receiving public assistance while they are incarcerated. The city continued to issue these benefits because the welfare agency did not perform a redetermination after six months. The agency also did not utilize a system edit that would have placed the case on hold until the redetermination was completed. This file was the
only one not available for our review. The case has been referred to the Division of Criminal Justice.

Recommendations

We recommend the Division of Family Development establish procedures to monitor GA benefits issued by the City of Newark. These procedures should include a semi-annual inspection of case files to ensure that proper procedures are followed in determining and redetermining eligibility. We also recommend the computer system's feature to automatically place a case on hold if the agency does not perform a six-month redetermination be utilized.

Monitoring of Income

Work First New Jersey regulations limit most GA clients to earned income of $210 a month to continue receiving full monthly benefits. Clients are also prohibited from collecting unemployment or disability benefits while receiving GA. The regulations further provide for welfare agencies to conduct a monthly case review to determine if there has been a change in clients' income. During this review, clients are asked to sign an Authorization and Case Review (ACR) Card and to report any wages received.

Municipal welfare agencies must rely on the information provided by the client during this review because they do not have access to the Department of Labor's (DOL) quarterly wage reporting system which is used by the county welfare agencies. This limits the agencies' ability to independently verify clients' incomes and it increases the risk of benefits being paid to clients who are employed. We tested controls over income monitoring and also compared GA check registers
to DOL data systems and noted the following results.

- We statistically sampled cases in which clients appeared on the GA check register and on DOL's wage reporting system during the same calendar quarter. Based on the results of the sample, we estimated $1.3 million in statewide GA benefits were paid to clients while they earned wages exceeding the limit. We reviewed these clients' ACR cards and noted no income was reported to the agency during the monthly review. For example, benefits totaling $21,000 were paid to a client and the Newark shelter where he resided. This client earned wages of $32,000 during the same time period. This issue has been referred to the Division of Criminal Justice.

- We matched the GA check register with DOL records and noted benefits of $114,000 were paid to 127 individuals collecting unemployment or disability benefits.

**Recommendations**

We recommend the division, through the Department of Labor, provide the municipal welfare agencies access to the wage reporting, unemployment, and disability data systems. This would enable them to monitor clients' income on a continual basis.
City of Newark Audit Reports

Newark has not submitted the required annual audit report since 1993.

State regulations require a municipality's public assistance trust fund to be tested as part of its single audit and a report sent to the division under separate cover. The division relies on these audits to provide assurance that GA payments were proper and to provide the basis for annual close-out reviews. Municipalities often return disallowed payments to the state as a result of these reviews.

The division is up-to-date with these reviews; however, despite numerous attempts, the City of Newark has not submitted audit reports of their trust fund since 1993. The city’s independent auditor has not included the trust fund in the scope of their audit because the city has not performed necessary bank reconciliations. Until these audits are completed, the division will not be able to determine the amount of disallowed payments that should be returned to the state. Program expenditures in Newark increased from $21 million in 2003 to $30 million in 2004.

Recommendations

We recommend the division take action to ensure the City of Newark completes the bank reconciliation of its public assistance trust fund beginning with the current fiscal year and have the required audit report submitted. The department should consider utilizing its internal audit unit if the City of Newark does not comply.
May 16, 2005

Thomas R. Meseroll  
Assistant State Auditor  
Office of the State Auditor  
Office of Legislative Services  
P.O. Box 067  
Trenton, New Jersey 08625-0067

Dear Mr. Meseroll:

I am responding to your April 27, 2005 letter that transmitted the draft audit report titled Department of Human Services, Division of Family Development, General Assistance Program. As requested, our responses to each of the audit reports findings are listed below to be included in the final report.

INTAKE AND REDETERMINATION PROCEDURES

Recommendation:

We recommend the Division of Family Development establish procedures to monitor GA benefits issued by the City of Newark. These procedures should include a semi-annual inspection of case files to ensure that proper procedures are followed in determining and re-determining eligibility. We also recommend the computer system’s feature to automatically place a case on hold if the agency does not perform a six month re-determination be utilized.

DHS Response:

The Division of Family Development (DFD) concurs with the recommendation. On January 31st, the division reassigned seven field representatives to ensure the Newark agency was adhering to state GA regulations. I have listed below some of the procedural changes that have been implemented during the first three months:

- DFD staff now review and approve each application filed in the Intake Unit and review applicants for Emergency Assistance.

- DFD staff review and approve active Emergency Assistance applications and authorize placement.
• DFD staff also review the Unemployable caseload to verify medical documentation for possible Supplemental Security Income (SSI) referral.

DFD also required the City of Newark to submit a Corrective Action Plan (CAP) based on the review completed by our own staff. The CAP was reviewed and additional information was needed prior to DFD’s approval. One item included in the CAP was six month redeterminations. Newark staff will be required to complete at least ten redeterminations weekly which will be monitored by their supervisors. DFD has requested a copy of each worker’s schedule so this can be monitored on a regular basis by the field representatives for the City of Newark. DFD will also be providing training to staff on the redetermination feature within the General Assistance Automated System (GAAS).

We will continue to provide the City of Newark with intensive supervision, technical assistance and training to ensure that proper procedures are followed in determining and re-determining eligibility.

MONITORING INCOME

Recommendation:

We recommend the Division, through the Department of Labor and Workforce Development, provide the municipal welfare agencies access to the wage reporting, unemployment and disability data systems. This would enable them to monitor clients’ income on a continual basis.

DHS Response:

We concur with this recommendation and have taken the following actions. An emergency request has been approved by the Department of Labor and Workforce Development to issue ten (10) additional IDs/passwords for inquiry access to their Wage Reporting/LOOPS/DABS online data files. Effective May 12, 2005, the Newark Municipal Welfare Department was given access to the Wage Reporting, LOOPS and DABs data systems. Access to these systems will allow Newark to monitor clients’ income both at the time of application and on a continual basis.

In addition, DFD’s Program Integrity Unit will be doing ongoing matches for wages, unemployment insurance benefits, SSI, and employment in states bordering New Jersey.

CITY OF NEWARK AUDIT REPORTS

Recommendation:

We recommend the Division take action to ensure the City of Newark completes the bank reconciliation of its public assistance trust fund beginning with the current fiscal
year and have the required audit report submitted. The department should consider
utilizing its internal audit unit if the City of Newark does not comply.

DHS Response:

DFD is currently in discussion with the City of Newark regarding timely completion of
bank reconciliations for the Public Assistance Trust Fund II bank account and the
submission of an annual audit of the General Assistance program for calendar year
2004. If the City of Newark is unable to complete the bank reconciliation for the Public
Assistance Trust Fund II account for calendar year 2004, DFD will request that the
Department of Human Services’ Office of Auditing complete the bank reconciliations.

Thank you for the opportunity to respond to this audit report. Please direct questions
regarding this matter to Stephen J. Gregorowicz, Administrator, Office of Budget and
Financial Management, at (609) 588-2165.

Sincerely,

Jeanette Page-Hawkins
Director

JPH:SG:h

C: Commissioner James M. Davy
Joseph Ochs
James W. Smith
Jacob Eapen
William Cutti