Office of the State Auditor

Audit Report

Department of Human Services
Division of Family Development

July 1, 1993 to May 31, 1995
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We have completed an audit of the Department of Human Services, Division of Family Development for the period July 1, 1993 to May 31, 1995.

We found that the financial transactions included in our testing were related to the agency’s programs, were reasonable, and were recorded properly in the accounting systems. However, our review disclosed that the monitoring of the General Assistance Program has declined. Significant savings could be realized by reinstating certain monitoring procedures and following up when potential problem areas are identified. Details of these and other findings are included in our report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1.6 of the State Constitution and Title 52 of the New Jersey Statutes.
Department of Human Services
Division of Family Development

Scope

We have completed an audit of the Department of Human Services, Division of Family Development for the period July 1, 1993 to May 31, 1995. Our audit included financial activities accounted for in the state’s General Fund and Workforce Development Partnership Fund.

Total expenditures of the agency during the 23 month audit period were $2.2 billion. The prime responsibility of Department of Human Services, Division of Family Development is establishing, maintaining, and supervising an effective public assistance system and ensuring the uniform administration of the income maintenance program in compliance with federal and state regulations and statutes. Revenues of the agency totaled $13.7 million during our audit period and the major components of revenue were for the Tax Refund Seizure Program and income maintenance.

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. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1.6 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 and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, prior audit report findings and recommendations, and inter-
viewed agency personnel to obtain an understanding of the programs and the internal control structure.

A statistical and non-statistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were stratified and large dollar transactions were examined. Other transactions were randomly selected.

To ascertain the status of findings included in our prior reports, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that the financial transactions included in our testing were related to the objectives of the agency, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain significant internal control weaknesses and matters of compliance with laws and regulations meritng management’s attention.

We also found that the agency has resolved the significant issues noted in our prior report except for matters related to the General Assistance Program, motor vehicles, and fixed assets. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.
General Assistance Program

Finding

The General Assistance Program was established to provide benefits to needy persons who are ineligible for other public assistance. This program is funded through state aid appropriations and distributed to the municipalities in the manner prescribed by N.J.S.A. 44:8 et seq. The Division of Family Development is responsible for monitoring the program at the local level. The division disbursed to the municipalities $183.6 million and $124.2 million, respectively during fiscal year 1994 and the first eleven months of fiscal year 1995. Our review disclosed that the monitoring of the General Assistance Program has declined. Significant savings could be realized by reinstating certain monitoring procedures and following up when potential problem areas are identified.

Municipalities are audited annually by Registered Municipal Accountants (RMA), who are required to file their reports with the Department of Community Affairs (DCA). An audit guide is issued by the Department of Human Services, Office of Auditing, for incorporation in the single audit of the municipality. Within their reports, municipalities summarize the financial activities of the General Assistance Program account indicating total receipts from the Division of Family Development and total payments to the recipients. This summary is required to be filed with the division’s Bureau of Business Services which uses it to reconcile payments made to each municipality. As of April 1, 1995, the division received only 50 percent of the municipality’s 1993 annual reports. Out of 279 reports received, the division recovered $3.9 million due to overpayments. We noted that the division was not following their procedures to ensure timely filing by municipalities that failed to forward these reports, nor did they attempt to obtain copies from the DCA. This lessens the assurance that General Assistance overpayments are being recovered.

The pharmaceutical assistance program is one of the components of the General Assistance Program which pays for the recipient’s prescription cost. During fiscal year 1994, pharmaceutical expenditures amounted to $26.2 million which was a 36 percent increase over fiscal year 1993 expenditures. To provide some assurance that the charges to the program are accurate, periodically the Division of Family Development would send each participating municipality a list of prescriptions charged by their recipients. The municipality was requested to review the charges and verify that the recipient was indeed receiving general assistance at the time the prescription was filled.
Our review disclosed that monitoring of the program by the division and the municipalities has declined. An analysis of two years of current adjustments processed by Unisys (fiscal agent) showed total adjustments of only $897,000 for all municipalities. Out of these adjustments, Newark accounted for 78 percent of the total. In addition, of the 515 municipalities receiving pharmaceutical assistance only 188 had reported any adjustments. As a result, the assurance that the prescription charges are only for eligible recipients is diminished.

C Testing the eligibility of general assistance recipients is performed by units within the Division of Family Development. During our review period, only limited testing was completed by the Bureau of Quality Control. During a period of 22 months (July 1, 1993 to April 25, 1995) the bureau issued test results to the General Assistance Program Unit (GAPU) for 30 of the 560 municipalities receiving general assistance. The number of cases reviewed was 645 out of an estimated average of 45,000 recipients. The average error rate for all of the cases reviewed was 51 percent. However, there was no follow up done by GAPU to ensure that corrective action was taken at those municipalities where the error rate of ineligible cases was found to be high. The General Assistance Program Unit field representatives did not perform any reviews during our audit period to ensure that only eligible individuals are receiving benefits.

C The division’s Bureau of Integrity Control, prior to our audit, had four computer terminals connected directly to the Department of Labor’s data bases. These terminals were used by the bureau technicians to provide all municipal welfare agencies real-time look-up of general assistance applicants. Applicants identified as either employed, eligible for unemployment benefits, or in arrears for unemployment overpayment were correctly denied general assistance benefits. In 1992 the program was cut back due to reduction of staff and the bureau continued to work with the Trenton Municipal Welfare Agency only. This agency, which represents about 6 percent of the state’s general assistance population, estimated that the program saved the state $4.5 million during 1993 by legally rejecting over 20 percent of the applicants. In our review of two separate random samples of 100 clients from a universe of approximately 47,000, we noted an 11 percent error rate in sample one and 16 percent error rate in sample two. These errors were persons receiving general assistance benefits while working or receiving unemployment benefits. Based on our test results the potential savings from cost-avoidance to be achieved by future expansion of this program’s service scope to statewide municipal welfare agencies should warrant a reinstatement of the program by the division.
Recommendation

We recommend:

The Bureau of Business Services ensure that municipalities’ annual reports are filed with the bureau in a timely manner.

The Bureau of Business Services reinstate the procedure of reviewing with the municipalities the records of the pharmaceutical assistance program recipients to verify that the program’s prescription charges represent eligible costs.

The General Assistance Program Unit perform tests of recipient eligibility and increase its programmatic monitoring of municipal welfare departments in order to reduce the potential that errors and irregularities which may occur remain undetected.

The Bureau of Integrity Control re-activate the look-up system for matching information provided by applicants for general assistance against New Jersey Department of Labor records or establish alternate procedures.
Audits of County Welfare Agencies

Finding

The federal Office of Management and Budget (OMB) Circular A-128 gives the primary recipient of federal assistance the responsibility for determining that financial and compliance audits of subrecipients receiving $25,000 or more are performed and whether the requirements are met. The audit reports are to be submitted within 13 months of the subrecipients fiscal year end.

In our review of the Department of Human Services, Office of Audit records, we noted that the 21 county welfare agencies were not being audited on a timely basis. As of August 1995, their records showed the following:

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<th>Number of Counties</th>
<th>Last Audit Report - Period Ending</th>
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<tbody>
<tr>
<td>1</td>
<td>December 31, 1989</td>
</tr>
<tr>
<td>3</td>
<td>December 31, 1990</td>
</tr>
<tr>
<td>13</td>
<td>December 31, 1991</td>
</tr>
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<td>December 31, 1993</td>
</tr>
<tr>
<td>1</td>
<td>December 31, 1994</td>
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The department's internal audit group which performs the audits for the division, has not been auditing county welfare agencies timely because of other priorities and staff reductions. Currently they have contracted with CPA firms to audit the counties of Bergen, Burlington, and Gloucester. Also, we noted that the last audit report issued for December 31, 1989 refers to Essex County Division of Welfare, whose records were unauditable.

These annual audit reports are necessary to determine if there was an over or underpayment of state and federal monies to the counties.

Recommendation

We recommend that the Department of Human Services, Office of Audit comply with OMB Circular A-128 and ensure that county welfare agencies are audited within the required time period. As an alternative, county welfare agencies could be audited as part of annual audits of county governments.
Essex County Welfare Account

Finding

The County Welfare Agency (CWA) Assistance Account is the control account of all applicable funds received from federal, state and county sources. The account provides a detailed history of disbursements made to or on behalf of, recipients of Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), the Refugee Resettlement Programs and Child Support Disregard payments.

Form PA-205, Summary of the Assistance Account, is used by the CWAs to summarize all financial transactions of the assistance account and report this information to the division.

In our review of the Summary of Assistance Account for the Essex County Division of Welfare (ECDW), we noted that this monthly report did not agree with the balances in the two Essex County welfare bank accounts. The summary of July 1, 1995 showed an ECDW balance of $11.4 million, consisting of $2.4 million in county funds and $9 million in state and federal funds, while the county's two bank statements totaled $672,000 as of June 30. After we brought this to management's attention, they attempted to reconcile these differences. Part of these differences have been identified by management as posting errors and timing differences. However, $4.0 million of the difference still cannot be identified. The difference has accumulated over the years due to unauditable and unreconciled records of the ECDW.

Recommendation

We recommend that the division and the ECDW identify the $4.0 million difference and adjust future federal, state and county allocations.
Essex County AFDC Payments

Finding

The electronic benefits transfer (EBT) for Aid to Families with Dependent Children (AFDC) is a program which eliminates AFDC checks and food coupons and replaces them with a magnetic stripe card which clients use to shop for food or to access their AFDC cash benefits. The EBT program is run by a vendor in the counties of Hudson, Camden, and Essex and is reimbursed by the Division of Family Development on a daily basis for federal, state, and county shares of the program.

Essex County was on the EBT program in October 1994, however, the county did not start paying their share of benefit payments until May 1995. Essex County’s benefit payment amounts due to the state was $6.6 million at April 1995. The county’s share was being paid from state aid accounts appropriated for the state’s share of the AFDC program. When the amounts were partially paid by the county in May 1995, no interest was charged for the late payments. The effect of the above transaction is an advance of $6.6 million in state aid to Essex County from state accounts not appropriated for that purpose.

As of June 30, 1995 Essex still owed $2 million to the state. This receivable was not recorded on the state’s General Fund until we notified the Department of the Treasury and adjustments were made to the state’s financial statements.

Recommendation

We recommend that the division require that Essex County pay their share of the AFDC program cost on a timely basis. We also recommend that the division report all receivables to the Department of the Treasury.
Other Matters

Untimely Fund Transfers

The Supplemental Security Income (SSI) program is a federal program which is administered by the US Department of Health and Human Services, Social Security Administration (SSA), and Bureau of Supplemental Security Income. Eligibility determination and actual payments to recipients are made by SSA. This SSI program also includes a state program for lifeline (special utility supplement) payments to SSI recipients. Funding for the lifeline program is appropriated annually to the department's Division of Medical Assistance and Health Services from the General Fund and Casino Revenue Fund. Payments are made monthly from the General Fund by the Division of Family Development (DFD) for SSI and lifeline credits.

In our review of the SSI program we noted that DFD was not requesting, on a timely basis, transfers of funds from the Casino Revenue Fund for lifeline program costs. Approximately $2.3 million for lifeline program cost are spent monthly from SSI accounts. The division's policy is to transfer monies twice a year from the Casino Revenue Fund to reimburse the General Fund. Because these monies were not transferred on a monthly basis the General Fund lost approximately $735,000 in interest for fiscal year 1994 and the accounting records were misstated during the period. This practice continued in fiscal year 1995.

Recommendation

We recommend that DFD request monthly transfers of monies from the Casino Revenue Fund to the General Fund for the lifeline program cost for SSI recipients.

Outstanding Encumbrances

Treasury Circular Letter 94-39 stated that on October 31, 1994, certain obligations would be canceled by the Department of the Treasury, Office of Management and Budget (OMB) for fiscal years 1993 and 1994, unless OMB was notified that they should remain open. The division did not indicate any encumbrances should remain open. Therefore, they assumed OMB had canceled the encumbrances as indicated in the circular letter.

In our review of prior year encumbrance balances, we noted the division was not reviewing and canceling prior year encumbrances on a timely basis. As of May
1995 there were eight outstanding encumbrances totaling approximately $741,000 for fiscal years 1993 and prior. We noted seven balances totaling $477,000 should have been canceled by OMB and the division. Of this amount approximately $458,000 would have lapsed to the general surplus.

**Recommendation**

We recommend that the division review all outstanding encumbrances on a timely basis and cancel those encumbrances no longer required.

**Motor Vehicles**

Treasury Circular letter 93-04 states that "... State employees may be assigned cars permanently and only if their formal job duties require it" and "such cars shall be assigned only if they will be used on official business for more than 1600 miles per month". Under subparagraph C for agency pool assignment, it further states that "an agency may be permanently assigned a state car only if employees of the agency will collectively use the car for more than 1,000 miles per month on official State business". According to this circular letter, individual exceptions to this policy may be granted by the General Services Administration if a different reasonable standard of need can be demonstrated.

The agency had 48 state cars permanently assigned to its staff during our review period. The division also had 18 pool assignment cars during the same period. We reviewed the mileage records of the cars to test for compliance with the circular letter. Our review disclosed that 47 of the 48 cars assigned to the staff did not meet the minimum vehicle utilization requirement of 1600 miles per month. We noted 36 of the 47 vehicles averaged only between 500 and 1000 miles per month and 10 averaged less than 500 miles. We also found 10 of the 18 pool assignment cars did not meet the mileage requirement criteria of 1000 miles per month.

**Recommendation**

We recommend that the division reduce their motor vehicle fleet to comply with the mileage requirement of Treasury Circular Letter 93-04 or seek approval of the General Services Administration for an exception to the regulation.

**Fixed Assets**

Treasury Circular Letters 91-32 and 94-05 require that fixed assets records be properly maintained to ensure optimum insurance coverage and to identify equipment purchased with federal funds. In our review of the division’s fixed
asset records, we noted that the records did not include acquisition date, cost and sources of fund. We further noted that records were not being updated when items were relocated.

Our test of 15 items showed that five items were at a different location than reported and one item could not be located. We reported similar weaknesses in our two prior reports.

**Recommendation**

We recommend that the division comply with our prior recommendation and maintain fixed asset records which include information required under Treasury Circular Letter 94-05.