Department of Human Services
Division of Family Development

July 1, 1996 to July 31, 1998

Richard L. Fair
State Auditor
The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
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 for the period July 1, 1996 to July 31, 1998.

If you would like a personal briefing, please call me at (609) 292-3700.

Peter M. Guilfoyle  
Assistant State Auditor  
November 13, 1998
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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 (DFD) for the period July 1, 1996 to July 31, 1998.

The prime responsibility of the division is the establishment, maintenance, and supervision of the state’s public assistance system. This includes oversight of the county and municipal welfare agencies. Our scope was limited to benefit payments made from the state aid and grants-in-aid accounts. Annual benefit payments were $700 million.

**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 state accounting system. 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, 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 and 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 internal controls. We visited seven county welfare agencies and reviewed their procedures for the prevention, detection, and collec-
tion of public assistance overpayments. We also visited seven municipal welfare departments to test the propriety of General Assistance payments.

A nonstatistical 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 judgmentally selected.

To ascertain the status of findings included in our prior report, 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 financial transactions were related to the agency’s programs, were reasonable, and were recorded properly in the state accounting system. In making this determination, we noted certain internal control weaknesses and areas where benefit overpayments could be reduced and recoveries improved.

We also found that the division had resolved the significant issues noted in our prior report, except for the issue of General Assistance recipient eligibility tests, which has been included in the current General Assistance Monitoring finding.
The division should encourage and enable the county welfare agencies to devote more resources to front-end investigations of applicants for public assistance.

Applicants for public assistance (Temporary Assistance to Needy Families, or TANF; Food Stamps; Medicaid) must visit the welfare agency in the county in which they reside and complete an application with the assistance of an income maintenance (IM) worker. The applicant must provide documentation of such information as social security number, number of dependents, marital status, employment status, and available financial resources. Information regarding wages and unemployment benefits is supposed to be verified through on-line inquiry screens by the IM workers. In some cases, the counties send investigators into the field to verify the information supplied by the applicant prior to the determination of program eligibility. These on-line inquiries and field visits are known as front-end investigations. All of the information supplied by public assistance applicants is entered into the state’s Family Assistance Management Information System (FAMIS) by data entry operators at the county welfare agencies. The FAMIS system maintains all relevant demographic information and determines program eligibility and benefit amounts.

Despite the counties’ verification efforts, there will be instances where benefits are granted to ineligible applicants. In addition, there might be changes in clients’ circumstances, such as a new job, that make them no longer eligible. Therefore, the counties perform back-end investigations that are designed to identify ineligible recipients and to determine whether fraud is involved. Some of these investigations result from computer matches generated by DFD that...
indicate the possibility of unreported wages or resources; these are known as IEVS (Income Eligibility Verification System) matches. If it is determined that a client is not eligible or was overpaid, benefits are recalculated and procedures are initiated to recover the amounts overpaid.

Although the county welfare agencies recovered $27 million in TANF and Food Stamps overpayments during the period July 1, 1996 to March 31, 1998, the uncollected overpayments balance increased by $6.5 million to $218 million.

The prevention of payments to ineligible applicants is a more cost-effective process than the identification and collection of overpayments to ineligible recipients. However, we found that the county welfare agencies do not devote sufficient resources to front-end investigations of applicants for public assistance. The front-end units that we did observe were understaffed and in need of additional resources. Five of the seven counties that we visited maintained small front-end investigation units with staff from one to four investigators; the other two counties had no such unit. In addition, there are no standardized procedures used by all counties for referring cases to front-end units.

On-line access capability at the counties is currently limited. County workers do have access to the Department of Labor’s Wage Reporting System and Unemployment Insurance Benefits system, though use of these systems varies. The Department of Human Services’ New Hires system, which includes more up-to-date employment information than the Labor files, has not yet been made available to the county income maintenance units. None of the county welfare agencies have access to files from the Department of Corrections, Division of Motor Vehicles, or Bureau of Vital Statistics.

There are a number of reasons that the counties have not allocated more resources to front-end investigations. The division limits the county administrative
costs that it will reimburse in accordance with federal requirements, which restricts the counties ability to increase resources for front-end units while not reducing resources in other critical areas. Most counties have experienced layoffs in recent years; this has reduced the amount of time that is available to investigate cases prior to approval. While the counties receive financial incentives from the state and federal government for collecting overpaid benefits, there are no such incentives for preventing overpayments. In addition, the division has not obtained inquiry access to other state agencies’ data files for the use of the county welfare agencies.

As a result of inadequate front-end efforts, ineligible applicants for public assistance have been granted benefits with insufficient review of their cases. The counties must then rely on the overpayment collection process, which requires numerous staff and does not result in the collection of a significant portion of the overpaid funds. Our review of collection activity at sampled counties revealed that recipients repaid approximately $50 per month on outstanding balances. We observed numerous cases where the payment schedule would require over 100 years before full collection would be achieved.

As previously noted, five of the seven counties that we visited maintained small front-end investigation units. We found that 53 to 69 percent of the cases referred to front-end investigation units (for the three counties which maintained such records) resulted in reduced or denied benefit payments. Projected savings by these three counties alone amounted to approximately $2 million per year. Expansion of these efforts to the other counties should result in additional savings.
**Recommendation**

We recommend the division encourage the counties to allocate more resources to front-end investigation efforts. The resources saved from the proposed streamlining of the IEVS process (see next finding) should be used to offset the costs associated with additional front-end investigators and resources. Access to the New Hires system should be granted to the county IM workers. The division should seek access to relevant information systems such as the Division of Motor Vehicles, Bureau of Vital Statistics, and the Department of Corrections, and make this information available, along with adequate training, to the county welfare agencies. In addition, the division should review front-end efforts throughout the state and share best practices with all of the counties.

**Auditee’s Response**

The Division of Family Development (DFD) will be encouraging county welfare agencies to improve their front-end investigation efforts by devoting more staff and resources for this purpose. DFD staff will also be reviewing county efforts to improve front-end investigations, monitoring their success and working to share best practices.

Additionally, through the New Hires System, County Welfare Agencies (CWAs) will be provided with more current employment information concerning TANF recipients than has previously been available. County Welfare Agency Directors were recently provided a copy of client income matches resulting from the New Hires System.
IEVS Matches

Federal regulations require all states to maintain an Income Eligibility Verification System (IEVS) whereby they match their public assistance files against various state and federal records of wages, income, and unemployment/disability benefits. These records include the New Jersey Department of Labor’s Wage Reporting System and Unemployment Insurance Benefits system, the Social Security Administration’s wage records, and the Internal Revenue Service’s records of unearned income. The purpose of these matches is to identify cases where public assistance recipients are ineligible or are receiving excess benefits due to unreported income or other financial resources. The initial matches, or hits, are sent to the county welfare agencies for resolution.

The current IEVS system produces an excessive number of invalid matches that has overwhelmed the county welfare agencies’ ability to resolve them in a timely manner. The counties that we visited devoted up to seven employees to investigate IEVS matches. Some of the counties had backlogs up to 16,000 cases that they had not resolved; many of these cases were more than a year old. Approximately seventy-five percent of the matches referred to the counties are false hits which do not contain information that has an effect on the public assistance recipient’s eligibility or level of benefits. However, each case is required to be reviewed and its resolution reported to DFD.

The excessive number of false hits is due to the fact that DFD’s Office of Information Systems (OIS) does not filter the matches that it obtains to eliminate invalid information. Current FAMIS files are compared to other databases which use information from incompatible time periods. For example, FAMIS files for the first quarter of 1998 are compared to social security wage information from 1996. Also, an individual who received wages in the first month of a quarter and TANF benefits in the third month of that quarter will show up as a match. In addition, matches
from previous runs are frequently repeated because they have not been resolved by the counties.

Scarce county welfare agency resources are devoted to the resolution of false hits in the effort to locate ineligible recipients and overpayments. These resources could be better utilized in the effort to prevent overpayments if they were devoted to on-line inquiries and field investigations of applicants for assistance.

The division created an IEVS streamline committee to address the problems with this system. A request was submitted in 1996 to the state’s Office of Telecommunications and Information Systems (OTIS) to modify the current IEVS matches. However, the division requested in 1997 that action be postponed on this request so that OTIS could concentrate its efforts on the major system changes necessitated by welfare reform.

**Recommendation**

We recommend that the division improve the validity of its IEVS matches by applying edits to minimize the number of false hits sent to the counties for investigation. This could best be accomplished by requesting that the Office of Information Technology, the successor agency to OTIS, act upon the division’s previous streamline request.

**Auditee’s Response**

The IEVS process is very labor intensive for CWA staff. The Office of Information Systems processes the matches in accordance with federal regulations and with the best data available from the match sources.

Improvements are needed across the board. The statement of a 75% false match rate is alarming, but difficult to accept given the extensive match filtering performed during processing. We do agree that inconsistencies in CWA on-line verification to UIB and wage information is key to reducing the number of false hits. If caseworkers update FAMIS with verified information at application, the filtering process would exclude more hits. In order for this to occur, the Department of Labor (DOL) must allow the county front line eligibility workers access to the DOL
files. Currently, we have been assigned less than 300 user IDs to access DOL systems, while we have over 4,100 front line workers who need access. In addition, DFD recommended in its ISIS document of 1995 that it build a Data Warehouse. This warehouse was to be designed to provide access to this information systemically and update FAMIS without worker intervention. We are still recommending this as a solution to this problem, since additional staff in a block grant environment is not very likely.

Modifications to the UIB match could include increasing the five dollars variation between FAMIS and UIB to twelve dollars. The IRS 1099 match could be improved by dropping all SSA-1099s and performing an alternate Social Security benefit match. Additionally, the 8% calculation to impute resource values from reported interest could be reduced to 3%. The project requests for improvements to the wage and other matches, FAMIS to Department of Health records, and FAMIS to Department of Corrections files are still on hold at the Office of Information Technology (OIT) pending completion of the year 2000 IEVS file conversion and FAMIS conversion.
The division should match its FAMIS files against Department of Health records to determine deceased recipients and should implement procedures to promptly remove deceased recipients from active status.

The Division of Family Development does not have a systematic procedure for the timely removal of deceased clients from its public assistance files. The division does not compare public assistance recipients maintained on the FAMIS files to Vital Statistics records of deceased individuals, because it does not have access to such records. The primary method available to the county welfare agencies to identify deceased clients is through their eligibility redeterminations, which require the appearance of the public assistance client and are usually performed every six months. However, redeterminations for elderly clients are often not required for one or two years.

Our comparison of FAMIS files to vital statistics records of deaths for the period September 1996 to September 1998 revealed control weaknesses and improper payments.

- We found 62 cases where the client had died but remained on active status on the FAMIS files; this status would allow subsequent payments to be made.

- We discovered that the FAMIS system does not automatically remove a client from a case after funeral expenses have been paid for that individual. We noted 44 cases where funeral expenses were paid by TANF funds, but the deceased individual remained on the case as an active participant.

- We also identified 12 instances of improper assistance payments totaling $12,947. These payments were made to cases where a TANF client had died, and as a result, payments should have been reduced or discontinued. Three of these twelve cases remain in payment status and were still receiving payments as of the conclusion of our field work.
In addition, our comparison of TANF records to Vital Statistics records revealed 35 instances of individuals sharing social security numbers. We did not include these cases in our subsequent testing, nor did we attempt to determine whose records were correct. We have informed the division of these cases.

**Recommendation**

We recommend the division develop a system for matching FAMIS files against Department of Health records to determine deceased recipients. This system should automatically remove individuals from active status on the FAMIS files after funeral expenses have been paid.

**Auditee’s Response**

To routinely implement a deceased match process would require that resources at OIT be utilized. We have submitted a project request to OIT, which is unassigned due to lack of resources. Everyone at OIT is assigned to Y2K changes. In addition, FAMIS does not necessarily know who is deceased, simply by the fact that a burial payment has been made to the TANF case. The Income Maintenance Payments Systems (IMPS) process does not specify who died. It simply identifies that payee vendor (funeral home) and the case name and number for the case. The Department of Health’s data reports deaths by individuals. Therefore, there is currently no way to match their data with DFD’s.
Incentive Payments

The division should establish an incentive for TANF recoveries.

County welfare agencies receive different payments for the collection of overpayments. They are allowed to retain either 35 percent or 20 percent of the amount recovered for food stamp overpayments, depending upon the category of overpayment, but can retain only five percent for TANF overpayments.

Overpayment recoveries are applied as follows:

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<th>TANF</th>
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<tr>
<td>County</td>
<td>20 or 35%</td>
<td>5%</td>
</tr>
<tr>
<td>State</td>
<td>0</td>
<td>45%</td>
</tr>
<tr>
<td>Federal</td>
<td>80 or 65%</td>
<td>50%</td>
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These different rates encourage the counties to apply most of their collections of overpayments to the Food Stamp program. Because Food Stamp payments are 100 percent federally funded, the state receives no benefit from the counties’ collections of overpayments.

Recommendation

We recommend that the division establish a TANF incentive program that is competitive with that of the Food Stamp Program so that it can benefit from the overpayment collections made by the county welfare agencies.

Auditee’s Response

The Division is exploring whether incentive payments to County Welfare Agencies would result in greater collection efforts for overpayment of TANF benefits. If we determine that it would be cost beneficial, the Division will begin the process of determining what State legislative and/or regulatory changes would be required to implement such a program.
The division’s review of General Assistance audits should be concluded in a more timely manner and refunds of excess state aid should be requested where appropriate.

The General Assistance (GA) program is the state-funded component of the Work First New Jersey program and provides benefit payments to single adults and couples without dependent children. The GA program is administered by municipal welfare departments and, beginning in fiscal year 1998, county welfare agencies. Annual expenditures of the program are approximately $100 million.

The Department of Human Services, Office of Auditing audit guide for the General Assistance program requires that the GA program be audited as part of a municipality’s single audit. The General Assistance Fiscal Unit (GAFU) within the Division of Family Development is responsible for the review of these audit reports to determine whether municipalities have been over or underreimbursed by the state for their GA expenditures. If a municipality has received excess state aid (state advances greater than municipal benefits paid out) that is more than one year’s worth of estimated expenditures, DFD should request a refund from that municipality.

The reviews of the 1996 municipal audit reports by the General Assistance Fiscal Unit were not completed in a timely manner. As of February 2, 1998, there were 363 audit reports which had been reviewed by unit staff, but only 106 of these reviewed audits had been closed out. This backlog is due to staffing shortages; in February 1998, there were three full-time employees in the General Assistance Fiscal Unit, while last year there were six full-time employees. Prior to the issuance of the audit report, the division took steps to reduce the audit backlog. A full-time employee has been added to the GAFU staff and the Division of Medical Assistance has provided five professional staff to review some of the more difficult audits. As of June 29, 1998, agency records indicated that 433 audits from 1996 had been closed out and that excess state aid of $6.6 million was identified.
In addition, the audit closeouts that were completed did not treat excess state aid properly. There were 38 municipalities, with excess state aid totaling $1 million, which should have been requested to refund their excess to the state, but were not. Errors were made by GAFU personnel in not requesting refunds although the closeout indicated that there was a large excess. In addition, GAFU personnel did not request refunds from municipalities that are transferring the administration of their GA program to the counties (and will therefore have no future expenditures) because of the uncertainty regarding the date of transition and whether to wait for the completion of the 1997 audits. The division would have received refunds of excess state aid sooner than it will save the money by withholding it in subsequent advances.

**Recommendation**

We recommend that the division continue their expanded efforts in closing out 1996 and subsequent audits timely. In addition, the GA Fiscal Unit should request refunds in all cases where excess state aid exceeds one year of estimated expenditures. A determination should be made by the division regarding the recoupment of funds from those municipalities which are consolidating their GA programs under county administration.

**Auditee’s Response**

We have expanded our efforts to conduct more timely GA audit closeouts. We are in the process of recovering funds from all Municipal Welfare Departments who have consolidated their programs into the CWAs. In addition, we are reviewing Municipal Welfare Departments to determine if material excessive balances exist. In cases where it is deemed that there is an excess of State funds residing in the Municipal Welfare Public Assistance Trust Fund account, we will be requesting refunds.
The Division of Family Development should improve its monitoring of the General Assistance program.

General Assistance Monitoring

The division’s Bureau of Quality Control did not review the GA eligibility determinations performed by the municipal welfare departments during 1997. The Bureau of Quality Control reviews of General Assistance cases are designed to reveal whether program eligibility has been properly determined and whether municipal welfare departments are following required procedures for determining eligibility. No such reviews were performed in 1997 for a variety of reasons: quality control reviews of the GA program are not federally required; it is difficult to get statistically valid reviews because of the large numbers of municipalities; and the bureau now concentrates on targeted reviews that do not determine error rates. No other units within the division reviewed client files for eligibility.

The division’s General Assistance Fiscal Unit does not review the propriety of GA payments reported by the municipal welfare departments on their GA-6 reports. (Total fiscal year 1997 municipal GA expenditures per these reports were $104 million.) Since the state provides the funding for General Assistance benefits, the GA-6 reports submitted by the local governments should be reviewed for excessive payments and unusual entries. They are not reviewed because there are numerous reports (over 500) submitted each month and there is limited staff in the General Assistance Fiscal Unit to perform this work.

As a result of this lack of monitoring, the division does not know if General Assistance benefits are being paid to ineligible clients or for incorrect amounts. We scanned a small sample of GA-6 reports (one monthly report for one municipality per county) from the period July 1997 to December 1997 and noted 68 payments that were questionable. This included maintenance payments above the maximum allowed for the particular assistance category and Temporary Rental Assistance or Emergency Assistance payments that were above the allowable threshold. We then visited seven of the sampled municipal
welfare departments to test these questionable payments and found 16 overpayments totaling $2000.

**Recommendation**

We recommend that the Bureau of Quality Control resume its reviews of General Assistance program eligibility. We also recommend the General Assistance Fiscal Unit review the GA-6 reports for propriety of payment and investigate those cases which appear improper. The Division of Family Development should continue its plans to develop computerized edits within the General Assistance system.

**Auditee’s Response**

A meeting has been scheduled between members of the Office of Planning and Operations Review (OPOR) staff and the General Assistance Program Unit (GAPU) to discuss these findings and any way in which they can be at least partially implemented. It should be noted, however, that because of limited staff resources, there is no way that a statistically valid number of reviews can be conducted on a statewide basis. We believe that the outcome of the meeting will be a decision to do full-scale reviews of towns targeted by the GAPU as worthy of such scrutiny, as well as a commitment to do special surveys as needed.

Regarding the review of the GA-6 report, the Division of Family Development is continuing to develop the automated GA system. Included in that system will be edits which will prohibit payments to be made for amounts which are contrary to State regulations. It is anticipated that this system will be available in early calendar year 1999. Once this system is operational, the GA-6 report will be system generated and, therefore, more accurate and will not require an expensive desk review.