



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

NOV - 9 2007

Washington, D.C. 20201

TO: Daniel C. Schneider
Acting Assistant Secretary for Children and Families

FROM: Daniel R. Levinson
Inspector General

Daniel R. Levinson

SUBJECT: Review of Improper Temporary Assistance for Needy Families Basic Assistance Payments in Michigan for July 1 Through December 31, 2005 (A-05-06-00068)

Attached is an advance copy of our final report on improper Temporary Assistance for Needy Families (TANF) basic assistance payments in Michigan. We will issue this report to the Michigan Department of Human Services (the State agency) within 5 business days. The Administration for Children and Families (ACF) and the Office of Management and Budget requested this audit.

The TANF program, which the Federal and State Governments jointly fund and administer, is a block grant program that provides eligible families with work opportunities and other assistance, including basic assistance payments for such ongoing basic needs as food, clothing, shelter, and utilities. Federal and State laws, regulations, and other requirements establish TANF eligibility, payment, and documentation requirements.

Our objectives were to determine whether the State agency made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations.

From July 1 through December 31, 2005, the State agency made some TANF basic assistance payments that did not meet Federal and State requirements and did not adequately document all eligibility and payment determinations. We did not identify any errors in 99 of the 150 payments in our statistical sample. However, the remaining 51 payments were improper. For 38 of these payments, the recipient families were ineligible for TANF basic assistance or the payments were improperly calculated or disbursed, and for 13 payments, the case files did not contain all required documentation supporting eligibility and payment determinations.

Based on our sample results, we estimated that the overall TANF improper payment rate was 40 percent of the Federal dollars expended and 34 percent of the number of payments made for basic assistance during the 6-month audit period. Specifically, we estimated that the State agency paid \$36,274,769 (Federal share) for 161,753 improper payments.

We recommend that the State agency:

- develop criteria specifying the circumstances that warrant a hardship exception for purposes of extending TANF basic assistance payments beyond the 60-month Federal lifetime limit,
- use the results of this review to help ensure compliance with Federal and State TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring its district office employees to verify eligibility information and maintain appropriate documentation in all case files,
- determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible, and
- recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

In its comments on the draft report, the State agency generally did not agree with our recommendations. With respect to the first recommendation, the State agency disagreed that the benefits it had provided beyond the 60-month Federal limit were improper payments. The State agency did not address the second recommendation and stated that it would not comply with the third and fourth recommendations until the 60-month eligibility issue is resolved with ACF. The State agency also provided additional information on three sampled payments. After reviewing the State agency's comments and additional information, we maintain that our findings and recommendations are valid.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Grants and Internal Activities, at (202) 619-1175 or through e-mail at Joe.Green@oig.hhs.gov or Marc Gustafson, Regional Inspector General for Audit Services, Region V, at (312) 352-2618 or through e-mail at Marc.Gustafson@oig.hhs.gov. Please refer to report number A-05-06-00068.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF IMPROPER
TEMPORARY ASSISTANCE FOR
NEEDY FAMILIES BASIC
ASSISTANCE PAYMENTS
IN MICHIGAN FOR JULY 1
THROUGH DECEMBER 31, 2005**



Daniel R. Levinson
Inspector General

November 2007
A-05-06-00068

Office of Inspector General

<http://oig.hhs.gov>

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FINDINGS AND OPINIONS IN THIS REPORT

The designation of a financial or management practice as questionable, a recommendation for the disallowance of costs incurred or claimed, or any other conclusion or recommendation in this report represents the findings and opinions of the OIG Office of Audit Services. Authorized officials of the HHS divisions will make final determination on these matters.



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

NOV 13 2007

Report Number: A-05-06-00068

Mr. Ismael Ahmed
Director
Michigan Department of Human Services
P.O. Box 30037
Lansing, Michigan 48909

Dear Mr. Ahmed:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Improper Temporary Assistance for Needy Families Basic Assistance Payments in Michigan for July 1 Through December 31, 2005." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Mike Barton, Audit Manager, at (614) 469-2543 or through e-mail at Mike.Barton@oig.hhs.gov. Please refer to report number A-05-06-00068 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc Gustafson".

Marc Gustafson
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Joyce A. Thomas
Regional Administrator
Administration for Children and Families
Department of Health and Human Services
233 North Michigan Avenue, Suite 400
Chicago, Illinois 60601-5519

EXECUTIVE SUMMARY

BACKGROUND

The Temporary Assistance for Needy Families (TANF) program, a block grant program, provides eligible families with work opportunities and other assistance, including basic assistance payments for such ongoing basic needs as food, clothing, shelter, and utilities. The Federal and State Governments jointly fund and administer the TANF program. The Administration for Children and Families (ACF), Office of Family Assistance, administers the program at the Federal level.

Federal and State laws, regulations, and other requirements establish TANF eligibility, payment, and documentation requirements. To be eligible for TANF, a needy family must, among other requirements, include a minor child or pregnant woman, not exceed established time limits for receiving assistance, engage in work activities, not exceed income and resource thresholds established by the State, meet citizenship and residency requirements, submit a written application for benefits, and furnish the Social Security number of each family member. The State must maintain records on the provision of assistance, including facts to support eligibility and payment determinations.

In Michigan, the Department of Human Services (the State agency) administers the TANF program. The State agency's district offices determine the eligibility of applicants and the payment amounts for basic assistance. From July 1 through December 31, 2005, the State agency made 475,743 monthly basic assistance payments totaling \$196,066,609 (\$90,759,249 Federal share) to or on behalf of TANF recipient families.

ACF and the Office of Management and Budget requested this pilot review in Michigan and two other States for fiscal year 2007 performance and accountability reporting. The purpose of the pilot review is to test a methodology to measure the amount of improper payments in the basic assistance portion of the TANF program. Upon completion of the pilots, the methodology will be refined, as appropriate, and used to measure and calculate a national TANF error rate for basic assistance payments in fiscal year 2008.

OBJECTIVES

Our objectives were to determine whether the State agency made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations.

SUMMARY OF FINDINGS

From July 1 through December 31, 2005, the State agency made some TANF basic assistance payments that did not meet Federal and State requirements and did not adequately document all eligibility and payment determinations. We did not identify any errors in 99 of the 150 payments in our statistical sample. However, the remaining 51 payments were improper:

- For 38 payments, the recipient families were ineligible for TANF basic assistance or the payments were improperly calculated or disbursed.
- For 13 payments, the case files did not contain all required documentation supporting eligibility and payment determinations.

Based on our sample results, we estimated that the overall TANF improper payment rate was 40 percent of the Federal dollars expended and 34 percent of the number of payments made for basic assistance during the 6-month audit period. Specifically, we estimated that the State agency paid \$36,274,769 (Federal share) for 161,753 overpayments. The following table summarizes our statistical estimates.

Statistical Estimates of Improper Payments

Error Category	Improper Payment Rate		Improper Payments	
	Federal Dollars	No. of Payments	Federal Dollars	No. of Payments
Eligibility and payment calculation/ disbursement errors	31%	25%	\$27,717,199	120,522
Documentation errors	9%	9%	8,557,570	41,231
Overall	40%	34%	\$36,274,769	161,753

RECOMMENDATIONS

We recommend that the State agency:

- develop criteria specifying the circumstances that warrant a hardship exception for purposes of extending TANF basic assistance payments beyond the 60-month Federal lifetime limit,
- use the results of this review to help ensure compliance with Federal and State TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring its district office employees to verify eligibility information and maintain appropriate documentation in all case files,
- determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible, and
- recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

STATE AGENCY'S COMMENTS

In its comments on the draft report (Appendix E), the State agency generally did not agree with our recommendations. With respect to the first recommendation, the State agency disagreed that the benefits it had provided beyond the 60-month Federal limit were improper payments. The State agency did not address the second recommendation and stated that it would not comply with the third and fourth recommendations until the 60-month eligibility issue is resolved with ACF. The State agency also provided additional information on three sampled payments.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After reviewing the State agency's comments and additional information, we maintain that our findings and recommendations are valid.

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INTRODUCTION

BACKGROUND

The Administration for Children and Families (ACF) and the Office of Management and Budget (OMB) requested this pilot review in Michigan and two other States for fiscal year 2007 performance and accountability reporting. The purpose of the pilot review is to test a methodology to measure the amount of improper payments in the basic assistance portion of the Temporary Assistance for Needy Families (TANF) program. Upon completion of the pilots, the methodology will be refined, as appropriate, and used to measure and calculate a national TANF error rate for basic assistance payments in fiscal year 2008.

Improper Payments Information Act of 2002

The Improper Payments Information Act of 2002 (Public Law 107-300) requires Federal agencies to estimate and report to Congress on the annual amount of improper payments in their programs, the causes of the improper payments, and the corrective actions taken. Section 2(d)(2) of this Act (31 U.S.C. § 3321) defines an improper payment as:

. . . (A) any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and (B) any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.

To clarify this definition, OMB Circular A-123, Appendix C, part I.A, states that “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error.”

Temporary Assistance for Needy Families Program

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) established the TANF program to help families progress from welfare to self-sufficiency. The Federal and State Governments jointly fund and administer the program. At the Federal level, the ACF Office of Family Assistance administers the program. Within broad national guidelines established by Federal statutes, regulations, and other requirements, States have significant flexibility in designing their programs and determining eligibility requirements.

The Federal Government provides TANF funds in the form of block grants, which are specified amounts directly allocated to States. To be eligible for a TANF block grant, a State must submit a State plan to ACF within the 27-month period prior to the Federal fiscal year in which the funds are to be provided. The State plan is an outline of how each State will operate its TANF program, including program administration, criteria for determining eligibility and delivering benefits, and assurances against fraud and abuse. ACF reviews the State plan for completeness

but does not issue an approval. ACF has stated that a determination that a plan is complete does not constitute its endorsement of State policies.¹

Pursuant to section 401 of the Social Security Act (the Act), the TANF program provides assistance and work opportunities to needy families. As a general rule, States must use the funds for eligible families with a minor child or pregnant woman and for one of the four purposes of the TANF program, including providing assistance to needy families.² Federal regulations (45 CFR § 260.31(a)(1)) define assistance as cash, payments, vouchers, and other forms of benefits designed to meet a family's ongoing basic needs, including, but not limited to, food, clothing, shelter, and utilities. Such assistance is referred to as "basic assistance."

States may use various funding options to provide benefits and services under their TANF programs (e.g., commingled Federal and State funds or segregated State funds). The funding option chosen determines what specific requirements apply and whether a particular use of funds is appropriate. Commingled Federal and State funds are subject to Federal laws and requirements.

Michigan's Temporary Assistance for Needy Families Program

In Michigan, the Department of Human Services (the State agency) administers the TANF program. The State agency uses the Client Information Management System (CIMS), a computerized payment and information reporting system, to process and pay TANF basic assistance benefits.

The State agency has opted to commingle Federal and State funds in its TANF program. During our audit period, the State agency funded 46 percent of its basic assistance expenditures from the Federal TANF block grant, and the State paid the remaining 54 percent.

Pursuant to Michigan Administrative Code (MAC) r. 400.3107(3), individuals must submit written applications for TANF basic assistance. The State agency's district offices review the applications and determine whether individuals meet TANF eligibility requirements. For each applicant determined eligible, the district office determines the amount of assistance to be paid to the family. As part of the application process, the district office sends a letter informing the applicant of his or her responsibility to notify the district office of any changes that might affect eligibility or payment status. Every 12 months thereafter, pursuant to the State "Program Administrative Manual," section 210, the district office must verify any updated information and redetermine the individual's eligibility. The State agency conducts quality control reviews on a sample basis to determine the validity of eligibility determinations and benefit amounts.

¹See 64 Federal Register 17720, 17847 (April 12, 1999).

²The other purposes of TANF are to (1) end the dependence of needy parents by promoting job preparation, work, and marriage; (2) prevent and reduce out-of-wedlock pregnancies; and (3) encourage the formation and maintenance of two-parent families (section 401 of the Act).

Federal and State Requirements Related to Temporary Assistance for Needy Families Basic Assistance

The State agency must comply with certain Federal requirements in determining and redetermining eligibility and payment amounts. Federal regulations (45 CFR §§ 205.51–205.60 and parts 260–265) set forth basic TANF eligibility requirements that States must impose on families receiving assistance, including time limits and work requirements for adults. Appendix A of this report contains the specific Federal requirements related to TANF basic assistance.

In addition, the Michigan State plan; Chapter 400, section 400.6 et seq., of the Michigan Compiled Laws Service (MCL); r. 400.3101–400.3131 of the MAC; and State guidance establish TANF basic assistance requirements. The State plan incorporates Federal requirements and establishes all other eligibility requirements, such as income and resource levels and standards of need³ for determining eligibility, as set forth in State law and program policy. Appendix B of this report contains the specific State requirements related to TANF basic assistance.

OBJECTIVES, SCOPE AND, METHODOLOGY

Objectives

Our objectives were to determine whether the State agency made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations.

Scope

Our audit period covered July 1 through December 31, 2005. We did not review the overall internal control structure of the State TANF program. Rather, we reviewed the State agency's procedures relevant to the objectives of the audit.

We performed fieldwork from November 2006 to January 2007 at the State agency in Lansing, Michigan, and at various district offices throughout the State.

Methodology

To accomplish our objectives, we:

- reviewed Federal and State laws, regulations, and other requirements related to TANF basic assistance eligibility and payment amounts;

³The State plan, section A(4), sets the standard of need based on the number of household members for use in determining eligibility for TANF basic assistance.

- held discussions with ACF headquarters and regional office officials and with State officials to obtain an understanding of policies, procedures, and guidance for determining TANF basic assistance eligibility and payment amounts;
- obtained a list of TANF basic assistance payments for the period July 1 through December 31, 2005, from the State agency's CIMS;
- combined all payments to or on behalf of each recipient family in a month and obtained a universe of 475,743 monthly payments totaling \$196,066,609 (\$90,759,249 Federal share); and
- selected a simple random sample of 150 payments from the universe of 475,743 monthly payments, as detailed in Appendix C.

For each of the 150 sampled items, we determined whether the corresponding case file (electronic or paper) contained sufficient information for the district office to have made a TANF basic assistance eligibility determination on the date of initial determination or redetermination. We also attempted to obtain sufficient independent information to determine whether the recipient family was eligible for TANF basic assistance and received the proper payment amount on the payment date selected. Specifically, we determined whether:

- the case file contained a completed application from the recipient family head of household;
- the case file contained a Social Security number for each member of the recipient family and, if so, whether the Social Security Administration (SSA) had issued the number to the family member;
- the recipient family resided in Michigan by checking rental agreements or Federal, State, or local government correspondence;
- each family member's identity, including name and age, was adequately documented in the case file (e.g., birth certificates, adoption papers, court decrees, and passports);
- each noncitizen family member's citizenship status in the case file matched the information on file with the U.S. Citizenship and Immigration Services's Systematic Alien Verification for Entitlement program;
- the recipient family's income was at or below the income threshold required to be eligible for TANF basic assistance on the payment date selected by reviewing the case file;
- no member of the recipient family was a fugitive felon or parole violator by reviewing information from SSA and the State Department of Corrections;

- the recipient family complied with child support requirements by reviewing information from the case file and the State agency's Office of Child Support Enforcement;
- assistance was not provided to any adult member, minor head of household, or minor spouse in the recipient family for a total of more than 60 cumulative months by reviewing information from the State agency's CIMS; and
- the parent or caretaker in the recipient family met work requirements by reviewing the case file.

We used a variable appraisal program to estimate, for the total universe of 475,743 TANF monthly basic assistance payments, the total dollar value of payments with eligibility or calculation/disbursement errors and with documentation errors. We used an attribute appraisal program to estimate, for the total universe, the total number of these improper payments.

In addition, we determined the improper payment rate in dollars by dividing the estimated improper dollars by the total Federal dollars in the universe. We also determined the improper payment rate for the number of payments in error by dividing the estimated number of improper payments by the total number of payments in the universe.

We conducted our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The State agency made some TANF basic assistance payments that did not meet Federal and State requirements and did not adequately document all eligibility and payment determinations. Of the 150 payments in our statistical sample, 51 payments totaling \$11,437 (Federal share) were improper because the recipient families were ineligible for TANF basic assistance, the payments were improperly calculated or disbursed, or the case files did not contain all required documentation supporting eligibility and payment determinations. We did not identify any errors in the remaining 99 payments.

Based on our sample results, we estimated that the overall TANF improper payment rate was 40 percent of the Federal dollars expended and 34 percent of the number of payments made for basic assistance during the 6-month audit period. Specifically, we estimated that the State agency paid \$36,274,769 (Federal share) for 161,753 overpayments. (See page 9 for additional statistical estimates.)

IMPROPER PAYMENTS

Table 1 on the next page summarizes the errors noted in the 51 improper payments in our sample.

Table 1: Summary of Improper Payments

Type of Error	Improper Federal Payments	No. of Improper Payments
Eligibility and Payment Errors		
Recipient families were ineligible:		
60-month limit exceeded	\$6,099	23
Income threshold exceeded on payment dates	837	3
Social Security numbers not furnished	<u>308</u>	<u>2</u>
Subtotal	\$7,244	28
Payments were improperly calculated or disbursed:		
Lack of cooperation in establishing paternity/child support orders	\$1,374	6
Incorrect household size	112	3
Incorrect disbursement amount	<u>9</u>	<u>1</u>
Subtotal	<u>\$1,495</u>	<u>10</u>
Subtotal	\$8,739	38
Documentation Errors		
Documentation was not sufficient to support eligibility and payment determinations	<u>\$2,698</u>	<u>13</u>
Total	<u>\$11,437</u>	<u>51</u>

We have provided details on each of these payment errors to the State agency.

Eligibility and Payment Calculation Errors

Recipient Families Were Ineligible

Pursuant to 45 CFR § 264.1(a)(1), no State may use any of its Federal TANF funds to provide assistance to a family that includes an adult head of household or a spouse of the head of household who has received Federal assistance for a total of 5 years (i.e., 60 cumulative months, whether or not consecutive). However, 45 CFR § 264.1(c) allows States the option to extend assistance beyond the 5-year limit for up to 20 percent of the average monthly number of families receiving assistance during the fiscal year on the basis of hardship, as defined by the State, or battery of a family member.

According to Michigan’s State plan:

Michigan does not have a time limit on its Family Independence Program [Michigan’s TANF program]. Michigan will seek federal financial participation if the family contains an adult who has received TANF for more than 60-months, subject to the limitation of such funding to 20% of the average monthly number of such families receiving assistance in a fiscal year. Such families in need of assistance beyond the 60-month limit and exceeding the 20% limitation will be state-funded as long as they continue to meet program requirements.

During our audit period, Michigan statutory provisions, regulations, and policy did not provide guidance on or a definition of “hardship” or criteria outlining the circumstances warranting a hardship exception. Instead, the State “Program Administrative Manual,” section 115, provided that TANF benefits continue until the family no longer meets program eligibility requirements. Summarizing this policy in its State plan, Michigan stated that there are no time limits on assistance for families who have exceeded the 60-month limit⁴ and continue to meet eligibility criteria. Michigan’s policy was to automatically extend Federal TANF assistance up to the 20-percent cap without making a hardship or battery determination.

MAC r. 400.3111 requires clients to cooperate in furnishing accurate, complete, and current eligibility information. In addition, each applicant and recipient must make a timely report to the district of any changes in his or her needs or resources. Pursuant to 45 CFR § 263.2(b)(3), income and resource thresholds are established by the State and must be included in the State plan. Generally, income thresholds vary based on the number of family members in the household. Federal regulations (45 CFR §§ 205.51 and 205.55) establish requirements for income and eligibility verification. These regulations, which govern the Income and Eligibility Verification System, require a State to request information from other agencies to verify individuals’ eligibility for assistance under the State plan and the correct amount of assistance payments for applicants and recipients.

In addition, 45 CFR §§ 205.52(a)(1) and (2) require, as a condition of eligibility, that each individual requesting TANF basic assistance furnish his or her Social Security number to the State. If the individual cannot recall or was not issued a Social Security number, the individual is required to apply to SSA for a number through procedures adopted by the State or local agency. If such procedures are not in effect, the individual must apply directly for such number, submit verification of such application, and provide the number upon its receipt.

Of the 150 sampled payments, 28 payments totaling \$7,244 (Federal share) were made to or on behalf of recipient families who did not meet Federal and State eligibility requirements:

- For 23 overpayments totaling \$6,099 (Federal share), the recipient families received TANF assistance for more than 60 months even though the State agency had not made determinations of hardship or battery.
- For three overpayments totaling \$837 (Federal share), the recipient families’ household incomes exceeded the TANF basic assistance income threshold on the payment dates.
- For two overpayments totaling \$308 (Federal share), the recipient family members had not furnished their Social Security numbers or provided documentation of their applications for Social Security numbers.

⁴Effective October 1, 2007, MCL § 400.57r establishes a 48-month lifetime limit for receiving TANF benefits in Michigan. An additional 12 months of benefits are available to families that meet specified criteria.

Payments Were Improperly Calculated or Disbursed

Federal regulations (45 CFR § 264.30(a)) require the State agency to refer to the child support enforcement agency all appropriate individuals in the family of a child for whom paternity has not been established or for whom a child support order needs to be established, modified, or enforced. Referred individuals must cooperate in establishing paternity and in establishing, modifying, or enforcing a support order with respect to the child. MAC r. 400.3124(1) states that a client must take all action required to establish paternity and obtain support unless a good cause exception has been granted. In addition, section 408(a)(2) of the Act provides that if an individual does not cooperate with the State in establishing paternity or in establishing, modifying, or enforcing a support order, the State must reduce assistance by at least 25 percent or, at the State's option, may deny the family any assistance.

MAC r. 400.3122(1) states that neither an adult nor a child may receive both supplemental security income benefits and TANF benefits for the same period.

Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193, as codified, in part, at 8 U.S.C. §§ 1601–1646) requires a TANF recipient to be a citizen or national of the United States or a qualified alien. Legal resident aliens and other qualified aliens who entered the United States on or after August 22, 1996, who do not qualify for exemption under 8 U.S.C. § 1613 are ineligible for assistance for the first 5 years after entry.

Of the 150 sampled payments, 10 payments totaling \$1,495 (Federal share) were made to or on behalf of recipient families who were eligible for basic assistance but for whom payments were improperly calculated or disbursed:

- For six overpayments totaling \$1,374 (Federal share), the State agency did not reduce the payment amounts for individuals who had not cooperated in establishing paternity and/or child support orders and for whom a good cause exception had not been granted.
- For three overpayments totaling \$112 (Federal share), the State agency used an incorrect household size in its payment calculations. The household size for two of these overpayments improperly included a child who was receiving supplemental security income, and the household size for one overpayment improperly included a child who did not meet citizenship requirements.
- For one overpayment totaling \$9 (Federal share), the State agency correctly calculated the payment amount but disbursed an incorrect amount.

Documentation Errors

State agencies are required to maintain records regarding applications and eligibility determinations for the provision of financial assistance. Included in such records should be facts supporting initial and continuing eligibility determinations (45 CFR § 205.60(a)). OMB Circular A-123, Appendix C, part I.A, states that when a Federal agency's review is unable to discern

whether a payment was proper as a result of insufficient or lack of documentation, this payment must be considered an error.

Pursuant to MAC r. 400.3107(3), a State-prescribed written application must be completed for each case. The State “Program Administrative Manual,” section 210, requires that all variable factors of need and eligibility be reconsidered, reevaluated, and verified at least every 12 months.

The case files for 13 sampled payments totaling \$2,698 (Federal share) did not contain adequate documentation to support eligibility and payment determinations. For these overpayments, the missing documentation included at least one of the following: an application covering the payment month and facts supporting income, household composition, participation in work activities, and cooperation with child support enforcement.

CONCLUSION

Some of the sampled payments did not meet Federal and State eligibility, payment, or documentation requirements. For these payments, (1) the district offices incorrectly provided assistance to beneficiaries beyond the 60-month Federal limit without making a determination of hardship or battery, (2) recipient families did not fully disclose information at the time of application or eligibility redetermination and did not notify the State agency’s district offices of changes in financial situation or other changes affecting eligibility, (3) the district offices did not verify all information provided to support applications, or (4) the district offices did not maintain appropriate documentation to support eligibility and payment determinations.

As a result, we estimated that the overall TANF improper payment rate was 40 percent of the Federal dollars expended and 34 percent of the number of payments made for basic assistance during the 6-month audit period. Specifically, we estimated that the State agency paid \$36,274,769 (Federal share) for 161,753 overpayments. Table 2 summarizes our statistical estimates. (See Appendix D for details on our sample results and projections.)

Table 2: Statistical Estimates of Improper Payments

Error Category	Improper Payment Rate		Improper Payments	
	Federal Dollars	No. of Payments	Federal Dollars	No. of Payments
Eligibility and payment calculation/ disbursement errors	31%	25%	\$27,717,199	120,522
Documentation errors	9%	9%	8,557,570	41,231
Overall	40%	34%	\$36,274,769	161,753

We are not recommending recovery of the overpayments identified in this report primarily because ACF decided to assess penalties⁵ in the TANF program rather than take disallowances in response to audit findings.

RECOMMENDATIONS

We recommend that the State agency:

- develop criteria specifying the circumstances that warrant a hardship exception for purposes of extending TANF basic assistance payments beyond the 60-month Federal lifetime limit,
- use the results of this review to help ensure compliance with Federal and State TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring its district office employees to verify eligibility information and maintain appropriate documentation in all case files,
- determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible, and
- recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

STATE AGENCY'S COMMENTS

In written comments on our draft report, the State agency generally did not agree with our recommendations. With respect to the first recommendation, the State agency disagreed that the benefits it had provided beyond the 60-month Federal limit were improper payments. The State agency said that a State plan amendment, which ACF approved in 2002, disclosed that the State agency would seek Federal financial participation for families with an adult who had exceeded the Federal limit, subject to the 20-percent cap. The State agency also said that it had revised the State plan to clarify how Michigan defines a family to be exempt by reason of hardship under section 408(a)(7)(C)(i) of the Act.

The State agency did not address the second recommendation and stated that it would not comply with the third and fourth recommendations until the 60-month eligibility issue is resolved with ACF. Nevertheless, the State agency agreed with our finding related to the improper calculation of payments for individuals who had not cooperated with child support orders. The State agency also provided additional information on three sampled payments. Appendix E contains the State agency's comments, excluding personally identifiable information.

⁵Penalties are set forth in section 409 of the Act.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We agree that the State plan disclosed the State agency's policy of automatically extending assistance to families with an adult who had reached the 60-month limit. However, because the State agency had not established the circumstances that would warrant a hardship exception to the 60-month limit, the policy did not meet the requirement of section 408(a)(7)(C) of the Act to determine whether a hardship exists or the requirement of 45 CFR § 264.1(c)(1) to define "hardship." Moreover, ACF's review of the State plan amendment does not constitute its endorsement of State policies.

After reviewing the State agency's comments and additional information, we maintain that our findings and recommendations are valid.

APPENDIXES

**FEDERAL REQUIREMENTS RELATED TO TEMPORARY ASSISTANCE
FOR NEEDY FAMILIES BASIC ASSISTANCE**

- Section 401 of the Social Security Act (the Act) states that one purpose of the Temporary Assistance for Needy Families (TANF) program is to provide assistance to needy families.
- The Federal Register, Vol. 64, No. 69, page 17825 (April 12, 1999) defines a needy family as one that is financially deprived, i.e., lacking adequate income and resources.
- Regulations (45 CFR § 260.31(a)(1)) define assistance as cash, payments, vouchers, and other forms of benefits designed to meet a family's ongoing basic needs (i.e., food, clothing, shelter, utilities, household goods, personal care items, and general incidental expenses), as well as supportive services, such as transportation and childcare provided to families whose household heads are not employed.
- Regulations (45 CFR § 263.2(b)) state that cash assistance benefits may be provided only to or on behalf of eligible families.
- Section 408(a)(1) of the Act requires that a State not use any part of the grant to provide assistance to a family unless the family includes a minor child who resides with the family or includes a pregnant woman.
- Section 408(a)(7) of the Act and 45 CFR § 264.1(a)(1) provide that a State may not use Federal TANF funds to provide assistance to a family that includes an adult who has received Federal assistance for more than 60 cumulative months. However, 45 CFR § 264.1(c) allows States the option to extend assistance beyond the 5-year limit for up to 20 percent of the average monthly number of families receiving assistance during the fiscal year on the basis of hardship, as defined by the State, or battery of a family member.
- Regulations (45 CFR § 261.10(a)(1)) require that a parent or caretaker receiving assistance engage in work activities when the State has determined that the individual is ready to do so or when the individual has received assistance for a total of 24 months, whichever is earlier.
- Regulations (45 CFR §§ 205.52(a)(1) and (2)) require, as a condition of eligibility, that each applicant for or recipient of aid furnish his or her Social Security number to the State or local agency. If the individual cannot recall or was not issued a Social Security number, the individual is required to apply to the Social Security Administration (SSA) for a number through procedures adopted by the State or local agency. If such procedures are not in effect, the individual must apply directly for such a number, submit verification of such application, and provide the number upon its receipt.

- Regulations (45 CFR § 205.52(g)) require the State agency to submit all unverified Social Security numbers to SSA for verification.¹
- Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193, as codified, in part, at 8 U.S.C. §§ 1601–1646) requires a TANF recipient to be a citizen or national of the United States or a qualified alien. Legal resident aliens and other qualified aliens who entered the United States on or after August 22, 1996, are ineligible for assistance for the first 5 years after entry.
- Regulations (45 CFR § 263.2(b)(3)) state that TANF basic assistance income and resource thresholds are established by the State and must be included in the State plan. The income and resource thresholds, which are subject to adjustments, vary based on the number of members in the household.
- Regulations (45 CFR §§ 205.51 and 205.55) establish requirements for income and eligibility verification. These regulations governing the Income and Eligibility Verification System require States to request information from other Federal and State agencies to verify individuals' eligibility for assistance under the State plan and the correct amount of assistance payments for applicants and recipients.
- Regulations (45 CFR § 264.30(a)) require the State agency to refer to the child support enforcement agency all appropriate individuals in the family of a child for whom paternity has not been established or for whom a child support order needs to be established, modified, or enforced. Referred individuals must cooperate in establishing paternity and in establishing, modifying, or enforcing a support order with respect to the child.
- Section 408(a)(2) of the Act provides that if an individual does not cooperate with the State in establishing paternity or in establishing, modifying, or enforcing a support order, the State must reduce assistance by at least 25 percent or may deny the family any assistance.
- Section 408 of the Act prohibits assistance for individuals who (1) fail to assign support rights to the State, (2) fail to attend high school or an equivalent training program when the individual is a teenage parent, (3) fail to reside in an adult-supervised setting when the household head is a teenager, (4) are fugitive felons or parole violators, or (5) are minor children absent from the home or parents who fail to notify the State agency of the absence.
- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193, as codified, in part, at 8 U.S.C. §§ 1601–1646), section 115(a)(1), prohibits assistance for individuals who have been convicted of a drug-related felony.

¹The State agency may accept as verified a Social Security number provided directly to the State agency by SSA or by another Federal or federally assisted benefit program that has received the number from SSA or has submitted it to SSA for verification.

- Regulations (45 CFR § 205.60(a)) require State agencies to maintain records regarding applications and eligibility determinations for the provision of assistance. Included in such records should be facts supporting initial and continuing eligibility determinations.

**STATE REQUIREMENTS RELATED TO TEMPORARY ASSISTANCE
FOR NEEDY FAMILIES BASIC ASSISTANCE**

- Michigan Administrative Code (MAC) r. 400.3109 establishes that the State agency will determine public assistance eligibility for all household members.
- MAC r. 400.3107(3) requires that a State-prescribed written application be completed for each case. MAC r. 400.3107(2) states that an application may be submitted by fax on a form prescribed by the State agency. The original, signed application must be received by the State agency before benefits are approved.
- MAC r. 400.3112 states that to receive family assistance, a family must include (1) a minor child who resides with a custodial parent or another adult caretaker who is related to the child by blood, marriage, or adoption or (2) a pregnant woman.
- The State plan provides that the State will seek Federal funding if the family includes an adult who has received TANF for more than 60 months, subject to the limitation of such funding to 20 percent of the average monthly number of such families receiving assistance in a fiscal year.
- The State “Program Eligibility Manual,” section 400, specifies that the maximum amount of assets that a family may own and still qualify for assistance is \$3,000.
- MAC r. 400.3122 states that neither an adult nor a child may receive both supplemental security income benefits and TANF benefits for the same period. Additionally, a child may not receive foster care payments and TANF benefits concurrently.
- MAC r. 400.3123 states that a public assistance recipient who refuses or fails without good cause to comply with employment requirements must be sanctioned.
- MAC r. 400.3124(1) states that a client must take all actions required to establish paternity and obtain support unless a good cause exception has been granted.
- MAC r. 400.3111 establishes the client’s responsibility to cooperate with the State agency in determining initial and ongoing eligibility and benefits, including (1) answering completely and truthfully all questions on forms and in interviews; (2) taking all actions to verify factors concerning the group’s eligibility; and (3) accurately reporting, within 10 days after the information is known to the client, information that might affect eligibility or benefit amounts.
- Pursuant to the State “Program Administrative Manual,” section 210, all variable factors of need and eligibility must be reconsidered, reevaluated, and verified at least every 12 months.

- Pursuant to the Michigan Compiled Laws Service § 400.6(4), the State agency “may develop policies to implement requirements that are mandated by federal statute or regulations as a condition of receipt of federal funds.”
- Beginning October 1, 2007, MAC r. 400.57r establishes a 48-month lifetime limit of benefits. Recipients may apply for a 12-month extension of benefits when specified criteria are met.

SAMPLE DESIGN AND METHODOLOGY

AUDIT OBJECTIVES

Our objectives were to determine whether the Michigan Department of Human Services made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations.

AUDIT UNIVERSE

The universe consisted of all TANF basic assistance payments made during the 6-month audit period that ended December 31, 2005.

SAMPLING FRAME

The sampling frame was a computer file containing 475,743 monthly basic assistance payments to or on behalf of TANF recipients in Michigan during the 6-month period that ended December 31, 2005. The total TANF reimbursement for the 475,743 payments was \$196,066,609 (\$90,759,249 Federal share).

SAMPLE UNIT

The sample unit was a monthly TANF basic assistance payment to or on behalf of a recipient family during the audit period. The payment included all basic assistance payments made to or on behalf of the family within the month, including utilities, rent, and cash payments.

SAMPLE DESIGN

We used a simple random sample.

SAMPLE SIZE

We selected a sample size of 150 monthly TANF basic assistance payments.

SOURCE OF THE RANDOM NUMBERS

The source of the random numbers was the Office of Inspector General, Office of Audit Services (OAS), statistical sampling software, RAT-STATS 2005, version 6. We used the random number generator for our simple random sample.

METHOD FOR SELECTING SAMPLE ITEMS

We sequentially numbered the payments in our sampling frame and selected the sequential numbers that correlated to the random numbers. We then created a list of 150 sampled items.

CHARACTERISTICS TO BE MEASURED

We based our determination as to whether each sampled payment was improper on Federal and State laws, regulations, and other requirements. Specifically, if at least one of the following characteristics was met, we considered the payment under review improper:

- The recipient family did not meet one or more eligibility requirements.
- The recipient family was eligible for assistance but received an improper payment amount (overpayment or underpayment).
- The case file did not contain sufficient documentation to support eligibility and payment determinations as required by Federal and State regulations.

ESTIMATION METHODOLOGY

We used both the OAS variable and attribute appraisal programs in RAT-STATS to appraise the sample results.

We used the variable appraisal program to estimate the total dollar value of TANF basic assistance payments with eligibility or calculation/disbursement errors and with documentation errors. We used the attribute appraisal program to estimate the total number of these improper payments.

In addition, we determined the improper payment rate for the dollars expended by dividing the estimated improper dollars by the total Federal dollars in the universe. We also determined the improper payment rate for the number of payments in error by dividing the estimated number of improper payments by the total number of payments in the universe.

SAMPLE RESULTS AND PROJECTIONS

OVERALL SAMPLE RESULTS AND PROJECTIONS

Sample Details and Overall Results

Value of Universe (Federal Share)	No. of Payments in Universe	Value of Sampled Payments (Federal Share)	Sample Size	Value of Improper Payments (Federal Share)	No. of Improper Payments
\$90,759,249	475,743	\$29,372	150	\$11,437	51

Overall Projection of Sample Results
Precision at the 90-Percent Confidence Level

	Variable	Attribute
	<u>Appraisal</u>	<u>Appraisal</u>
Midpoint	\$36,274,769	161,753
Lower limit	27,446,032	131,248
Upper limit	45,103,507	194,549

Calculation of Overall Improper Payment Rate

Dollar value of payments	<u>Projected improper dollars</u>	<u>\$36,274,769</u>	=	40%
	Total Federal dollars in universe	\$90,759,249		
Number of payments	<u>Projected No. of improper payments</u>	<u>161,753</u>	=	34%
	Total No. of payments in universe	475,743		

SAMPLE RESULTS AND PROJECTIONS FOR ELIGIBILITY AND CALCULATION/DISBURSEMENT ERRORS

Sample Results—Eligibility and Calculation/Disbursement Errors

Value of Improper Payments (Federal Share)	No. of Improper Payments
\$8,739	38

Projection of Sample Results—Eligibility and Calculation/Disbursement Errors
Precision at the 90-Percent Confidence Level

	Variable	Attribute
	<u>Appraisal</u>	<u>Appraisal</u>
Midpoint	\$27,717,199	120,522
Lower limit	19,592,022	93,091
Upper limit	35,842,377	151,504

Calculation of Improper Payment Rate—Eligibility and Calculation/Disbursement Errors

Dollar value of payments	<u>Projected improper dollars</u>	\$27,717,199	=	31%
	Total Federal dollars in universe	\$90,759,249		
Number of payments	<u>Projected No. of improper payments</u>	120,522	=	25%
	Total No. of payments in universe	475,743		

SAMPLE RESULTS AND PROJECTIONS FOR DOCUMENTATION ERRORS

Sample Results—Documentation Errors

Value of Improper Payments (Federal Share)	No. of Improper Payments
\$2,698	13

Projection of Sample Results—Documentation Errors
Precision at the 90-Percent Confidence Level

	Variable	Attribute
	<u>Appraisal</u>	<u>Appraisal</u>
Midpoint	\$8,557,570	41,231
Lower limit	4,013,635	24,753
Upper limit	13,101,505	63,868

Calculation of Improper Payment Rate—Documentation Errors

Dollar value of payments	$\frac{\text{Projected improper dollars}}{\text{Total Federal dollars in universe}} = \frac{\$8,557,570}{\$90,759,249} = 9\%$
Number of payments	$\frac{\text{Projected No. of improper payments}}{\text{Total No. of payments in universe}} = \frac{41,231}{475,743} = 9\%$



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HUMAN SERVICES
LANSING

September 27, 2007



ISMAEL AHMED
DIRECTOR

Marc Gustafson
Regional Inspector General
For Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, Illinois 60601

Re: Report A-05-06-00068

Dear Mr. Gustafson:

Following is the Michigan Department of Human Services response to the draft report entitled "Review of Improper Temporary Assistance for Needy Families Basic Assistance Payments in Michigan."

Response to 60 Month Issue

DHS disagrees with the finding that Michigan's families with adults who have received benefits for more than 60 months are improper payments. We request that all improper payment dollar amount findings be deleted from the report. It is also requested that the report contain a description of the steps that DHS undertook to ensure compliance with federal regulation by ensuring full disclosure in the state plan.

In 2002, Michigan revised its TANF State Plan to seek federal financial participation for families with an adult who has received benefits for more than 60 months, subject to a limit of 20% of the state's FIP average caseload for such families. This amendment was approved by HHS on November 1, 2002 with the understanding that only families who were exempt by reason of hardship remain eligible for FIP. DHS has revised the Family Independence Program section to clarify how Michigan defines a family to be exempt by reason of hardship under Section 408(a)(7)(C)(i) when an adult in the family has received benefits for 60 or more months.

Response to Non-cooperation with Child Support

DHS agrees with the findings for non-cooperation with child support for this time period and is already pursuing corrective actions. DHS developed a corrective compliance plan and submitted this plan to HHS in July 2005. The plan was accepted by HHS in September 2005, and DHS continues to meet the corrective compliance activities and timelines in this plan. The corrective compliance plan included developing a desk aid and training in the fall of 2005.

Report Recommendations

DHS will not comply with the recommendations concerning the 'determine current eligibility of all recipients' and 'recalculate assistance budgets for all recipients' until the 60 month eligibility issue is resolved and we are directed to comply by our funding source.

Please take into consideration the following information in determining if these cases are still findings:

- One of the social security numbers cited was correct during the audit period: [REDACTED] Case name [REDACTED] -- no SSN on child -- born on [REDACTED], was a newborn at time of audit period -- HHS conclusion was that since the SSN is still missing, it should be an error -- DHS contends only errors within the specified audit timeframe should be counted.
- Case [REDACTED]: grantee [REDACTED] - considered excessive income. Daughter received SSI for 12/2005 -- change effected 1/06 -- case closed in 1/06 -- 1/06 was the earliest that case could have changed based on letter -- budget and issuance are correct.
- Case [REDACTED]: Grantee [REDACTED] -- child born [REDACTED] -- brought father into group so group size was correct for 3 -- not eligible with father's income so negative action closed FIP -- excess income citation should be for \$305 not \$401.

If you have any questions or comments, please do not hesitate to contact Bill Addison, DHS Audit Liaison, at (517) 335-3961 or through e-mail at addisonb@michigan.gov. Please refer to report number A-05-06-00068 in all correspondence.

Sincerely,



Ismael Ahmed

c: Kathryn O'Grady
Donald C. Mussen
Louise Wing
Bill Addison