



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

FEBRUARY 28, 1985

B-217473

The Honorable William H. Natcher
Chairman, Subcommittee on the Departments
of Labor, Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

Subject: Review of HHS Inspector General's Report
on California's Refugee Resettlement Program
(GAO/HRD-85-41)

In October 1984, at the request of the Subcommittee, we began a review of a Department of Health and Human Services (HHS) Inspector General's (IG's) audit of federal payments to California for its Refugee Cash Assistance Program. Of the more than \$256 million paid to California for its refugee program from April 1, 1981, through September 30, 1982, the IG concluded that almost \$34 million did not qualify for federal funding.

As the Subcommittee requested, we examined the methodology the IG used in conducting the audit and the conclusions reached. The results of our review are presented below.

BACKGROUND

The Refugee Act of 1980, Public Law 96-212, established within HHS the Office of Refugee Resettlement (ORR) and authorized assistance and services to refugees residing in the United States. Under the act, refugee assistance was consolidated under the Refugee Resettlement Program (RRP), and federal funding of cash and medical assistance was limited to the first 36 months a refugee is in the United States.¹

¹Federal funds are supplied to a state under RRP through quarterly grants based on estimates of the state's needs for that quarter and the amount appropriated for the program. At the end of each quarter, the state files a report accounting for the use of the federal funds during the quarter.



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ORR regulations effective April 1, 1982, further restricted federal funding of the cash and medical assistance programs to the first 18 months a refugee is in the United States and authorized the payment of RRP funds to states for assistance provided under state or local General Assistance Programs during a refugee's next 18 months in the United States. RRP funds were also authorized for up to 36 months to be used for the non-federal share of assistance provided under such programs as the Aid to Families with Dependent Children (AFDC) Program and the Supplemental Security Income Program. Due to a federal court injunction, the regulations were not implemented in California until May 1, 1982.

During the period of the IG's audit, April 1, 1981, through September 30, 1982, California claimed the following under RRP:

Cash Assistance	\$256,441,911
Medical Assistance	101,879,819
Supplemental Security Income	11,942,879
Social Services	26,701,099
Administrative Costs	<u>45,356,682</u>
	<u>\$442,322,390</u>

The IG's audit was conducted in seven California counties and was limited to determining whether the \$256,441,911 of cash assistance payments claimed by the state were compensable under RRP, made to eligible refugees, and properly computed.

The IG's report dated December 11, 1984, points out that administration of California's RRP could be improved in the area of cash assistance payments. The IG stated that counties did not fully document recipient eligibility for cash assistance or properly determine recipient eligibility under other federally funded programs. Also, the IG stated that counties used federal funds for payments made to persons ineligible under RRP and for payments that exceeded allowable amounts. In addition, the IG reported that state and county claims for federal funds were not adjusted for recoveries and overpayments and county payroll registers supporting the claims were not adequate for program monitoring.

The IG projected, based on samples of assistance payments, that the amount of unallowable RRP funds claimed was at least \$33,753,588 and most likely was \$41,904,405. Based on this projection, the IG recommended that the California claim for

funding under RRP for the period April 1981 through September 1982 be reduced by \$33,753,588.²

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to review the appropriateness of the sampling and estimation methodology the IG used in auditing California's Refugee Cash Assistance Program and the validity of the conclusions reached. In conducting our review we interviewed ORR program officials and reviewed ORR records to obtain (1) an understanding of the Refugee Cash Assistance Program and (2) data on refugee funds claimed by and awarded to California since the enactment of the Refugee Act of 1980. We also interviewed officials of the IG's office, in Washington and Sacramento, and reviewed the auditors' workpapers to obtain an understanding of the sampling methodology used and the basis for the conclusions reached. To clarify possible legal issues, we met with attorneys in HHS' Office of General Counsel. Additionally, in order to fully understand the state's position, we interviewed officials of California's Department of Social Services (DSS), including the department's methodology consultant, and members of a public interest group representing the involved counties. Our review was made in accordance with generally accepted government audit standards.

METHODOLOGY USED BY THE IG

The IG's review focused on seven counties in California that made a substantial portion of the refugee assistance payments. Within these counties the IG selected and reviewed a random sample of refugee payments for April 1, 1981, through September 30, 1982. The IG found a number of payment errors, which were projected in order to estimate the total payment error for the refugee program in California.

As shown in the table below, the IG's review of the cash assistance payments claimed under RRP was based on two sample universes of AFDC, Refugee Cash Assistance (RCA), and General Assistance payments. One universe consisted of 893,161 payments made in Alameda, Orange, Sacramento, San Diego, San Francisco,

²ORR representatives advised us that they would make financial adjustments for any amount due the federal government by offsetting the amount due from future quarterly federal payments to the state. In making such offsets, ORR requires a state outlay in the amount of the offset to be added to the federal funds for the quarter where the offset is made.

and Santa Clara Counties for April 1, 1981, through September 30, 1982. The second sample was selected from 315,491 payments made in Los Angeles County. Excluded from the universe were AFDC payments for which Los Angeles County claimed RRP funds for April 1981 through October 1981 and for December 1981 and February 1982. Payment tapes for these periods had been destroyed.

<u>Strata</u>	<u>Total number of payments</u>	<u>Total dollars</u>	<u>Sample size, number of payments</u>
LA County sample:			
AFDC payments	148,097	\$ 25,125,350	105
RCA and General Assistance payments	153,129	36,664,304	233
Non-Indochinese payments	14,265	3,922,711	224
Six-county sample all payments	<u>893,161</u>	<u>140,249,560</u>	<u>244</u>
All strata	<u>1,208,652</u>	<u>\$205,961,925</u>	<u>806</u>

The IG used samples stratified to accommodate the manner in which the payment data were available. Los Angeles County maintained its records by payment, while the other six counties maintained their records by recipient (beneficiary). A recipient could receive several payments and payments from different programs. The IG developed an estimate of total payment errors for the combined Los Angeles County strata and a separate estimate for the combined six other counties. The IG also computed a lower limit for each sampled population such that there is a 95-percent degree of confidence that total payment errors would not be less than this lower limit. The IG stated that California should reduce its claim by the sum of the lower limits of the estimated payment errors for the two populations, as shown below.

<u>Sample</u>	<u>Estimated payment error</u>	<u>Lower limit</u>
Los Angeles County	\$31,687,876	\$28,072,082
Six counties	<u>10,216,529</u>	<u>5,681,506</u>
Total	<u>\$41,904,405</u>	<u>\$33,753,588</u>

The IG's staff provided us with the actual payment amount and the amounts the IG found inappropriate during audit for each sampled payment. They also provided us with the data used to estimate the total number of payments for the six counties. Using the data provided we made our own estimate of the payment error for the two samples. Our estimates agreed with the IG's. We also computed the estimated total number of payments for the six counties, which similarly confirmed the IG's estimate. We found that because the sampling procedures used provided an equal probability that each payment within a strata would be selected, they were appropriate.

We pointed out to the IG's staff that more detail could be added to its draft report to reflect the procedure used to compute the lower limit. The staff agreed with us and changed the draft accordingly.

California's written and oral criticisms of the auditors' methodology focused on three areas: sample size, sample stratification, and method of estimation.

- California's DSS believes the sample sizes to be too small. We believe that the effect of using small samples is adequately reflected in the sampling error and that California has been given the benefit of the doubt since the unallowable amount was based on the 95-percent confidence lower limit. DSS also believes the auditors acted inappropriately when they increased the size of the Los Angeles County non-Indochinese sample after they had already audited some of these payments. We believe this was not inappropriate as the sample's randomness was not affected.
- DSS believes that combining the six counties was improper as each county has different procedures and therefore is likely to make different types of errors. We believe that since the sample was random, all counties, all types of payments, and all types of errors had an equal probability of being selected and theoretically were selected proportionally to their frequency of occurrence.
- California's statistical consultant believes that the IG should have used a different method to project the errors found in the sample. We examined the data provided by the IG and believe that the IG used an appropriate method in this situation. While other methods could have been used, there is no reason to believe the results would have been any more defensible.

In summary, we believe the IG staff used an appropriate methodology to select payments for audit and to estimate the total payment error. While small sample sizes did result in considerable sampling error, this was adequately accounted for by using the lower limit of the confidence interval.

DSS, in responding to our draft report, reiterated that it did not agree with the IG's methodology but presented no arguments other than those already discussed. In disagreeing with the IG's methodology, DSS advised us that there should be a tolerance level for ineligible payments under RRP similar to the one which is part of the AFDC quality control process. Any change in this regard would require legislative or administrative action.

DSS also commented on the RCA recipients that the IG said should have been claimed under other federal programs. The IG found that 41 of the 806 payments sampled were improperly claimed under RRP and should have been claimed under the AFDC program. Two additional payments were made to ineligible RRP recipients who, according to the IG's report, may have been eligible for federal assistance under the Cuban-Haitian Entrant Program. The IG factored these errors in its projection of the total amount of unallowable RRP funds claimed by DSS. DSS advised us that because the IG's projection did not identify specific cases, it was being unfairly penalized because it could not submit the ineligible RCA cases for reimbursement under the AFDC or Cuban-Haitian Entrant Program.

DSS stated that during the audit period, there was much confusion regarding the type of prior refugee work experience that would be acceptable for establishing a connection with the labor force, and consequently eligibility for AFDC, and that the state was unable to obtain guidelines from either the HHS Office of Family Assistance, which is responsible for the AFDC program, or ORR.

Representatives of the IG's office advised us that their review was directed toward determining eligibility for the RCA program and that it was not their responsibility to determine whether any ineligible RCA recipients were eligible for assistance under other HHS-sponsored programs. They also stated that they had not looked into the issue of whether the state had received adequate guidance from the Office of Family Assistance concerning the types of work experiences that were acceptable for establishing refugee eligibility for the AFDC program.

They further stated, and we concur, that the issue of whether the IG's projection of unallowable RCA payments should be decreased for those cases that should have been claimed under AFDC should best be dealt with by the HHS grant appeals board, which rules on disputes between the states and HHS.

ADEQUACY OF EVIDENCE DEVELOPED BY
THE IG ON ELIGIBILITY OF REFUGEES

Although we did not verify the accuracy of the audit findings, we reviewed the evidence developed by the IG and the reasonableness of the conclusions and recommendations based on this evidence. The major finding in the IG's report is that assistance payments were sometimes made without proper documentation that the recipient was eligible for assistance. The report concludes that HHS overpaid California and recommends that California reduce the amount of its claim. We believe that the IG developed sufficient information to support a conclusion that assistance payments were made without adequate documentation of eligibility. However, the extent to which payments were made to ineligible recipients or for purposes other than those for which the funds were appropriated is not known. The state has been given the opportunity to provide additional documentation to establish whether each refugee in question met all criteria for program eligibility.

Monthly eligibility reports

The IG's report criticizes the state for not requiring the same eligibility reports for its refugee assistance recipients that it required for its AFDC recipients. The report concludes that the state has been overpaid and recommends that California reduce its claim for federal funds.

The principal basis of the IG's finding is that, since federal program instructions require that eligibility reports for refugee assistance recipients correspond to AFDC reporting requirements and California required monthly eligibility reports as a condition of eligibility for AFDC recipients, refugee assistance recipients should be required to file monthly eligibility reports.

While we agree with the IG that eligibility was not properly documented, it is possible that the refugees involved were otherwise eligible for assistance. Of 204 RCA payments reviewed in Los Angeles County, the IG questioned 136 because payments were to recipients who had not submitted eligibility reports for the month that was audited. Due to delays in implementing its

automated monthly reporting system for RCA adults, Los Angeles County did not require all RCA recipients to submit the reports. Instead, the monthly eligibility forms were mailed to RCA recipients who had previously reported income or to recipients for whom the County had obtained information from other sources indicating that they had income during the month. These individuals were asked to complete the forms and return them to DSS. If the individual had not previously reported income and DSS had no indication he or she may have had some earnings, a form may not have been mailed. The IG concluded that, because of the absence of the monthly form, the 136 payments were ineligible for federal funding. The state responded by saying that recipients were under the obligation to report any change that would affect their RCA eligibility. These changes include earned income, other types of income and benefits, and changes in family composition.

In responding to the IG's findings, the state provided information indicating that 88 percent of the 136 cited payments were eligible because recipients did not have any earned income. However, the information provided by the state was incomplete because it did not include items other than earned income that are required by the monthly eligibility report, such as strike benefits, earned income tax credit payments, free housing, and changes in household or property. The IG's report stated that the auditors had reviewed the information provided by the state and determined that they could not accept it as a substitute for monthly eligibility reports because it did not disclose goods or services received, cash received from sources other than earnings, changes in family composition, and school attendance--all of which could affect the recipient's eligibility or the amount of the assistance payment. State officials told us that they were unaware that the IG was concerned about these matters and thought that the IG's main area of concern dealt with refugee earnings, which they believed they had adequately documented.

California permitted additional time to provide documentation

The IG's report was issued to DSS on December 11, 1984, and the state was provided the customary 30 days to formally respond to the audit findings and recommendations. On January 11, 1985, DSS requested and was later granted an additional 60 days in which to respond. This additional time should give the state the opportunity to provide needed documentation regarding the eligibility status of questioned recipients.

CONCLUSIONS

We believe that the IG's sampling and estimation methodology was generally sound and in conformity with generally accepted auditing practices. The evidence developed by the IG showed that the documentation in the program files was not adequate to substantiate the eligibility of certain RCA recipients. It is possible, however, that the individuals in question were in fact eligible for program assistance. The state has been given the opportunity to submit additional documentation to establish that each refugee in question met all the criteria for program eligibility.

If, after full disclosure of any additional relevant facts obtained from alternative sources of information, ORR determines in consultation with IG officials that certain RCA recipients were eligible for program assistance, the IG should recompute the projections of ineligible cases and the amount of federal funds that should be recovered from the state.

A draft of this report was provided to the IG and to DDS for review. Their comments have been incorporated in this report, as appropriate.

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Copies of this report are being sent to the appropriate House and Senate committees; the Secretary of Health and Human Services; the Director, Office of Management and Budget; and the Governor of California.

Sincerely yours,



Richard L. Fogel
Director