



AUG - 7 2007

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

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of States' Reimbursement of the Federal Share of Aid to Families With Dependent Children Overpayment Recoveries (A-01-06-02510)

The attached final report presents the results of our review of States' reimbursement of the Federal share of Aid to Families With Dependent Children (AFDC) overpayments recovered from former AFDC recipients.

In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act replaced the AFDC program with the Temporary Assistance for Needy Families block grant program. Nevertheless, Federal regulations and guidance require States to continue to recover any outstanding overpayments made to former AFDC recipients and to submit to the Administration for Children and Families (ACF) quarterly checks for the Federal share of recovered overpayments.

Our objective was to determine whether States had complied with Federal requirements to reimburse ACF for the Federal share of AFDC overpayment recoveries.

Of the 43 States reviewed, 24 States complied with Federal requirements and reimbursed ACF \$59 million for the Federal share of AFDC overpayment recoveries from July 2002 through June 2006. Although the remaining 19 States and the District of Columbia continued to recover overpayments from former AFDC recipients after the program ended, these governments did not reimburse ACF \$28.7 million for the Federal share of their recoveries. The 19 States and the District of Columbia did not reimburse ACF as required because they did not follow ACF's program instruction on refunding the Federal share of AFDC overpayment recoveries. In addition, ACF did not have monitoring procedures to ensure that the Federal Government received its share of AFDC overpayment recoveries from all States.

We recommend that ACF:

- collect from the 19 States and the District of Columbia the Federal share of AFDC overpayment recoveries totaling \$28.7 million and

- establish monitoring procedures to ensure that the Federal Government receives its share of future State-recovered AFDC overpayments in a timely manner.

In its comments on our draft report, ACF agreed with both recommendations.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. 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, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at Joe.Green@oig.hhs.gov. Please refer to report number A-01-06-02510 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF STATES'
REIMBURSEMENT OF THE
FEDERAL SHARE OF AID TO
FAMILIES WITH DEPENDENT
CHILDREN OVERPAYMENT
RECOVERIES**



Daniel R. Levinson
Inspector General

August 2007
A-01-06-02510

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act replaced the Aid to Families With Dependent Children (AFDC) program with the Temporary Assistance for Needy Families (TANF) block grant program. The Administration for Children and Families (ACF) funded and administered AFDC and now funds and administers TANF.

Under AFDC, the Federal Government reimbursed States for at least half of the costs incurred for eligible recipients. Overpayments occurred when States paid recipients more than they were eligible to receive. Pursuant to Federal regulations (45 CFR § 233.20(a)(13)(i)), States must continue to recover any outstanding overpayments made to former AFDC recipients. However, when TANF block grants replaced the AFDC program, States no longer had a method for returning the Federal share of recovered AFDC overpayments. ACF recognized this problem and issued a program instruction requiring States to become current with ACF with regard to past-due remittances and then submit to ACF quarterly checks for the Federal share of recovered AFDC overpayments.

OBJECTIVE

Our objective was to determine whether States had complied with Federal requirements to reimburse ACF for the Federal share of AFDC overpayment recoveries.

SUMMARY OF FINDINGS

Of the 43 States reviewed, 24 States complied with Federal requirements and reimbursed ACF \$59 million for the Federal share of AFDC overpayment recoveries from July 2002 through June 2006. Although the remaining 19 States and the District of Columbia continued to recover overpayments from former AFDC recipients after the program ended, these governments did not reimburse ACF \$28.7 million for the Federal share of their recoveries. The 19 States and the District of Columbia did not reimburse ACF as required because they did not follow ACF's program instruction. In addition, ACF did not have monitoring procedures to ensure that the Federal Government received its share of AFDC overpayment recoveries from all States.

RECOMMENDATIONS

We recommend that ACF:

- collect from the 19 States and the District of Columbia the Federal share of AFDC overpayment recoveries totaling \$28.7 million and
- establish monitoring procedures to ensure that the Federal Government receives its share of future State-recovered AFDC overpayments in a timely manner.

ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In its comments on our draft report, ACF agreed with both recommendations. ACF's comments are included in their entirety as Appendix D.

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INTRODUCTION

BACKGROUND

Federal Assistance for Needy Families

Title IV-A of the Social Security Act established the Aid to Families With Dependent Children (AFDC) program to help low-income families care for their dependent children. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act replaced the AFDC program with the Temporary Assistance for Needy Families (TANF) block grant program. States were required to discontinue the AFDC program and implement TANF during a transition period that began October 1, 1996, and ended July 1, 1997.

Under AFDC, the Federal Government reimbursed States at Federal financial participation rates that covered at least half of the costs incurred for eligible recipients. Under TANF, the Federal Government provides States with block grant funds, which are predetermined, fixed amounts to help cover benefits, administrative expenses, and services for needy families.

The Administration for Children and Families (ACF) funded and administered AFDC and now funds and administers TANF. Overpayments under both programs occurred when States paid recipients more than they were eligible to receive.

Federal Reimbursement for Recovered Overpayments

Although TANF has replaced the AFDC program, Federal regulations and guidance require States to recover any outstanding overpayments made to former AFDC recipients and to reimburse ACF for the Federal share of recovered overpayments.

Before the repeal of the AFDC program, States reported the Federal share of overpayment recoveries to ACF on quarterly expenditure reports, and the grant award was adjusted to recover the Federal share of the assistance payment. Under TANF, States have some discretion in how TANF overpayments are treated, including crediting recovered overpayments against future block grant payments. When TANF block grants replaced AFDC reimbursements, States no longer had a method for returning the Federal share of recovered AFDC overpayments. ACF recognized this problem and issued a program instruction requiring States to become current with ACF with regard to past-due remittances and then submit to ACF quarterly checks for the Federal share of recovered AFDC overpayments.

Prior Office of Inspector General Audits

From 2002 to 2004, we issued 22 reports to individual States that had not reimbursed ACF a total of \$167 million for the Federal share of their AFDC overpayment recoveries. These reports covered various audit periods between July 1993 and September 2002. (See Appendix A.)

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether States had complied with Federal requirements to reimburse ACF for the Federal share of AFDC overpayment recoveries.

Scope

We obtained data on checks that ACF received from all 50 States and the District of Columbia for the Federal share of their AFDC overpayment recoveries from July 2002 through June 2006. For the States that were missing payments for 1 or more years, we expanded our review as far back as 1996, when the AFDC program ended, to include all quarters since the States' last overpayment refunds to ACF. However, for those States previously audited, we excluded from this review the previous audit periods.

We also excluded from this review four States that had already been reviewed separately and three States that required additional work. (See Appendix B). Thus, our review covered 43 States and the District of Columbia.

We limited our review of internal controls to obtaining an understanding of the procedures that ACF used to process checks and monitor recoveries of AFDC overpayments.

We performed fieldwork from June 2006 through January 2007 at ACF headquarters in the District of Columbia and at various State agencies throughout the country.

Methodology

To accomplish our objective, we:

- reviewed Federal and State laws, regulations, policies, and procedures pertaining to AFDC overpayment recoveries;
- reviewed ACF's procedures for collecting, recording, and depositing reimbursed AFDC overpayments from the States;
- analyzed lists of AFDC overpayment reimbursements that ACF had received from the States and the District of Columbia for the period July 2002 through June 2006;
- contacted the States missing 1 or more years of reimbursements to determine whether they had collected overpayments for the periods for which they did not submit reimbursements;
- reviewed State records and cash collections and receipts to verify the amount of AFDC overpayment recoveries not reimbursed;

- determined whether the States used the appropriate Federal financial participation rate to calculate the Federal share owed; and
- interviewed Federal and State program officials to determine why States had not submitted quarterly refund checks to ACF as required.

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

FINDINGS AND RECOMMENDATIONS

Of the 43 States reviewed, 24 States complied with Federal requirements and reimbursed ACF \$59 million for the Federal share of AFDC overpayment recoveries from July 2002 through June 2006. The remaining 19 States and the District of Columbia did not reimburse ACF \$28.7 million for the Federal share of their overpayment recoveries as required.

FEDERAL REQUIREMENTS

Pursuant to 45 CFR § 233.20(a)(13)(i), States must continue efforts to recover overpayments made under AFDC until the full amount has been recovered. Further, 45 CFR § 92.51(b) states that the closeout of an award does not affect the recipient's obligation to return any funds due.¹

An ACF program instruction, TANF-ACF-PI-2000-2, dated September 1, 2000, states that for recoveries of AFDC overpayments made before October 1, 1996: "States are required to repay to the Federal Government the Federal share of these recoveries." The program instruction describes actions States should take to ensure that the Federal share of all AFDC overpayment recoveries has been or is returned to ACF. The program instruction then provides that once States have paid all past-due remittances to ACF, "checks should be submitted to ACF no less frequently than quarterly."²

FEDERAL SHARE OF OVERPAYMENT RECOVERIES NOT RETURNED

Nineteen States and the District of Columbia recovered a total of \$50.5 million in AFDC overpayments from former recipients after the AFDC program ended. However, contrary to Federal requirements, these governments did not reimburse ACF the \$28.7 million Federal share of these recoveries. (See Appendix C for details on the amounts recovered and the Federal share due.)

The 19 States and the District of Columbia did not reimburse ACF because they did not follow ACF's program instruction on refunding the Federal share of AFDC overpayment recoveries. Some States reported that because of staff turnover, they were unaware of the requirement to separately track and refund AFDC overpayments. Other States did not have identifiers in their

¹Prior to September 8, 2003, these State grants were subject to the uniform administrative rules in part 74 rather than part 92 as is now the case; however, the language of sections 74.72(a)(2) and 92.51(b) is the same.

²This program instruction rescinded two prior program instructions on overpayment recoveries: TANF-ACF-PI-99-2 (March 9, 1999) and TANF-ACF-PI-99-2 (Revised) (May 1, 2000).

systems to distinguish AFDC overpayments from TANF overpayments and thus treated both AFDC and TANF overpayments as TANF overpayments.³ Although States are required to use TANF overpayments for TANF costs, States are not required to repay any portion of TANF overpayments to the Federal Government.⁴

In addition, ACF did not have monitoring procedures to ensure that the Federal Government received its share of recovered AFDC overpayments from all States. Specifically, ACF had not designated any staff to follow up on whether all States had submitted quarterly payments and did not maintain a centralized list of AFDC overpayment checks received from the States.

RECOMMENDATIONS

We recommend that ACF:

- collect from the 19 States and the District of Columbia the Federal share of AFDC overpayment recoveries totaling \$28.7 million and
- establish monitoring procedures to ensure that the Federal Government receives its share of future State-recovered AFDC overpayments in a timely manner.

ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In its comments on our draft report, ACF agreed with both recommendations. ACF stated that it had collected either full or partial payments from 12 States and the District of Columbia and that it had contacted the 7 other States and made them aware of their responsibility. ACF also stated that it would put procedures in place to track and monitor the States' return of AFDC overpayments. Specifically, the regional offices will request States to provide a payment schedule and quarterly reports of AFDC overpayment collections, as well as copies of all check(s) with supporting documentation.

ACF's comments are included in their entirety as Appendix D.

³The Department of Health and Human Services, Departmental Appeals Board, concluded that a State could not use AFDC overpayment recoveries to augment the State's TANF grant. Texas Department of Human Services, Dec. No. 1954 (December 15, 2004).

⁴ACF program instruction TANF-ACF-PI-2000-2, dated September 1, 2000.

APPENDIXES

PRIOR OFFICE OF INSPECTOR GENERAL AUDITS

| State | Report Number ¹ | Audit Period | Federal Share Due |
|------------------------------------|----------------------------|---------------|----------------------|
| New York – New York City | A-02-01-02000 | 12/96 – 09/01 | \$33,583,107 |
| New York – Five Counties | A-02-02-02001 | 12/96 – 04/02 | 1,784,095 |
| Virginia | A-03-01-00251 | 10/96 – 09/02 | 1,221,494 |
| Alabama | A-04-01-00008 | 07/93 – 03/01 | 11,517 |
| Tennessee | A-04-01-00009 | 07/97 – 10/01 | 938,015 |
| Illinois | A-05-01-00030 | 07/96 – 12/00 | 22,186,951 |
| Ohio | A-05-01-00101 | 07/96 – 09/01 | 17,184,240 |
| Wisconsin | A-05-02-00031 | 07/96 – 09/01 | 10,711,338 |
| Michigan | A-05-02-00060 | 07/96 – 06/02 | 18,440,840 |
| Texas | A-06-01-00035 | 10/96 – 05/01 | 12,985,928 |
| Louisiana | A-06-01-00073 | 10/96 – 06/01 | 1,094,708 |
| Arkansas | A-06-02-00028 | 07/97 – 01/02 | 1,000,000 |
| Oklahoma | A-06-02-00029 | 04/97 – 03/02 | 1,678,297 |
| New Mexico | A-06-02-00030 | 07/97 – 06/01 | 3,433,253 |
| Iowa | A-07-02-03012 | 10/96 – 06/01 | 1,616,368 |
| Nebraska | A-07-02-03013 | 10/96 – 09/00 | 71,865 |
| Missouri | A-07-02-03014 | 10/96 – 10/01 | 3,193,331 |
| Wyoming | A-08-01-01049 | 10/95 – 06/01 | 41,136 |
| Utah | A-08-02-03004 | 10/96 – 06/01 | 1,419,200 |
| California – San Bernardino County | A-09-01-00103 | 10/96 – 07/01 | 5,200,106 |
| California – Los Angeles County | A-09-02-00072 | 10/96 – 12/01 | 23,980,126 |
| California – San Diego County | A-09-02-00094 | 10/96 – 06/02 | 5,344,226 |
| Total | | | \$167,120,141 |

¹These reports are available at <http://oig.hhs.gov/>.

SEVEN STATES EXCLUDED FROM CURRENT REVIEW

FOUR STATES THAT WERE REVIEWED SEPARATELY

We issued the following reports under separate cover to Vermont, Connecticut, Maine, and Massachusetts:

| <u>Title¹</u> | <u>Date Issued</u> |
|---|--------------------|
| “Review of Aid to Families With Dependent Children Overpayments in Vermont for the Period October 2001 Through March 2005” (A-01-06-02505) | January 2006 |
| “Review of Aid to Families With Dependent Children Overpayments in Connecticut for the Period April 2001 Through March 2005” (A-01-05-02501) | March 2006 |
| “Review of Aid to Families With Dependent Children Overpayments in Maine for the Period April 2001 Through March 2005” (A-01-06-02504) | December 2006 |
| “Review of Aid to Families With Dependent Children Overpayments in Massachusetts for the Period April 2001 Through March 2005” (A-01-06-02508) | April 2007 |

THREE STATES THAT REQUIRE SEPARATE REVIEWS

Alaska, New Jersey, and New York require additional audit work and therefore are not included in this review. We are working with the Administration for Children and Families (ACF) to resolve Alaska’s reimbursement of Aid to Families With Dependent Children (AFDC) overpayments. We are also performing a review in New York and are planning a review in New Jersey.

¹These reports are available at <http://oig.hhs.gov/>.

STATES THAT HAVE NOT REIMBURSED THE FEDERAL GOVERNMENT

| State | Period Not Reimbursed | Total Amount Recovered | Federal Share Due |
|-----------------------|--------------------------|---------------------------|----------------------|
| Pennsylvania | 10/01/96 – 6/30/06 | \$10,598,095 | \$5,609,572 |
| Florida | 10/01/96 – 6/30/06 | 6,573,389 | 3,663,350 |
| Maryland ¹ | 10/01/96 – 9/30/06 | 6,870,902 | 3,435,451 |
| Texas | 6/01/01 – 9/30/05 | 5,437,985 | 3,387,865 |
| Washington | 10/01/00 – 6/30/06 | 6,471,033 | 3,247,812 |
| New Mexico | 7/01/02 – 6/30/06 | 3,431,741 | 2,500,710 |
| Oregon | 10/01/96 – 6/30/06 | 3,868,453 | 2,360,143 |
| Kentucky | 10/01/96 – 6/30/06 | 1,342,254 | 943,605 |
| West Virginia | 10/01/96 – 6/30/06 | 970,302 | 710,844 |
| Virginia | 10/01/02 – 6/30/06 | 1,192,779 | 612,731 |
| Arizona | 1/01/04 – 6/30/06 | 809,684 | 533,177 |
| Minnesota | 7/01/05 – 3/31/06 | 727,202 | 392,180 |
| Georgia | 7/01/05 – 6/30/06 | 578,872 | 358,322 |
| Nevada | 10/01/96 – 6/30/06 | 680,903 | 340,452 |
| District of Columbia | 10/01/96 – 6/30/06 | 353,680 | 176,840 |
| Idaho | 10/01/96 – 6/30/06 | 221,433 | 152,301 |
| Utah | 7/01/05 – 6/30/06 | 205,822 | 150,683 |
| Iowa | 7/01/05 – 6/30/06 | 98,505 | 63,260 |
| Nebraska | 4/01/03 – 6/30/06 | 46,746 | 27,809 |
| Arkansas | 4/01/05 – 9/30/05 | 20,075 | 14,777 |
| Total | | \$50,499,856 | \$28,681,881 |

¹ACF worked with Maryland to identify the Federal share of AFDC overpayment recoveries owed and requested that we verify its findings as part of this review.



DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
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Washington, D.C. 20447

JUL 03 2007

TO: Daniel R. Levinson
Inspector General

FROM: Daniel C. Schneider *Brent R. Quinn for*
Acting Assistant Secretary
for Children and Families

SUBJECT: Office of Inspector General's Draft Report Titled, "Review of States' Reimbursement of the Federal Share of Aid to Families with Dependent Children Overpayment Recoveries" (A-01-06-02510)

Attached are comments of the Administration for Children and Families on the above-referenced draft report.

Should you have questions or need additional information, please contact Tony Hardy, Director, Office of Grants Management, at 202-401-9231.

Attachment

**COMMENTS OF THE ADMINISTRATION FOR CHILDREN AND FAMILIES
ON THE OFFICE OF INSPECTOR GENERAL DRAFT REPORT TITLED,
“REVIEW OF STATES’ REIMBURSEMENT OF THE FEDERAL SHARE OF
AID TO FAMILIES WITH DEPENDENT CHILDREN OVERPAYMENT
RECOVERIES” (A-01-06-02510)**

The Administration for Children and Families (ACF) appreciates the opportunity to comment on the Office of Inspector General (OIG) draft report.

OIG Recommendations

We recommend that ACF:

- collect from the 19 States and the District of Columbia the Federal share of AFDC overpayment recoveries totaling \$28.7 million and
- establish monitoring procedures to ensure that the Federal Government receives its share of future State-recovered AFDC overpayments in a timely manner.

ACF Comments

ACF is firmly committed to ensuring that States are held accountable for collecting and repaying overpayments made to families under the Aid to Families with Dependent Children (AFDC) program and the Temporary Assistance for Needy Families (TANF) program. In fact, on June 20, 2006, ACF updated and reissued its policy regarding the treatment of overpayment recoveries received by States and Territories from individuals who received cash assistance benefits to which they were not entitled, either under the former AFDC program or the current TANF program (TANF-ACF-PI-2006-03). When ACF issued the last Program Instruction (PI) on this subject (TANF-ACF-PI-2000-2, dated September 1, 2000), ACF anticipated that States could complete an analysis of AFDC overpayments and remit the Federal share of those amounts to ACF by December 31, 2000. Several years later, many States continue to collect and remit AFDC overpayments.

ACF’s Regional Offices (RO) along with the Office of Grants Management (OGM) has now established a more active role to ensure that States return the AFDC overpayments. Specific procedures will be put in place to track and monitor this activity. Each RO will request its States to provide the RO with a payment schedule and quarterly reports of AFDC overpayment collections as well as copies of all check(s) with supporting documentation. The Program Support Center (PSC) will send a quarterly report to ACF’s Office of Administration and to OGM of all collections. Thereafter, ACF will monitor actual collections against the quarterly reports from PSC.

In addition, from your list of 19 States owing AFDC overpayments, ACF has collected either full or partial payments from approximately 12 States and the District of Columbia.

The other seven States have been contacted and are aware of their responsibility. ACF will continue its efforts to collect AFDC overpayments.