

**Memorandum**

Date JAN 28 2002  
From Janet Rehnquist  
Inspector General *Janet Rehnquist*  
Subject Reviews of Three States' Systems and Procedures for Recovering and Refunding  
Overpayments Made Under the Aid to Families with Dependent Children Program  
(CINs: A-06-01-00035, A-06-01-00073 and A-05-01-00030)  
To  
Wade F. Horn, Ph.D.  
Assistant Secretary for Children and Families

As part of self-initiated audits by the Office of Inspector General, we are alerting you to the issuance on January 29, 2002, of three final audit reports related to the recovery of Aid to Families with Dependent Children (AFDC) overpayments by the States of Texas, Louisiana and Illinois. In total, we are recommending recovery of about \$31 million. Copies of the reports are attached.

The objective of these reviews was to determine whether the States properly collected and refunded AFDC overpayment recoveries to the Federal Government. State agencies are required to pursue AFDC overpayments made prior to October 1, 1996 and make appropriate refunds to the Federal Government. Also, collections of overpayments occurring after that date are to be used to offset Temporary Assistance to Needy Families (TANF) expenditures in the year collected.

Generally, the three States had systems to identify and collect AFDC overpayments but did not refund to the Federal Government its proportionate share of those collections. Two of the States (Louisiana and Illinois), agreed to refund a total of \$17 million (LA \$1 million; IL \$16 million). While Texas agreed with the data analysis in determining the amount involved (\$14 million), it did not believe that repayment was necessary since it sees the Federal guidance on this matter to be contradictory and applied retroactively. We believe that the regulations were clear on what was required of the States for the applicable time period.

In addition, we found that Illinois did not follow program instructions regarding collections of overpayments occurring after implementation of TANF. Such collections should be offset against TANF expenditures for the fiscal year in which the overpayment occurred. We identified \$3.4 million for offset. The State agreed to formalize its internal process to ensure that these collections are properly handled. The State believes however, that amounts collected were used to offset the TANF expenditures but could not provide supporting documentation.

Page 2 – Wade F. Horn, Ph.D.

The results we found in these three States are consistent with reviews we have made or are making in other States. An earlier memorandum to you, dated August 22, 2001, summarized our findings for the six States in Region I in which those States had not refunded the Federal share of AFDC collections amounting to \$13 million. Subsequently, those amounts have been repaid by the States.

We expect to issue additional reports within the next few months of other States we have reviewed and will provide you with those results as well. Since it appears that States have not been remitting the Federal share of collected AFDC overpayments, we may initiate other reviews as staff become available.

Any questions or comments on any aspect of this memorandum are welcome. Please call me or have your staff contact Donald L. Dille, Assistant Inspector General for Administrations of Children, Family, and Aging Audits, at (202) 619-1175.

Attachments (3)

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF TEXAS DEPARTMENT  
OF HUMAN SERVICES' SYSTEMS  
AND PROCEDURES FOR  
RECOVERING AND REFUNDING  
OVERPAYMENTS MADE UNDER  
THE AID TO FAMILIES WITH  
DEPENDENT CHILDREN PROGRAM**



**JANET REHNQUIST**  
Inspector General

**JANUARY 2002**  
A-06-01-00035



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services  
1100 Commerce, Room 6B6  
Dallas, TX 75242-1027

Common Identification Number: A-06-01-00035

Mr. James R. Hine  
Commissioner  
Texas Department of Human Services  
701 W. 51<sup>st</sup> Street  
Austin, Texas 78751

Dear Mr. Hine:

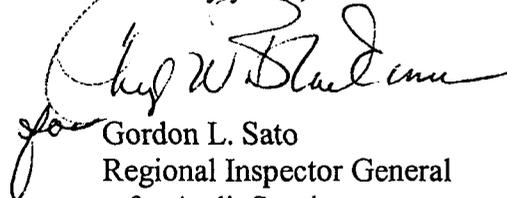
Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled "Review of Texas Department of Human Services' Systems and Procedures for Recovering and Refunding Overpayments Made Under the Aid to Families with Dependent Children Program." A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

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

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-06-01-00035 in all correspondence relating to this report.

Sincerely yours,

  
Gordon L. Sato  
Regional Inspector General  
for Audit Services

Enclosure – as stated

Direct Reply to HHS Action Official:

Mr. Leon R. McCowan  
Regional Hub Director  
Administration for Children and Families  
U.S. Department of Health and Human Services  
1301 Young Street, Suite 914  
Dallas, Texas 75202



Common Identification Number: A-06-01-00035

Mr. James R. Hine  
Commissioner  
Texas Department of Human Services  
701 W. 51<sup>st</sup> Street  
Austin, Texas 78751

Dear Mr. Hine:

This report provides you with the results of our review of Texas Department of Human Services' (TDHS) systems and procedures for recovering and refunding overpayments made under the Aid to Families with Dependent Children (AFDC) program. The objectives of the review were to determine whether TDHS has systems and procedures to: (1) properly identify, collect and report AFDC overpayment recoveries, and (2) refund the correct amount of AFDC overpayment recoveries to the Federal Government.

The TDHS has systems that identify, collect and report various overpayment recoveries. However, these systems do not separately identify recoveries of AFDC overpayments. As a result, TDHS does not have a process in place to refund the Federal share of the AFDC overpayment collections to the Federal Government.

A TDHS analysis determined that from October 1, 1996 through May 31, 2001 a total of \$22.1 million has been recovered in AFDC overpayments made prior to October 1, 1996. Of that amount, \$14.6 million was from cash restitutions and \$7.5 million in recoupments (reduction of benefits). However, the Federal share of \$13.8 million of the recoveries was not refunded in accordance with Federal requirements. We verified that the data used to determine the AFDC overpayment recoveries was accurate.

As a result, we are recommending that TDHS: (1) refund \$13.8 million to the Administration for Children and Families (ACF) in accordance with Federal requirements, (2) begin to separately identify AFDC overpayment recoveries, and (3) refund the Federal share of subsequent AFDC recoveries to ACF in the form of a check at least quarterly.

In response to our draft report, TDHS stated that it was not able to comply with Federal requirements because instructions were contradictory and retroactive. As a result, TDHS does not agree with the recommendation to refund by check the \$13.8 million in AFDC overpayments it collected during the period October 1, 1996 through May 31, 2001. See Appendix B for complete text of auditee comments.

The requirements under the former AFDC program regarding the collection of overpayments by the States have been clearly defined—States are obligated to recover overpayments. The basic issue is what action the States need to take regarding these recoveries. We believe that TDHS should have been following the most recent Federal guidance that rescinded previous program instructions. This latest guidance stated that there had been no change in the former AFDC requirement that States must return to the Federal government the computed Federal share of recoveries that are made on outstanding overpayments occurring prior to October 1, 1996. Therefore, we continue to believe that our recommendations are valid.

## **BACKGROUND**

Title IV-A of the Social Security Act established the AFDC program to encourage the care of dependent children of low-income families in their homes. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act replaced the AFDC program with the Temporary Assistance for Needy Families (TANF) program. The Administration for Children and Families (ACF) provides funding for and administers both programs.

Federal regulations for AFDC require States to collect overpayments until the full amount has been received. Although the AFDC program was replaced by TANF, a number of AFDC overpayments remain outstanding and State agencies are still obligated to pursue and recover any uncollected amounts. The regulations also require that State agencies maintain information on the individual and total number and amount of overpayments identified and their disposition for current and former recipients.

Federal guidance, in the form of program instructions issued March 1999, May 2000 and September 2000, reiterated that there has been no change in the former AFDC program requirements that State agencies were obligated to pursue AFDC overpayments made prior to October 1, 1996 and make refunds to the Federal government. The May 2000 instructions did indicate that for recoveries made after September 30, 1996, the full amount of the recovered overpayments was to be retained by the State and used for TANF program costs. The program instructions did not specifically indicate that this pertained to the recovery of overpayments occurring prior to October 1996.

The September 2000 guidance rescinded the prior guidance and required States to repay the Federal share of collected AFDC overpayments by December 31, 2000 via check based on the FMAP rate in effect for the State during fiscal year 1996. States that had not been properly tracking recovery of AFDC overpayments made prior to October 1, 1996 are to perform an analysis of their accounts receivable systems to identify all recoveries made either by recoupment or cash collections and pay the Federal share of the recovered amounts to ACF via check by December 31, 2000. After a State becomes current with remitting past due AFDC overpayment recoveries, it is required to remit the Federal share of current AFDC recoveries to ACF via check no less frequently than quarterly.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of the review were to determine whether TDHS has systems and procedures to: (1) properly identify, collect and report AFDC overpayments made prior to October 1, 1996, and (2) refund the correct amount of AFDC overpayment recoveries to the Federal Government.

To accomplish our objectives, we:

- reviewed the policies and procedures established by TDHS to identify and recover overpayments;
- reviewed overpayment recovery transactions to evaluate the effectiveness of the policies and procedures;
- traced recoveries of AFDC and TANF overpayments to the TDHS accounting system; and
- interviewed TDHS officials to determine if AFDC overpayment recoveries were being refunded to the Federal Government.

Our review was performed in accordance with generally accepted government auditing standards.

Our review of TDHS's internal controls was limited to obtaining an understanding of the policies and procedures applicable to the identification, collection and reporting of overpayments. We performed our fieldwork at the Texas Department of Human Services in Austin, Texas from April through July 2001.

## **RESULTS OF REVIEW**

The TDHS has not refunded AFDC overpayment recoveries in accordance with Federal requirements. The TDHS did not modify its existing accounts receivable system to separately identify AFDC overpayments and recoveries when the AFDC program ended effective September 30, 1996 and the TANF program began.

### **Federal Requirements**

Federal regulations for AFDC require States to collect overpayments until the full amount has been received. Prior to TANF, the Federal share of collected overpayments were reported on Federal form ACF-231 and offset against future Federal financial participation in the AFDC program. However, when TANF replaced AFDC, States no longer had that reporting process to repay the Federal share of collected AFDC overpayments because the program was block granted.

Federal guidance requires States to analyze their accounts receivable systems to identify all recoveries made either by recoupment or cash collections for overpayments made prior to October 1, 1996 and repay the Federal share of collected AFDC overpayments by December 31, 2000 via check based on the FMAP rate in effect for the State during fiscal year 1996. After a State becomes current with remitting past due AFDC overpayment recoveries, it is required to remit the Federal share of current AFDC recoveries to ACF via check no less frequently than quarterly.

### **TDHS Accounts Receivable System**

We sampled and reviewed selected transactions to evaluate the systems used by TDHS to identify, collect and report AFDC overpayment recoveries. These transactions included overpayments and recoveries that occurred before and after the AFDC program ended.

The AFDC overpayments recovered after the AFDC program ended were improperly used to reduce TANF program expenditures instead of being refunded in accordance with Federal requirements. The accounts receivable system identifies the amount of overpayments, the dates the overpayments occurred and the method to be used to recover the overpayments. In addition, the system records the recovery of overpayments by cash restitutions and recoupments (reductions of benefits). However, the system does not identify whether the overpayment or recovery relates to the AFDC or TANF program. As a result, overpayment recoveries identified in the accounts receivable system relating to these programs are recorded as negative expenditures to the TANF program.

### **TDHS Analysis**

The TDHS completed an analysis that determined that AFDC and TANF overpayments totaling \$29.5 million were recovered during the period October 1, 1996 through May 31, 2001. Of this total, \$22.1 million relates to AFDC overpayments that were made prior to October 1, 1996 for which the Federal share is \$13.8 million. We verified that the data used to determine the AFDC overpayment recoveries was accurate. See Appendix for the restitution and recoupment amounts.

### **RECOMMENDATIONS**

We recommend that TDHS:

- (1) refund \$13.8 million to ACF via check in accordance with Federal requirements;
- (2) begin to separately identify AFDC overpayment recoveries; and
- (3) refund the Federal share of subsequent AFDC recoveries to ACF in the form of a check at least quarterly.

## TDHS COMMENTS AND OIG RESPONSE

### TDHS Comments

The TDHS provided comments to our draft report in a letter dated November 9, 2001 (see Appendix B). The TDHS agrees with the analysis of the data in its system, but does not agree with the recommendation to refund by check the Federal share of AFDC overpayments it collected after October 1, 1996. In addition, TDHS states that it would have been out of compliance no matter what action it took because ACF program instructions were contradictory and contained retroactive wording. Furthermore, TDHS contends that the correct direction it should follow was not clear until it was provided the September 1, 2000 Program Instruction by the OIG auditor.

### OIG Response

The requirements under the former AFDC program regarding the collection of overpayments by the States have been clearly defined. States are obligated to recover overpayments and remit to the Federal Government its proportionate share. This requirement remained in effect after TANF was implemented. In March 1999, ACF issued Program Instructions on this matter which only confirmed what the States should have been doing during the preceding two years.

If TDHS had followed the initial program guidance, it should have refunded recoveries for overpayments occurring prior to October 1996 to the Federal government at least until May 2000. There would have only been about a 4 month period of time that TDHS should have been retaining the Federal share of the recoveries under its interpretation of the May 2000 instructions until the latest guidance was issued. However, at time of our review, TDHS had not made any refunds to the Federal Government for recoveries of overpayments made prior to October 1, 1996. Although TDHS indicates that it never received the latest guidance, this guidance was issued to all States and TDHS should have been aware of these instructions. Therefore, we continue to believe that our recommendations are valid.

Sincerely,

  
for Gordon L. Sato  
Regional Inspector General  
for Audit Services

# **APPENDICES**

## Appendix A

### Overpayment Recoveries (October 1, 1996 through May 31, 2001)

	<u>Restitutions</u>	<u>Recoupments</u>	<u>Total</u>
Total AFDC and TANF	\$18,076,628	\$11,423,046	\$29,499,674
AFDC Only *	\$14,572,410	\$ 7,559,542	\$22,131,952
Federal Share of AFDC *	\$ 9,078,612	\$ 4,709,595	\$13,788,207

\*Overpayments made prior to October 1, 1996



TEXAS  
Department of  
Human Services

COMMISSIONER  
James R. Hine

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Midland

November 9, 2001

Mr. Gordon L. Sato  
Regional Inspector General  
for Audit Services  
Office of Audit Services  
1100 Commerce, Room 6B6  
Dallas, Texas 75242

Dear Mr. Sato:

Re: Common Identification Number: A-06-01-00035

Thank you for an opportunity to respond to the draft report of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' "Review of Texas Department of Human Services' Systems and Procedures for Recovering and Refunding Overpayments Made Under the Aid to Families With Dependent Children Program." The description of the department's tracking system is accurate as well as the analysis of the data from that system. However, the department does take exception to the reasonableness of the report's recommendations regarding the retroactive payment of AFDC overissuances.

No instructions, written or otherwise, were received from HHS Administration for Children & Families (HHS-ACF) until TANF-ACF instruction 99-2, dated March 9, 1999 was issued. The March 9<sup>th</sup> instruction was rescinded when TANF-ACF program instruction 99-2 (revised) was issued on May 1, 2000. This instruction allowed states to credit all recoveries regardless of when the overpayment occurred to the current fiscal year grant. The department has followed this policy both prior to and following May 1, 2000. HHS-ACF again reversed itself when HHS-ACF program instruction 2000-2, dated September 1, 2000 was issued. This Instruction requires states to repay to HHS-ACF, by check, the Federal share of recoveries of overpayments made before October 1, 1996. Recoveries on overpayments made after October 1, 1996 are to be credited against the current grant in the fiscal year in which the overpayment was recovered.

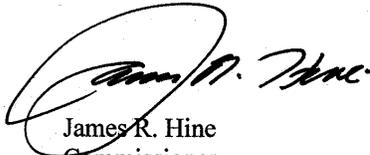
The contradictory program instructions that were received years after the October 1, 1996 implementation of TANF meant that whatever direction the department followed, it would be out of compliance. Moreover, the retroactive wording of these instructions meant that the department would allegedly be out of compliance back to October 1, 1996. Not until the September 1, 2000

Mr. Gordon L. Sato  
November 9, 2001  
Page 2

program instruction was provided by the HHS auditor to department staff was it clear which direction to follow. Accordingly, the department takes issue with the recommendation that it refund by check the federal share of all AFDC overissuances collected after October 1, 1996.

The department hopes to reach an equitable resolution of this matter.

Sincerely,



James R. Hine  
Commissioner

JRH:bh

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF LOUISIANA'S  
DEPARTMENT OF SOCIAL SERVICES'  
SYSTEMS AND PROCEDURES FOR  
RECOVERING AND REFUNDING  
OVERPAYMENTS MADE UNDER THE  
AID TO FAMILIES WITH DEPENDENT  
CHILDREN PROGRAM**



**JANET REHNQUIST  
Inspector General**

**JANUARY 2002  
A-06-01-00073**



Common Identification Number: A-06-01-00073

Ms. Renea Austin-Duffin  
Secretary  
Louisiana Department of Social Services  
Post Office Box 3776  
Baton Rouge, Louisiana 70821-3776

Dear Ms Austin-Duffin:

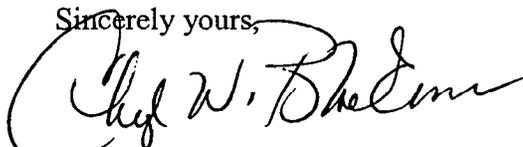
Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled "Review of Louisiana's Department of Social Services' Systems and Procedures for Recovering and Refunding Overpayments Made Under the Aid to Families With Dependent Children (AFDC) program. A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

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

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-06-01-00073 in all correspondence relating to this report.

Sincerely yours,

  
for Gordon L. Sato  
Regional Inspector General  
for Audit Services

Enclosure – as stated

Direct Reply to HHS Action Official:

Mr. Leon R. McCowan  
Regional Hub Director  
Administration for Children and Families  
U.S. Department of Health and Human Services  
1301 Young Street, Suite 914  
Dallas, Texas 75202



Common Identification Number: A-06-01-00073

Ms. J. Renea Austin-Duffin  
Secretary  
Louisiana Department of Social Services  
Post Office Box 3776  
Baton Rouge, Louisiana 70821-3776

Dear Ms. Austin-Duffin:

This report provides you with the results of our review of Louisiana's Department of Social Services' (DSS) systems and procedures for recovering and refunding overpayments made under the Aid to Families with Dependent Children (AFDC) program. The objectives of the review were to determine whether DSS has systems and procedures to: (1) properly identify, collect and report AFDC overpayment recoveries, and (2) refund the correct amount of AFDC overpayment recoveries to the Federal Government.

The DSS has systems that identify, collect and report overpayment recoveries. However, DSS did not correctly calculate the Federal share of cash restitutions and did not properly refund recoupments (benefit offsets) to the Federal Government. The Federal share of cash restitutions was understated by \$1,621 because an incorrect Federal Medical Assistance Percentage (FMAP) rate was used to calculate the refunds. In addition, recoupments (benefit offsets) totaling \$1,502,512 (\$1,093,096 Federal share) were improperly credited to the Temporary Assistance for Needy Families (TANF) program.

As a result, we are recommending that DSS: (1) refund \$1,094,717 to the Administration for Children and Families (ACF) in accordance with Federal requirements, (2) apply the correct FMAP rate to AFDC overpayment recoveries, and (3) refund the Federal share of subsequent AFDC overpayment recoveries in the form of a check at least quarterly.

In response to our draft report, DSS has agreed with each OIG recommendation to refund \$1,094,717, apply the correct FMAP rate to AFDC overpayment recoveries and establish procedures to return AFDC overpayment recoveries on a quarterly basis. See Appendix for a complete copy of DSS' response.

## **BACKGROUND**

Title IV-A of the Social Security Act established the AFDC program to encourage the care of dependent children of low-income families in their own homes. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act replaced the AFDC program with the Temporary Assistance for Needy Families (TANF) program. The ACF provides funding for and administers both programs.

Federal regulations for AFDC require States to collect overpayments until the full amount has been received. Although the AFDC program was replaced by TANF, a number of AFDC overpayments remain outstanding and State agencies are still obligated to pursue and recover any uncollected amounts. The regulations also require that State agencies maintain information on the individual and total number and amount of overpayments identified and their disposition for current and former recipients.

Federal guidance issued March 1999 and also in September 2000, requires States to repay the Federal share of collected AFDC overpayments by December 31, 2000 via check based on the FMAP rate in effect for the State during fiscal year 1996.

States that had not been properly tracking recovery of AFDC overpayments made prior to October 1, 1996 are to perform an analysis of their accounts receivable systems to identify all recoveries made either by recoupment or cash collections and pay the Federal share of the recovered amounts to ACF via check by December 31, 2000. After a State becomes current with remitting past due AFDC overpayment recoveries, it is required to remit the Federal share of current AFDC recoveries to ACF via check no less frequently than quarterly.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of the review were to determine whether DSS has systems and procedures to: (1) properly identify, collect and report AFDC overpayment recoveries, and (2) refund the correct amount of AFDC overpayment recoveries to the Federal Government.

To accomplish our objectives, we:

- reviewed the policies and procedures established by DSS to identify and recover overpayments;
- reviewed overpayment recovery transactions to evaluate the effectiveness of the policies and procedures;
- traced recoveries of AFDC and TANF overpayments to the DSS accounting systems;

- reviewed the calculation of the Federal share of AFDC overpayment recoveries reported and refunded to ACF; and
- interviewed DSS officials to determine if AFDC overpayment recoveries were being refunded to the Federal Government.

Our review was performed in accordance with generally accepted government auditing standards.

Our review of DSS' internal controls was limited to obtaining an understanding of the policies and procedures applicable to the identification, collection and reporting of overpayments. We performed our fieldwork at the Louisiana Department of Social Services in Baton Rouge, Louisiana from July through August 2001.

## **RESULTS OF REVIEW**

The DSS has not refunded AFDC overpayment recoveries in accordance with Federal requirements. The DSS used an incorrect FMAP rate to calculate the Federal share of cash restitutions. In addition, recoupments were improperly used to reduce TANF program expenditures.

### **Federal Requirements**

Federal regulations for AFDC require States to collect overpayments until the full amount has been received. Prior to TANF, the Federal share of collected overpayments was reported on Federal form ACF-231 and offset against future Federal financial participation in the AFDC program. However, when TANF replaced AFDC, States no longer had that reporting process to repay the Federal share of collected AFDC overpayments because the program was block granted.

Federal guidance requires States to analyze their accounts receivable systems to identify all recoveries made either by recoupment or cash collections and repay the Federal share of collected AFDC overpayments by December 31, 2000 via check based on the FMAP rate in effect for the State during fiscal year 1996. After a State becomes current with remitting past due AFDC overpayment recoveries, it is required to remit the Federal share of current AFDC recoveries to ACF via check no less frequently than quarterly.

### **DSS Recovery Accounts System**

We sampled and reviewed selected transactions to evaluate the systems used by DSS to identify, collect and report AFDC overpayment recoveries. These transactions included overpayments and recoveries that occurred before and after the AFDC program ended. We also reviewed financial records and interviewed DSS staff to determine if the correct

Federal share of AFDC overpayment recoveries was refunded to the Federal Government.

The recovery accounts system identifies the overpayment amounts, the dates the overpayments occurred, the method to be used to recover the overpayments, and refunds the Federal share of overpayments recovered by cash restitutions. However, DSS used an incorrect FMAP rate to calculate the Federal share of cash restitutions. In addition, the overpayments recovered by recoupments were improperly used to reduce TANF program expenditures.

### **DSS Recoupments**

From October 1, 1996 through June 30, 2001, DSS recovered a total of \$1,520,512 in recoupments related to AFDC overpayments. The DSS offset the total amount against TANF program expenditures instead of refunding the Federal share in accordance with Federal requirements. As a result, the Federal share of \$1,093,096 was not refunded to the Federal Government.

### **DSS Restitutions**

From October 1, 1996 through June 30, 2001, DSS recovered a total of \$1,002,461 in cash restitutions related to AFDC overpayments. The DSS refunded the Federal share of \$719,048 to the Federal Government based on an incorrect FMAP rate. The DSS should have refunded \$720,669 based on the fiscal year 1996 FMAP rate of 71.89 percent. As a result, the amount refunded to the Federal Government was understated by \$1,621.

## **RECOMMENDATIONS**

We recommend that the Louisiana Department of Social Services:

- 1) refund \$1,093,096, the Federal share of recoupments, to ACF in accordance with Federal requirements;
- 2) refund \$1,612, the understated Federal share of restitutions, to ACF in accordance with Federal requirements;
- 3) apply the correct FMAP rate to all AFDC overpayment recoveries; and
- 4) refund the Federal share of subsequent AFDC recoveries to ACF in the form of a check at least quarterly.

**DSS COMMENTS AND OIG RESONSE**

**DSS Comments**

The DSS provided comments to our draft in a letter dated November 28, 2001 (see Appendix). The DSS agrees with our recommendations to refund \$1,094,717 to ACF, apply the correct FMAP rate to AFDC overpayment recoveries and refund the Federal share of subsequent AFDC overpayment recoveries in the form of a check at least quarterly.

**OIG Response**

There is no OIG response since DSS agrees with all recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Gordon L. Sato", with a long horizontal line extending to the right.

Gordon L. Sato  
Regional Inspector General  
for Audit Services

# APPENDIX



State of Louisiana  
Department of Social Services  
OFFICE OF THE SECRETARY  
755 THIRD STREET 2<sup>ND</sup> FLOOR  
P.O. BOX 3776 - PHONE - 225/342-0286  
BATON ROUGE, LOUISIANA 70821-0000

M. J. "MIKE" FOSTER, JR.  
GOVERNOR

GWENDOLYN P. HAMILTON  
SECRETARY

November 28, 2001

Gordon L. Sato  
Regional Inspector General  
Office of Audit Services  
1100 Commerce, Room 6B6  
Dallas, Texas 75242-1027

Dear Mr. Sato:

**RE: Common Identification Number: A-06-01-00073**

We agree with the results of this review. We have taken the corrective actions necessary to implement the recommendations cited.

Recommendations

- 1) We are issuing a check to ACF dated 11-30-01 in the amount of \$1,621.
- 2) We are issuing a check to ACF dated 11-30-01 in the amount of \$1,093,096.
- 3) Since the implementation of TANF, the FMAP rate of 71.89% has been used to fund AFDC recoveries, cancellations, refunds, etc.
- 4) We have new procedures to return the recoupments to ACF on a quarterly basis effective immediately.

Please address any questions or comments to Ronald F. Patty of my staff at (225) 342-4247.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gwendolyn P. Hamilton".

Gwendolyn P. Hamilton  
Secretary

GPH/CS/vm

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF AFDC OVERPAYMENT  
RECOVERIES**

**ILLINOIS DEPARTMENT OF HUMAN  
SERVICES  
SPRINGFIELD, ILLINOIS**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**JANUARY 2002  
A-05-01-00030**



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

REGION V  
OFFICE OF  
INSPECTOR GENERAL

Common Identification Number A-05-01-00030

Ms. Linda Renee-Baker, Secretary  
Illinois Department of Human Services  
100 South Grand Avenue, East  
Springfield, Illinois 62762

Dear Ms Renee-Baker:

This letter report presents the results of our Review of Aid to Families with Dependent Children (AFDC) Overpayment Recoveries. The objectives of our review were to determine whether the Illinois Department of Human Services' (IDHS) practices for identifying, collecting, reporting, and remitting or reprogramming AFDC overpayments were in accordance with Federal requirements.

We determined that IDHS had recovered AFDC overpayments, occurring before October 1, 1996, but did not refund the Federal share of \$16,366,006 that was collected after Illinois' implementation of the Temporary Assistance to Needy Families (TANF) program on July 1, 1997. In addition, IDHS identified AFDC overpayment recoveries of \$3,386,411, occurring after October 1, 1996, that should have been reprogrammed equally between the Federal TANF and State program expenditures. The IDHS lacks written procedures to ensure that recoveries of AFDC and TANF overpayments are treated in accordance with ACF program instructions.

We recommend that IDHS implement procedures to refund the Federal share of current (\$16,366,006) and future recoveries of AFDC overpayments occurring prior to October 1, 1996 to the Administration for Children and Family Services (ACF). We also recommend that IDHS implement procedures to ensure that recovered AFDC overpayments occurring after October 1, 1996, and TANF overpayment recoveries, are reprogrammed to TANF activities. The accounts receivable system should be reviewed quarterly to determine recoveries to be refunded to ACF and the amount that should be reprogrammed in the TANF program in accordance with ACF program instructions.

The IDHS agrees with our recommendation to refund the \$16 million (Federal share) of recovered AFDC overpayments and believes that it is already in compliance with our recommendation to reprogramming \$1.7 million (Federal share) of AFDC overpayment recoveries to eligible TANF activities. Furthermore, IDHS agrees with our recommendation to prepare written procedures formalizing the internal processes currently in place. This will ensure that AFDC overpayments recoveries are refunded or reprogrammed and that TANF overpayment recoveries are reprogrammed in accordance with the guidance provided by ACF. The full text of the IDHS response is included as an attachment to the report.

## **BACKGROUND**

In 1996 the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) repealed the AFDC program and replaced it with the TANF program. The AFDC and TANF programs are administered at the Federal level by the U.S. Department of Health and Human Services, Administration for Children and Families (ACF). The IDHS is responsible for administering the TANF program and identifying, collecting, reporting, and remitting recovered AFDC overpayments to the Federal government. Illinois implemented the TANF program effective July 1, 1997.

Although the AFDC program was repealed and replaced with the TANF program, the requirement for States to pursue and recover uncollected AFDC overpayments remains in place. The former AFDC program requirement has not changed. Therefore, States must continue to return the Federal share of recovered AFDC overpayments that occurred prior to October 1, 1996. Title 45 of the Code of Federal Regulations, paragraph 233.20(a)(13)(i)(E), requires States to:

“(1) Recover the overpayment, (2) initiate action to locate and/or recover the overpayment from a former recipient, or (3) execute a monthly recovery agreement from a current recipient’s grant or income/resources.”

Different requirements apply to the treatment of recovered AFDC and TANF overpayments occurring after October 1, 1996. These AFDC, as well as TANF, recoveries may be retained by the State, but must be applied to cover the corresponding Federal and State share of TANF expenditures.

The IDHS’ general authority under State law to recover AFDC overpayments is delineated in the Illinois State Collection Act of 1986 (Act). The Illinois Comptroller promulgates State agency requirements for compliance with the Act. The IDHS identifies AFDC overpayments primarily through various computer matches with Federal and State databases and data base access inquiry functions during the client intake and eligibility redetermination processes. The IDHS Bureau of Collections administers the IDHS overpayment collection rules and coordinates collection activities for AFDC overpayments.

The IDHS generally recovers AFDC overpayments from current recipients through a reduction in the recipient’s monthly assistance payment, also called recoupments. Recoveries from former recipients are collected primarily through demand letters, referral to the State Comptroller’s offset system for State generated payments, private collection agencies, civil judgments and wage garnishments. The IDHS Office of Fiscal Services (OFS) is generally responsible for reporting and remitting recovered AFDC overpayments to the Federal government.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

We conducted our audit in accordance with generally accepted government auditing standards. The primary objective of our audit was to determine whether IDHS practices for identifying, collecting, reporting, and remitting AFDC overpayments were in accordance with Federal

requirements. Although our audit was intended to cover the period July 1, 1996 through September 30, 2000, it was extended to December 31, 2000 to coincide with an accounts receivable analysis IDHS performed in response to an ACF Program Instruction.

To accomplish our objectives, we reviewed applicable Federal laws, regulations, and policies regarding State identification and handling of AFDC overpayments. We reviewed State laws, regulations, policies and procedures, implemented since welfare reform, for identifying, collecting, reporting, and remitting, and reprogramming overpayments. We assessed whether the Federal share of recovered AFDC overpayments, occurring prior to October 1, 1996, were remitted to ACF. We also assessed whether AFDC overpayments, occurring after October 1, 1996, were appropriately applied against TANF program expenditures.

During the course of our audit, the IDHS completed the required analysis of their accounts receivable system to identify recoveries of AFDC overpayments that occurred prior to and after October 1, 1996. We reviewed the accounts receivable analysis for accuracy and reasonableness. Our audit was limited to the recovery procedures applicable to AFDC overpayments recorded in the IDHS accounting records. We did not evaluate the IDHS procedures for determining the amount of overpayments or the accuracy of these determinations.

Our review of the IDHS internal control structure was limited to areas related to AFDC overpayment recovery activities. In that regard, we obtained an understanding and assessed control risk for the implemented policies and procedures related to Federal financial reporting, accounts receivable identification and collections, and database access and computer matching approaches. Our limited review would not have necessarily disclosed all weaknesses relating to IDHS' overpayment recovery procedures and practices. Except for matters discussed in the FINDINGS AND RECOMMENDATIONS section of this report, we found that items tested were in compliance with applicable laws and regulations.

We conducted our field work at the IDHS central offices in Springfield, Illinois from February through June 2001.

## **FINDINGS AND RECOMMENDATIONS**

Although the IDHS practices for identifying and collecting AFDC overpayments were generally in accordance with Federal requirements, AFDC overpayment recoveries had not been appropriately returned to ACF or reprogrammed for TANF purposes since IDHS' implementation of TANF on July 1, 1997. As of December 31, 2000, the State had not refunded the Federal share (\$16,366,006) of recovered AFDC overpayments, occurring prior to October 1, 1996, and had not reprogrammed recovered AFDC overpayments, occurring after October 1, 1996. An IDHS study identified recoveries of AFDC overpayments (\$3,386,411) that should have been shared equally between the Federal TANF and State programs.

The State should implement procedures to ensure that recovered AFDC overpayments are returned to ACF or properly reprogrammed. Such procedures should include a quarterly analysis of accounts receivables and the segregation of AFDC overpayment recoveries by their occurrence either before or after October 1, 1996. In regard to recovered overpayments that occurred after

October 1, 1996, the IDHS should establish procedures to properly distribute AFDC recoveries between Federal TANF and State programs, and to ensure that AFDC and future TANF overpayment recoveries are used for TANF program costs either in the year of recovery or later. If used in subsequent years, they must be used only for providing assistance to eligible TANF families.

### **Recovered AFDC Overpayments Due to ACF**

Under the AFDC program and until TANF implementation on July 1, 1997, the State routinely recovered overpayments and credited them on the quarterly Form ACF-231, Aid to Families with Dependent Children Program Financial Report. Since the TANF implementation, the State continued to recover AFDC overpayments but did not refund the AFDC recoveries to ACF. Although the previous reporting of AFDC overpayment recoveries on the ACF-231 effectively reduced the current year drawdown capability, the TANF quarterly reports do not accommodate adjustments for AFDC recoveries. Although ACF had instructed the States to continue recovering AFDC overpayments, many States did not forward the recoveries to ACF. On September 1, 2000, ACF issued a TANF Program Instruction, delineating States responsibilities for recovering AFDC and TANF overpayments and for identifying those recoveries that should be returned to ACF.

ACF Program Instruction TANF-ACF-PI-2000-2, Paragraph 1 states:

...For recoveries of former AFDC program overpayments **made before October 1, 1996** (emphasis added), States are required to repay to the Federal government the Federal share of these recoveries. These rules apply regardless of the fiscal year in which the recoveries are collected and received by the State. The Federal share of these recovered overpayments must be calculated by multiplying the total amount recovered by the Federal Medical Assistance Percentage (FMAP) rate in effect for the State during fiscal year 1996....

ACF Program Instruction TANF-ACF-PI-2000-2, Paragraphs 1C and 1D, continues:

...States that have not been properly tracking AFDC overpayments that occurred prior to October 1, 1996 must perform an analysis of their accounts receivable systems to identify all such recoveries received both via recoupment of AFDC or TANF benefits and via cash collections. Upon completion of such analysis, the Federal share of the accumulated amounts recovered should be remitted to ACF via check. Both of these processes should be completed no later than December 31, 2000. Once States have become current with past due remittances, checks should be submitted to ACF no less frequently than quarterly....

During the course of our review, the IDHS completed the required analysis of its accounts receivable and segregated AFDC overpayments between those occurring before and after October 1, 1996. The results of the IDHS analyses indicate that the net amount of recovered AFDC overpayments, occurring prior to October 1, 1996, was \$32,732,011 (Federal share

\$16,366,006). The total recovery of AFDC overpayments was reduced by \$118,868 (\$59,434 Federal share) for AFDC overpayments occurring after October 1, 1996 and recovered during the transition period preceding TANF implementation. IDHS had erroneously returned these funds to ACF rather than reprogramming them to the TANF program activities.

## **RECOMMENDATION**

We recommend that the State agency:

- Refund \$16,366,006 for the net Federal share of recovered AFDC overpayments, occurring prior to October 1, 1996 and
- Implement written procedures to perform a quarterly analysis of its accounts receivables, segregate collections of AFDC overpayments based on their occurrence either before or after October 1, 1996, and make appropriate refund to ACF.

## **IDHS COMMENTS**

The IDHS agrees to refund \$16,366,006 for the net Federal share of recovered AFDC overpayments, occurring prior to October 1, 1996. Although IDHS stated that they currently have a quarterly process to identify the amounts collected and to segregate the overpayments based on when the overpayment occurred, IDHS agreed to prepare written procedures to ensure that the review process occurs as expected. They will repay the Federal share of any recovered AFDC overpayments that are identified as a result of these quarterly analyses.

## **OAS RESPONSE**

We agree with the corrective actions IDHS proposes.

## **Recovered AFDC Overpayments Requiring TANF Reprogramming**

Although recovered AFDC overpayments, occurring after October 1, 1996, and recovered TANF overpayments do not require a refund to the Federal government, these funds were to be used for TANF program expenditures in the year of recovery or later. The IDHS identified AFDC overpayments, collected after July 1, 1997, that required reprogramming because they occurred after October 1, 1996, but did not properly distribute these funds for TANF use.

ACF Program Instruction TANF-ACF-PI-2000-2, Paragraph 2A states:

...For recoveries of former AFDC program overpayments where the overpayment occurred after October 1, 1996, **States are not required to repay** (emphasis added) to the Federal government the Federal Share of such recoveries. Instead the full amount of these recovered overpayments is to be retained by the State and used for TANF program costs in the grant year they are recovered, or later....

ACF Program Instruction TANF-ACF-PI-2000-2, Paragraph 2 B states:

...Similarly for recoveries of TANF program overpayments where the overpayment occurred anytime after a States' implementation of the TANF program, States are not required to repay any portion to the Federal government. These TANF overpayment recoveries must likewise be used for TANF program costs during the grant year in which they are recovered, or later....

The IDHS accounts receivable analysis identified AFDC overpayment recoveries of \$3,386,411 that should have been distributed between the Federal TANF program and the State Maintenance of Effort using the 1997 FMAP rate of 50 percent. The resulting distributions to Federal TANF and State programs were \$1,693,206 and \$1,693,205, respectively. These recovered AFDC overpayments should be reprogrammed for use under the TANF program.

The IDHS does not have written procedures to ensure that retained recoveries of AFDC overpayments, occurring after October 1, 1996, and TANF overpayment recoveries are used for TANF program costs either in the year of recovery or later. Any developed procedure should ensure that, if funds are used in subsequent years, they must be used to provide assistance to eligible TANF families. (ACF Program Instruction TANF-ACF-PI-2000-2, Paragraph 2E.)

## **RECOMMENDATION**

We recommend that the State agency:

- Distribute retained AFDC overpayment recoveries of \$1,693,206 to cover TANF program activities and
- Implement written procedures to ensure that any future recoveries of AFDC overpayments, occurring after October 1, 1996, and TANF overpayment recoveries are appropriately used to cover TANF program costs.

## **IDHS COMMENTS**

The IDHS believes that it is already in compliance with our recommendation to reprogram retained AFDC overpayment recoveries of \$1,693,206 to cover eligible TANF activities. Further, IDHS accepts our recommendation to implement written procedures to formalize the internal process to ensure that any future recoveries of AFDC overpayments, occurring after October 1, 1996, and TANF overpayment recoveries are appropriately used to cover TANF program costs.

## **OAS RESPONSE**

We believe that the IDHS should provide the ACF Action Official with documentation supporting that the AFDC overpayment recoveries of \$1.7 million were reprogrammed for approved TANF activities.

\* \* \* \*

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action 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. It should be directed to the action official address sited below.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23). OIG OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the ACT which the Department chooses to exercise. (See 45 CFR Part 5.) As such, within ten business days after the final report is issued, it will be posted on the world wide web at <http://oig.hhs.gov/>.

To facilitate identification, please refer to Common Identification Number A-05-01-00030 in all correspondence relating to this report.



Paul Swanson  
Regional Inspector General  
for Audit Services

**Direct Reply to Action Official:**  
Director, Division of Financial Integrity  
Room 702 Aerospace Building  
370 L'Enfant Promenade S.W.  
Washington D.C. 20447



George H. Ryan, Governor

Illinois Department of Human Services

Linda René Baker, Secretary

100 South Grand Avenue, East • Springfield, Illinois 62762  
401 South Clinton Street • Chicago, Illinois 60607

December 7, 2001

Mr. Paul Swanson  
Regional Inspector General  
for Audit Services  
Department of Health and Human Services  
Office of Audit Services  
233 North Michigan Avenue  
Chicago, Illinois 60601

Re: Review of Aid to Families with  
Dependent Children Overpayment  
Recoveries A-05-01-00030

Dear Mr. Swanson:

The Illinois Department of Human Services has examined the OIG Review of Aid to Families with Dependent Children number A-05-01-00030 and accept the findings and recommendations with the following comments.

1. Refund \$16,366,006 for the net Federal share of recovered AFDC overpayments, occurring prior to October 1, 1996.

The Department accepts this recommendation and will work with HHS to repay the Federal share of the recovered AFDC overpayments.

2. Implement written procedures to perform a quarterly analysis of its accounts receivables, segregate collections of AFDC overpayments based on their occurrence either before or after October 1, 1996 and make appropriate refund to ACF.

The Department currently has a process in place to identify, on a quarterly basis, the amounts collected and segregate the overpayments based on when the overpayment occurred. We will prepare written procedures to ensure that the process occurs on a quarterly basis in the future. We will also work with HHS to repay the Federal share of any recovered AFDC overpayments that are identified as a result of these quarterly analyses.

Mr. Paul Swanson  
December 7, 2001

Page 2

3. Distribute retained AFDC overpayment recoveries of \$1,693,206 to cover TANF program activities.

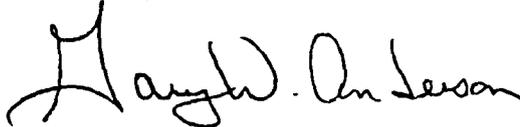
The Department believes that it is already in compliance with this recommendation. The Department has an internal process to: review TANF program expenditures on at least a monthly basis; review TANF eligible services; and, ensure that both the TANF grant dollars and the allowable AFDC overpayments recovered are spent on TANF eligible services. In each year since the inception of the TANF program, the State of Illinois has documented TANF eligible expenditures in excess of the total amount required under TANF, MOE and the amount required to be reprogrammed for TANF from both AFDC and TANF recoveries.

4. Implement written procedures to ensure that any future recoveries of AFDC overpayments, occurring after October 1, 1996 and TANF overpayment recoveries are appropriately used to cover TANF program costs.

The Department accepts this recommendation and will formalize the internal process currently in place with written procedures to ensure all recoveries are used to cover TANF program costs.

If you have any questions regarding the Department's response to the review, I may be reached at 217/782-7554 or by mail at 100 South Grand Avenue, East - 1<sup>st</sup> floor, Springfield, Illinois 62762.

Sincerely,



Gary W. Anderson, Manager  
Office of Fiscal Services

GWA/bjl

cc: Jim Donkin