

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL  
REGION IX**

**REVIEW OF OVERPAYMENT COLLECTIONS  
FOR THE AID TO FAMILIES WITH  
DEPENDENT CHILDREN PROGRAM  
BY THE SAN BERNARDINO COUNTY  
HUMAN SERVICES SYSTEM**

**OCTOBER 1, 1996 THROUGH JULY 31, 2001**



**JANET REHNQUIST**  
Inspector General

**JUNE 2002**  
CIN: A-09-01-00103

# *Office of Inspector General*

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DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Region IX  
Office of Audit Services  
50 United Nations Plaza  
Room 171  
San Francisco, CA 94102

CIN: A-09-01-00103  
June 28, 2002

Rita Saenz, Director  
California Department of Social Services  
744 P Street  
Sacramento, CA 95814

Dear Ms. Saenz:

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) report entitled "Review of Overpayment Collections for the Aid to Families with Dependent Children Program by the San Bernardino County Human Services System." A copy of the report will be forwarded to the action official noted below for review and any action deemed necessary.

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.

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 HHS chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to the Common Identification Number A-09-01-00103 in all correspondence relating to this report.

Sincerely,

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Sharon Fujii, Regional HUB Director  
Administration for Children and Families  
U.S. Department of Health and Human Services, Region IX  
50 United Nations Plaza, Room 450  
San Francisco, CA 94102

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL  
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Inspector General

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# *Notices*

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## **THIS REPORT IS AVAILABLE TO THE PUBLIC**

at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **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. Final determination on these matters will be made by authorized officials of the HHS divisions.





Region IX  
Office of Audit Services  
50 United Nations Plaza  
Room 171  
San Francisco, CA 94102

CIN: A-09-01-00103  
June 28, 2002

Rita Saenz, Director  
California Department of Social Services  
744 P Street  
Sacramento, California 95814

Dear Ms. Saenz:

This report provides you with the results of our audit of overpayment collections made for the Aid to Families with Dependent Children (AFDC) program by the San Bernardino County Human Services System (the County). The objective of our review was to determine whether the Federal share of AFDC overpayment collections received by the County after the AFDC program was repealed was remitted to the Federal Government. Entitlement to AFDC benefits and services was terminated effective October 1, 1996.

The Federal share of AFDC overpayment collections received by the County for the monthly assistance reporting periods of October and November 1996 was returned to the Federal Government. However, the Federal share of AFDC overpayment collections received by the County for the monthly reporting periods of December 1996<sup>1</sup> through July 2001 was not remitted although required by Federal regulations. This occurred because the California Department of Social Services (the State) did not instruct the counties to separately track AFDC overpayment collections received after the November 1996 reporting period.

The County received about \$10.4 million (\$5.2 million Federal share) in AFDC overpayment collections from November 22, 1996 through July 31, 2001. We recommend that the Federal share of AFDC collections, totaling about \$5.2 million, be refunded to the Federal Government. After July 31, 2001, AFDC overpayments continued to be collected by the County. However, there were no procedures in place to refund subsequent AFDC overpayment collections to the Federal Government. The State should take appropriate steps to ensure AFDC collections made by the County after July 31, 2001, are refunded to the Federal Government.

The State in its written comments to this report did not provide concurrence or non-concurrence with our findings and recommendations. Instead, the State indicated that it would provide a full response after the AFDC overpayment audits in Los Angeles and San Diego Counties are

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<sup>1</sup> The beginning date for the County's December 1996 reporting period was November 22, 1996.

completed. At that time, the State will address recommendations for all three counties. The written comments are summarized after the audit findings and are appended to this report in their entirety. (See APPENDIX.)

## INTRODUCTION

### Background

#### AFDC Overpayments

Title IV-A of the Social Security Act established the AFDC program. Under AFDC, the care of needy dependent children in their own homes or in the homes of relatives was encouraged. The AFDC program was repealed and replaced with the Temporary Assistance for Needy Families (TANF) program. Entitlement to AFDC benefits and services was terminated effective October 1, 1996.

Under the AFDC program, a recipient might have received a monthly assistance payment that was greater than the amount allowed, thus resulting in an overpayment. Federal regulations under the former AFDC program required recovery efforts until the full amount of an AFDC overpayment was collected. Although AFDC was repealed and replaced with the TANF program, the requirement to pursue and recover uncollected AFDC overpayments remains in place. Both the AFDC and TANF programs are administered at the Federal level by the Administration for Children and Families (ACF).

#### Reporting AFDC Overpayment Collections in California

The State requires all 58 county welfare departments to take all reasonable steps necessary to promptly recover any overpayments. Counties are required to maintain a record of each overpayment that includes the overpayment amount and the period the overpayment occurred, as well as, information on all recoveries. County welfare departments collect overpayments using a variety of methods including: collecting cash, reducing the amount of aid paid, and intercepting State income tax refunds.

The AFDC overpayment recoveries collected by the county welfare departments were reported by the counties to the State on the *Summary Report of Assistance Expenditures*. Historically, these AFDC recoveries were then reported by the State to the Federal Government on the quarterly *AFDC Program Financial Report* as a reduction in the State's total expenditures. After the effective date of California's TANF program, county welfare departments continued to report recoveries of AFDC overpayments, along with recoveries of TANF overpayments, to the State on the *Summary Report of Assistance Expenditures*. These combined and undistinguishable recoveries reduced the TANF expenditures reported by the State to the Federal Government on the quarterly *TANF ACF-196 Financial Report*.

### Recording AFDC Overpayments and Collections by the County

The County utilizes an automated system, called the Overage Management & Reporting System (OMARS), for tracking overpayments and collections for the AFDC and TANF programs. The OMARS was implemented in November 1994 when AFDC was still in effect. With the advent of the TANF program, there were no substantive changes made to the automated processes already in place. The automated system does not distinguish between AFDC and TANF overpayments because the same overpayment codes are used for both AFDC and TANF. However, the automated system contains the dates the overpayments were made, thereby enabling AFDC overpayments to be identified.

### **Objective, Scope and Methodology**

The objective of our review was to determine if the State returned to the Federal Government the Federal share of AFDC overpayments collected by the County for the period October 1, 1996 through July 31, 2001. Our audit was performed in accordance with generally accepted government auditing standards. Our review of internal controls at the County was limited to gaining an understanding of the methods used for recording, collecting, and reporting overpayments and recoveries.

To accomplish the audit objective, we:

- reviewed applicable Federal and State regulations, policies, and procedures pertaining to AFDC and TANF;
- gained an understanding of the process for recording, collecting, and reporting overpayments and recoveries;
- reconciled the County's monthly *Summary Report of Assistance Expenditures* for the reporting periods of September, October, and November 1996 to the quarterly *AFDC Program Financial Report*;
- reviewed selected County monthly *Summary Report of Assistance Expenditures* for reporting periods after November 1996 and traced them to the State compilations that were used for the quarterly *TANF ACF-196 Financial Report*;
- analyzed supporting documentation for the *Summary Report of Assistance Expenditures* and the *Quarterly Report of Overpayments and Collections*;
- reconciled cash collections reported on the *Summary Report of Assistance Expenditures* to cash collections reported on the *Quarterly Report of Overpayments and Collections*;
- obtained an understanding of the overpayment and recovery adjustment codes used on OMARS; and

- traced information posted on OMARS to supporting case file documentation for a judgmental sample of AFDC overpayment and recovery transactions.

We obtained a data extract file from the County containing data from OMARS on all overpayment records that had at least one recovery adjustment<sup>2</sup> between October 1, 1996 and September 30, 2000. For the overpayment records that met this criterion, all recovery adjustments posted to the overpayment records were included on the data extract.

The data extract file contained 105,208 overpayment records with overpayments totaling about \$64.7 million. We performed a review of all the overpayment records on the County data extract. The overpayment records included overpayments made on or before September 30, 1996, as well as after. Therefore, the data extract contained records for both AFDC and TANF overpayments. Overpayment records that contained only TANF overpayments were eliminated from our review.

The data extract also contained recovery adjustment information totaling about \$42.4 million. This information included a variety of payment and adjustment activities such as: cash collections, reductions in aid paid, State income tax refund intercepts, collection fees, refunds, and corrections to overpayment amounts. For each overpayment record included on the data extract, all of the posted recovery adjustments were provided. Therefore, recovery adjustments posted before November 22, 1996, as well as after, were included in the data extract. We eliminated all collection activity that occurred prior to November 22, 1996, since we determined the Federal Government had already received its share of those collections.

The data extract file provided by the County enabled us to review all posted payment and adjustment activity for the period November 22, 1996 through July 31, 2001 for the overpayment records containing AFDC overpayments. We selected only those recovery adjustments that were eligible for refund to the Federal Government. Examples of recovery adjustments considered eligible for refund are cash collections, aid payment reductions, and state income tax refund intercepts. We offset the recovery adjustments by any refunds made to the recipient. In determining the amount to be remitted, we eliminated items not eligible for refund to the Federal Government. Examples of items excluded were court imposed collection fees, overpayment balances not collected, and adjustments to correct the overpayment balance.

Our audit was performed during the period of July 2001 through February 2002 with fieldwork conducted at the County offices in San Bernardino, California. The State's comments are summarized after the audit findings and are appended to this report in their entirety. (See APPENDIX.)

## **FINDINGS AND RECOMMENDATIONS**

The State remitted the Federal share of AFDC overpayment collections received by the County from October 1, 1996 through November 21, 1996. However, from November 22, 1996 through July 31, 2001, the County collected about \$10.4 million for AFDC overpayments for which the Federal share was not remitted. The Federal share of these recoveries totaled about \$5.2 million.

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<sup>2</sup> Recovery adjustments are payment and adjustment transactions such as cash collections, reductions in aid paid, State income tax refund intercepts, corrections, and write-offs.

Also, AFDC overpayments continued to be collected by the County after our audit period. However, there were no procedures in place to refund subsequent AFDC overpayment collections to the Federal Government.

## **Federal Criteria**

Program instructions issued by ACF on September 1, 2000, clarified ACF policy on the treatment of overpayment recoveries collected from individuals who had received assistance benefits to which they were not entitled, either under the AFDC program or the TANF program. These instructions stated that although the AFDC program was repealed and replaced by the TANF program, there was no change in the requirement to pursue, recover, and remit the remaining uncollected AFDC overpayments.

Prior to October 1, 1996, States were entitled to reimbursement for expenditures made in the AFDC program. After the passage of the TANF program, States are entitled only to the Federal block grant amount made available under that program. 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. This rule applies regardless of the fiscal year in which the recoveries are collected and received by the State. The Federal share of the recoveries identified in this report must be calculated by multiplying the Federal Medicaid Assistance Percentage (FMAP) in effect for the State during Fiscal Year 1996.

## **AFDC Overpayment Collections**

With the advent of the TANF program, the County continued reporting overpayment recoveries for the terminated AFDC program to the State on the *Summary Report of Assistance Expenditures*. Because the State did not instruct the County to separately track the AFDC overpayment collections, the County did not develop any new reporting or recording procedures for distinguishing recoveries between the AFDC and TANF programs. The lack of new reporting and recording procedures resulted in combining both AFDC and TANF overpayment recoveries on the monthly reports. These combined and undistinguishable recoveries reduced the total expenditures reported by the State to the Federal Government on the quarterly *TANF ACF-196 Financial Report*. The total net expenditures were applied against the TANF block grant amount.

The TANF block grant amount is a set amount of funds provided to the State by the Federal Government, and any unused block grant funds can be carried over to subsequent years. Under Federal regulations, a State is entitled only to the block grant amount. However, when AFDC collections are combined with expenditures for the TANF program, the State's total expenditures applied against the TANF block grant amount are reduced. Therefore, collections of AFDC overpayments are not remitted to the Federal Government as instructed by ACF. These instructions provided that AFDC overpayment collections not included on the *AFDC Program Financial Report* are to be remitted to ACF by check.

Collections reported by the County to the State on the *Summary Report of Assistance Expenditures* for the reporting periods prior to December 1996 were refunded to the Federal Government. However, collections received during subsequent reporting periods were not. Instead, the AFDC

overpayment recoveries reduced the total expenditures reported on the quarterly *TANF ACF-196 Financial Report*. Therefore, the State did not remit these recoveries to the Federal Government. To determine the recoveries not remitted to the Federal Government, we reviewed data provided by the County from its automated system that tracks overpayments and recoveries.

#### AFDC Overpayment Collections - November 22, 1996 through July 31, 2001

Our review of the County data extract file determined that the AFDC overpayment recoveries during the period November 22, 1996 through July 31, 2001, totaled \$10,400,212. The Federal share of the AFDC overpayment recoveries was calculated by multiplying the total amount recovered by the FMAP rate in effect for the State during Fiscal Year 1996. The FMAP rate for California for that period was 50 percent. Therefore, the Federal share of recoveries calculated is \$5,200,106. We recommend that this amount be refunded to the Federal Government.

#### AFDC Overpayment Collections Subsequent to July 31, 2001

The County had not been directed by the State to develop procedures to segregate AFDC and TANF collections. At the end of our audit period, AFDC overpayments continued to be collected. For example, we identified an additional \$43,896 in recoveries scheduled for collection after our audit period. The State should take appropriate steps to ensure that the Federal share of AFDC overpayments collected by the County after our audit period is refunded to the Federal Government.

### **Recommendations**

We recommend that the State:

1. Refund to the Federal Government \$5,200,106 million in AFDC overpayment recoveries collected by the County for the period November 22, 1996 through July 31, 2001.
2. Take appropriate steps to ensure that the Federal share of overpayments collected by the County subsequent to July 31, 2001, is refunded to the Federal Government.

### **Auditee Comments**

The State's written comments did not indicate concurrence or non-concurrence with our recommendations. Instead, the State indicated that a full response would be provided once the OIG completes the audits in Los Angeles and San Diego Counties. At that time, its response would address the recommendations for all three counties. The State also indicated in its written comments that it had been working in accordance with program instructions issued by ACF, dated May 1, 2000. These instructions provided that recovered AFDC or TANF overpayments should be retained by the State and used for the TANF program.

## OIG Response

In September 2000, ACF rescinded the May 2000 and March 1999 program instructions regarding treatment of AFDC overpayment recoveries. On September 1, 2000, ACF issued program instruction clarifying that recoveries for overpayments made on or before September 30, 1996, are to be refunded to the Federal Government, and recoveries for overpayments made on or after October 1, 1996, are to be retained by the States and used for the TANF program. This program instruction basically reiterated an instruction that was issued by ACF on March 9, 1999. Further, regulations at 45 CFR 233.20 (a) (13), which are still in effect, require States to take all reasonable steps necessary to promptly correct any AFDC overpayment. Since these regulations were never revoked, States should have continued to follow them for overpayment recovery and reimbursement of the Federal share.

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Final determination as to actions taken on all matters reported will be made by the HHS action official named on the following page. 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. To facilitate identification, please refer to the Common Identification Number A-09-01-00103 on all correspondence relating to this report.

Sincerely,



Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

**Direct Reply to HHS Action Official:**  
Sharon Fujii, Regional HUB Director  
Administration for Children and Families  
U.S. Department of Health and Human Services  
Region IX  
50 United Nations Plaza, Room 450  
San Francisco, CA 94102

# **APPENDIX**

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY  
**DEPARTMENT OF SOCIAL SERVICES**  
744 P Street, Sacramento, California 95814

GRAY DAVIS, Governor



April 24, 2002

Ms. Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
United States Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services  
50 United Nations Plaza, Room 171  
San Francisco, California 94102

SUBJECT: CIN A-09-01-00103

Dear Ms. Ahlstrand:

This letter is in response to the United States (US) Department of Health and Human Services (DHHS), Office of Inspector General (OIG), Office of Audit Services' draft report entitled "Review of Overpayment Collections for the Aid to Families with Dependent Children Program by the San Bernardino County Human Services System." As discussed with the auditors at the February 7, 2002, exit meeting in Sacramento, a full response will be provided once the OIG completes audits in Los Angeles and San Diego, and will address the recommendations for all three counties.

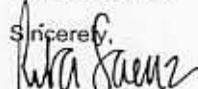
As stated in our March 16, 2001 correspondence directed to Elizabeth M. James Duke, Deputy Assistant Secretary for Administration, DHHS, Washington, D.C., this Department has been working in accordance with Transmittal No. TANF-ACF-PI-1999-2 (Revised) dated May 1, 2000, which instructed states to retain the full amount of Aid to Families with Dependent Children (AFDC) overpayment collections and use them for Temporary Assistance for Needy Families (TANF) program costs. As a result of these instructions, California has not been returning the Federal share of AFDC overpayment collections.

California maintains records of the amounts recovered, but the TANF program is administered by California's 58 counties. Very few counties are able to report specific collections based on the date the overpayment occurred. Setting up a system to do so would be very costly and time-consuming. Recoveries that were for overpayments that occurred prior to October 1, 1996, are not available from the various county systems.

Ms. Lori A. Ahlstrand  
Page Two

This Department only became aware of TANF-ACF-PI-2000-2 dated September 1, 2000 in early December 2000, some three months after this instruction was posted on your agency's website, and four years after the AFDC program ended. It appears that this instruction was posted on your agency's website, but not otherwise distributed to states, therefore creating a delay in the notification of your Department's change in position. This change has raised significant fiscal and program issues for California.

Again, this Department is looking forward to hearing the results of the San Diego and Los Angeles County audits and will address all of the recommendations at that time. If you have any questions, please have the appropriate person from your staff call me at (916) 657-2598 or you may call Gale Wright, Chief of the Fraud Bureau, at (916) 263-5700.

Sincerely,  
  
RITA SAENZ  
Director

c: Ms. Elizabeth M. James Duke  
Deputy Assistant Secretary for Administration  
DHHS-San Francisco Regional Office