DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

Memorandum

Date AUG 22 2001

From Michael F. Mangano
Principal Deputy Inspector General

Subject Review of Collected Aid to Families with Dependent Children Overpayments (A-01-01-02502)

To Wade F. Horn, Ph.D.
Assistant Secretary for
Children and Families

This is to alert you to the issuance of our final report on Friday, August 24, 2001. A copy is attached. Our objective was to determine the process used by each New England State to identify and return the Federal share of collected Aid to Families with Dependent Children (AFDC) overpayments as of December 31, 2000. Our review covered the period October 1996 through May 2001.

Federal regulations for AFDC require States to collect overpayments until the full amount has been received. Although the AFDC program was replaced by Temporary Assistance for Needy Families (TANF), a number of AFDC overpayments remain outstanding and State agencies are still obligated to pursue and recover any uncollected amounts. We did not determine what efforts States are making to collect these overpayments.

Prior to TANF, the Federal share of collected overpayments were reported on Federal form ACF-231 and offset against future Federal financial participation (FFP) 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. As a result, the New England States retained the Federal share of AFDC overpayments.

Federal guidance issued March 1999 and also in September 2000, required States to repay the Federal share of collected AFDC overpayments by December 31, 2000. Administration for Children and Families (ACF) officials told us that none of the New England States had fully complied with the resolution date. Therefore, we met with representatives from the six States to discuss their process for identifying and returning the Federal share of collected AFDC overpayments. The six New England States have agreed to repay a total of $13 million in collected AFDC overpayments, of which a partial payment of $.6 million was paid by one State by the December deadline, leaving a balance of $12.4 million.

In response to our review, Region I ACF subsequently received $11.2 of the $12.4 million from 4 of the 6 New England States as of August 7, 2001. The remaining two States concurred with the findings and have agreed to pay the amount due to the Federal Government in the near future.

We appreciate the cooperation received during our review from the Region I office for ACF and that continuing efforts being made to collect the remaining balances.

The Office of Inspector General is planning to conduct or is conducting reviews in other States to determine if similar conditions as in the New England States may exist elsewhere. We expect to issue additional reports as these reviews are completed.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF COLLECTED AID TO FAMILIES WITH DEPENDENT CHILDREN OVERPAYMENTS

AUGUST 2001
A-01-01-02502

EXECUTIVE SUMMARY

BACKGROUND

Title IV-A of the Social Security Act established the Aid to Families with Dependent Children (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. Prior to TANF, Federal regulations mandated that States collect both the Federal and State share of AFDC overpayments. Under AFDC, States received from the Federal Government at least half of the costs incurred for recipients meeting eligibility requirements. Overpayments occur when recipients receive amounts to which they are not entitled. Federal regulations for AFDC require States to collect overpayments until the full amount has been received. States are required to return the Federal share of collected overpayments to ACF.

OBJECTIVE

Our objective was to determine the process used by each New England State to identify and return the Federal share of collected AFDC overpayments as of December 31, 2000. Our review covered the period October 1996 through May 2001.

SUMMARY OF FINDINGS

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. We did not determine what efforts States are making in trying to collect these overpayments.

Prior to TANF, the Federal share of collected overpayments were reported on Federal form ACF-231 and offset against future Federal financial participation (FFP) 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. As a result, the New England States retained the Federal share of AFDC overpayments.

Federal guidance issued March 1999 and also in September 2000, required States to repay the Federal share of collected AFDC overpayments by December 31, 2000. Based on our discussions with ACF officials, none of the New England States had fully complied with the resolution date. Therefore, we met with representatives from the six States to discuss their process for identifying and returning the Federal share of collected AFDC overpayments. We found that the six New England States have agreed to repay a total of $13 million in collected AFDC overpayments, of which a partial payment of $.6 million was paid by one State by the December deadline.

Based on our analysis of monthly AFDC overpayment collections before and after TANF was implemented, and other substantive factors, we believe the amounts the States identified are reasonable.

ACF Comments

The ACF responded that it has nothing to add in terms of the validity of the facts or the reasonableness of the recommendations cited in the audit (See Attachment A). As of August 7, 2001, four of the six New England States have paid back $11.2 million of the $12.4 million owed. The remaining two States concurred with the findings and have agreed to pay the amount due to the Federal Government in the near future. We appreciate the cooperation received during our review from the Region I office for ACF.

RECOMMENDATIONS

We recommend that ACF:

1. Ensure that the six New England States reimburse the remaining Federal share of the $12.4 million in collected AFDC overpayments.

2. Continue to monitor States efforts to return to the Federal Government the Federal share of any additional AFDC overpayments collected subsequent to our audit period.

INTRODUCTION

Background

Title IV-A of the Social Security Act established the Aid to Families with Dependent Children (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. States were required to implement TANF by July 1, 1997, although many of them implemented TANF by October 1, 1996.

The Administration for Children and Families (ACF) provides funding for and administers both programs. Under AFDC, States received at least half of the costs incurred for recipients meeting eligibility requirements from the Federal Government. Overpayments occur when recipients receive amounts to which they are not entitled. The financing structure changed with TANF in that the States received a fixed amount under a block grant. The fixed amount is based on historical AFDC expenditures.

The AFDC recoveries are often made by reducing TANF benefits received by recipients and by collecting cash payments (e.g., lump sum or repayment plan). States are required to return the Federal share of collected AFDC overpayments to ACF. For each State, the Federal share is calculated by multiplying the total amount recovered by its Federal Medicaid Assistance Percentage for Fiscal Year 1996.

Objective and Scope of Audit

Our review was performed in accordance with generally accepted government auditing standards. Our objective was to determine the process used by each New England State to identify and return the Federal share of collected AFDC overpayments as of December 31, 2000. Our review covered the period October 1996 through May 2001.

To accomplish our objective, we:

- reviewed Federal laws, regulations, policies, and procedures pertaining to both AFDC and TANF;
- reviewed State laws, regulations, policies, and procedures pertaining to both AFDC and TANF;
- interviewed Federal and State program officials;
- obtained an understanding of the process each State used in identifying and collecting AFDC overpayments;
- reviewed criteria for each State to determine the date TANF was implemented; and

- analyzed collections for AFDC overpayment reports for each State to determine whether amounts reimbursed for collected AFDC overpayments after TANF were reasonable.

To assess the reasonableness of amounts reimbursed by the States for AFDC overpayment collections after TANF, we:

- relied on information and documents obtained from the appropriate State agencies;

- performed a comparison of average monthly AFDC overpayments before and after the implementation of TANF; and

- considered other factors such as declining caseloads and AFDC recoveries.

We conducted our fieldwork in all six New England States between February 21, 2001 and June 5, 2001. We issued our draft report to ACF on July 12, 2001. We received written comments on August 7, 2001 (See Attachment A).

FINDINGS AND RECOMMENDATIONS

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. Prior to TANF, the Federal share of collected overpayments were reported on Federal form ACF-231 and offset against future Federal financial participation (FFP) 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. As a result, the New England States retained the Federal share of AFDC overpayments.

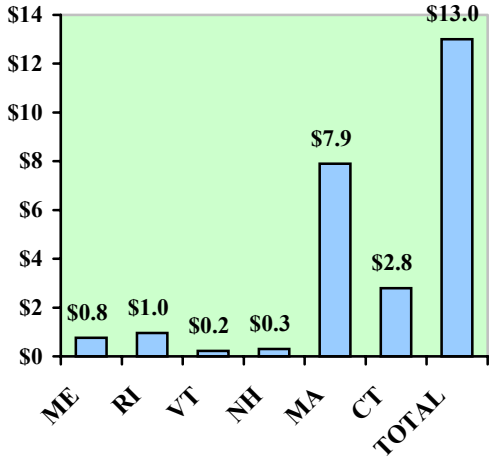

Figure 1 – Federal Share AFDC Overpayments collected by the New England States as of June 2001 (In Millions)

Federal guidance issued March 1999 and also in September 2000, required States to repay the Federal share of collected AFDC overpayments by December 31, 2000. Based on our discussions with ACF officials, none of the New England States had fully complied with the resolution date. Therefore, we met with representatives from the six States to discuss their process for identifying and returning the Federal share of collected AFDC overpayments. We found that the six New England States have agreed to repay a total of $13 million in collected AFDC overpayments, of which a partial payment of $.6 million was paid by one State by the December deadline. Figure 1 shows the Federal share of collected AFDC overpayments for each State.

To determine whether these amounts were reasonable, we compared the monthly average for collected AFDC overpayments before and after TANF was implemented. The monthly averages used for analytical purposes varied from October 1993 through May 2001. According to Figure 2, the monthly average of collections after TANF was implemented exceeds the monthly average before TANF for three of the six States. Although the monthly average for the other three States was below prior collection levels, declines in caseloads and other factors can account for the difference. Below are the highlights for each State.

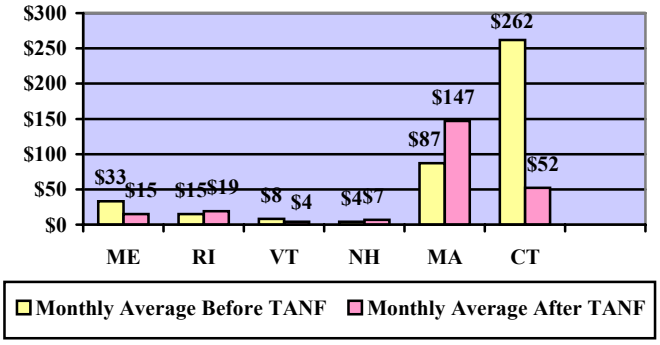

Figure 2 – Average Monthly AFDC Overpayments Collected Before and After TANF (In Thousands)

Maine

Maine used computer-generated reports to identify AFDC overpayments. The State obtained these overpayments by tabulating cash collections and using the client's benefit begin date to isolate the AFDC portion of TANF offsets.

Maine identified and plans to reimburse $762,138 for the Federal share of AFDC overpayments collected since TANF was implemented. This represents a monthly average of $15,243 from November 1996 through December 2000. As shown in Figure 2, the monthly average before TANF was $33,184 (October 1993 through October 1996). Although collections after TANF have declined by an average of $17,941 per month (54 percent), we believe the reimbursed amount or $762,138 is reasonable because the AFDC caseload for Maine decreased by 32 percent since TANF was implemented.

Rhode Island

Rhode Island hired a contractor to modify its computer system to identify 92 percent of its AFDC overpayments. For the remaining 8 percent, the welfare agency manually counted the AFDC overpayments. The State obtained these overpayments by tabulating cash collections and using the client's benefit begin date to isolate the AFDC portion of TANF offsets.

Rhode Island identified and plans to reimburse $951,496 for the Federal share of collected AFDC overpayments since TANF was implemented. This represents a monthly average of $19,418 from May 1997 through May 2001. As shown in Figure 2, the monthly average before TANF was $14,969 (October 1993 through April 2001). Since the monthly average for the Federal share of $951,496 exceeds the monthly average of collections before TANF, we believe this amount is reasonable.

Vermont

Vermont used computer-generated reports to identify AFDC overpayments. The State obtained these overpayments by tabulating cash collections and using the client's benefit begin date to isolate the AFDC portion of TANF offsets.

Vermont identified and plans to reimburse $223,649 for the Federal share of AFDC overpayments collected since TANF was implemented. This represents a monthly average of $4,142 from October 1996 through March 2001. As shown in Figure 2, the monthly average before TANF was $7,878 (October 1993 through September 1996). Although collections after TANF have declined by an average of $3,736 per month (47 percent), we believe the reimbursed amount or $223,649 is reasonable because the AFDC caseload for Vermont decreased by 32 percent since TANF was implemented. This is almost 3 times the decline in caseload before TANF was implemented.

New Hampshire

New Hampshire used computer-generated reports to identify AFDC overpayments. The State obtained these overpayments by tabulating cash collections and using the client's benefit begin date to isolate the AFDC portion of TANF offsets.

New Hampshire identified and plans to reimburse $314,581 for the Federal share of collected AFDC overpayments. This represents a monthly average of $5,826 from October 1996 through March 2001. As shown in Figure 2, the monthly average before TANF was $3,578 (October 1993 through September 1996). Since the monthly average for the Federal share of $314,581 exceeds the monthly average of collections before TANF, we believe this amount is reasonable.

Massachusetts

Massachusetts used computer-generated reports to identify AFDC overpayments. The State obtained these overpayments by tabulating cash collections. The State is in the process of determining AFDC collections from TANF offsets and third parties.

Massachusetts identified at least $7.9 million for the Federal share of collected AFDC overpayments since TANF was implemented. This represents a monthly average of $147,202 from October 1996 through March 2001. As shown in Figure 2, the monthly average before TANF was $86,778 (October 1993 through September 1996). Based on the results to date, we believe the amount of overpayments recovered by Massachusetts is reasonable.

Connecticut

Connecticut used computer-generated reports and estimates to identify AFDC overpayments. The State used automated records to tabulate cash collections and to determine the ratio of TANF to AFDC collections made through offsets. Lastly, the State calculated the average monthly collections for the period October 1997 through June 1999 to estimate AFDC collections for Federal Fiscal Year 1996.

Connecticut made a partial payment of $.6 million in collected AFDC overpayments by the resolution date. It has also agreed to return the remaining $2.2 million for the Federal share of collected AFDC overpayments since TANF was implemented. This represents a monthly average of $52,271 from October 1996 through March 2001. As shown in Figure 2, the monthly average before TANF was $261,910 (October 1993 through September 1996). Although collections after TANF have declined by an average of $209,638 per month (80 percent), we believe the reimbursed amount or $2.8 million ($.6 + 2.2 million) is reasonable because Connecticut collects both AFDC overpayments and recoveries. Our analysis of Connecticut's automated records shows that 84 percent of AFDC collections are attributable to recoveries. We will be reviewing AFDC recoveries under a separate audit.

Conclusion

We believe the $13 million for the Federal share of collected AFDC overpayments identified by the six New England States appear reasonable. A comparison of average monthly collections before and after TANF indicated that AFDC collection levels rose after TANF was implemented for three States. While the average monthly collections for the remaining three States was below prior collection amounts, the combination of using automated records and declining caseloads, among other factors satisfied the extent to which collections declined.

ACF Comments

The ACF responded that it has nothing to add in terms of the validity of the facts or the reasonableness of the recommendations cited in the audit (See Attachment A). As of August 7, 2001, four of the six New England States have paid back $11.2 million of the $12.4 million owed. The remaining two States concurred with the findings and have agreed to pay the amount due to the Federal Government in the near future. We appreciate the cooperation received during our review from the Region I office for ACF.

RECOMMENDATIONS

We recommend that ACF:

1. Ensure that the six New England States reimburse the remaining Federal share of the $12.4 million in collected AFDC overpayments.

2. Continue to monitor States efforts to return to the Federal Government the Federal share of any additional AFDC overpayments collected subsequent to our audit period.

ATTACHMENT

DEPARTMENT OF HEALTH & HUMAN SERVICES

Administration for Children and Families

Region I
John F. Kennedy Federal Bldg.
Government Center
Boston, MA 02203

Memorandum

Date: August 7, 2001

To: Regional Inspector General for Audit Services

From: Regional Administrator
Administration for Children and Families

Re: Audit A-01-01-02502,
Review of Collected AFDC Overpayments

We have reviewed the draft of this audit. As you know our staff worked closely during the conduct of this audit and your staff kept us up to date as the audit progressed. We have nothing to add in terms of the validity of the facts or the reasonableness of the recommendations made in the audit. We would however, provide you with the following update:

Connecticut- to date the State has returned $2,530,750

Maine-concurs with the finding and amount.

Massachusetts-has repaid $7,948,914

New Hampshire-has repaid 314,581.48

Rhode Island-has repaid all but $2,021 of the $953,517 identified.

Vermont-plan to repay by the end of August.

Hugh F. Galligan