



Memorandum

Date: **MAY 28 1996**

From: Regional Inspector General
for Audit Services, Region IV

Subject: Privatization of Florida's Overpayment
Recovery Function, A-04-96-00096

To: Suanne Brooks, Regional Administrator
Administration for Children and Families

This final report contains the results of our review of a Request for Proposal (RFP) initially released on December 1, 1995 by the Florida Department of Health and Rehabilitative Services (DHRS) concerning contracting out the State's welfare benefit overpayment recovery function.

The initial objective of our review was to follow up and determine what actions DHRS had taken on our recommendations in the March 1992 Office of Inspector General (OIG) report on overpayment recovery (A-04-91-00015).

During the planning phase of our review, we learned that the Administration for Children and Families (ACF) had completed a similar overpayment recovery review in September 1994. We also learned that Florida was in the process of privatizing its overpayment recovery function. In light of these events, a member of your staff requested that we postpone our planned follow-up and instead, review certain aspects of the DHRS' privatization efforts.

Our review of DHRS' privatization efforts encompassed the terms and provisions of the RFP, DHRS policies and procedures, and prior reports of the OIG and ACF.

We concluded that privatization of the overpayment recovery function would only partially address problems cited by the ACF in its prior report. Most of the problems will likely remain until addressed by the DHRS. We found no significant operational differences between the RFP and DHRS policies and procedures. We also found no problems with the language or clarity of the RFP itself.

We are recommending that ACF:

- o require DHRS to prepare and implement a corrective action plan based on the deficiencies noted in ACF's September 1994 report and

- o follow closely DHRS' implementation of any privatization effort and other corrective actions. After a reasonable trial period of privatization, the ACF should reevaluate the entire Overpayment and Recovery process of DHRS to determine the effectiveness of DHRS's actions.

The ACF generally agreed with our findings and recommendations. By letter dated May 21, 1996, the ACF requested the State to develop and submit to ACF a corrective action plan. The complete text of ACF's comments are included as Appendix II.

INTRODUCTION

Background

Title 45 of the Code of Federal Regulations, Section 233.20(13)(A) prescribe that a State must take all reasonable steps necessary to identify Aide to Families with Dependent Children (AFDC) overpayments and promptly correct those overpayments. Through a statistical sampling process, States are penalized for having made payments to ineligible or payments in the wrong amount. However, the penalty may be offset, in part, by the amount of overpayment recoveries. Over the past several years, Florida's quality control error rate has been one of the highest in the nation.

In March 1992, the OIG issued a report entitled *Recovery of Overpayments Related To The Aid To Families With Dependent Children Program in Florida* (A-04-91-00015). The report contained three recommendations:

1. The DHRS should establish and implement improved AFDC overpayment controls and procedures to ensure that Federal AFDC reports are accurate and reflect the appropriate Federal share of AFDC assistance payments.
2. The DHRS should strengthen its procedures and practices to include the use of all available methods to enable increased overpayment recoveries and continue to seek recovery of \$25,384,127 of overpayments that were outstanding for 36 months or less as of September 30, 1990.
3. The DHRS should follow its policies to ensure that overpayments are written off when appropriate and determine how much of the overpayments that were outstanding in excess of 36 months should be written off.

In September 1994, ACF performed a review of the DHRS Overpayment and Recovery processes. That review included a follow-up of the recommendations made in the 1992 OIG report. The ACF noted that most of the findings in its 1994 report

were similar to findings previously identified by ACF as early as 1985 and by the OIG in its 1992 review. The ACF report contained 15 recommendations for improving the DHRS Overpayment and Recovery processes (See Appendix I).

In July 1995, DHRS notified ACF that they were planning to privatize the Benefit Recovery program. In December 1995, DHRS released an RFP to contract out the Overpayment Claims Establishment and Benefit Recovery functions. The DHRS received only one response to the December RFP. In an effort to attract more respondents, DHRS revised the RFP and reissued it on February 23, 1996.

According to DHRS personnel, transfer of the Benefit Recovery function to a private contractor anticipated a cost savings of at least 7 percent over performing that function in-house. The DHRS also expected to eliminate 237 positions as a result of the contracting out process.

At present, the Benefit Recovery Program receives approximately 20,000 - 25,000 potential overpayment referrals (incidences of suspected overpayments as determined by DHRS eligibility workers) per month from the public assistance units in the districts. As of June 30 1995, the State maintained approximately 269,000 existing accounts. These accounts represented approximately \$105,151,968 in accounts receivable for overpayment claims already established against current and former recipients of public assistance benefits.

At the time of ACF's review in 1994, there was a backlog of 160,000 referrals for which claims must be determined and established. The ACF estimated the dollar value of this backlog of referrals to be \$46¹ million.

According to the RFP, there is a backlog of over 347,000 referrals as of June 30, 1995. Using the same estimation technique ACF used, the dollar value of backlogged referrals has more than doubled to about \$99 million since 1994.

Scope

Our review was performed to answer the following ACF questions:

- ◆ Have the suggestions for a corrective action plan reported in the 1994 ACF review been addressed by DHRS?

¹The ACF's estimate was based on the assumption that 95 percent of the referrals would result in a claim being established if they were processed by HRS. The ACF also used a conservative estimate of \$300 per overpayment for those cases backlogged. The \$46 million was computed as follows: (160,000 x 95% x \$300).

- ◆ Are there any operational differences between the RFP and DHRS policies and procedures?

In view of DHRS receiving only one response to the RFP, we wanted to know if there were any problems with the language or clarity of the original RFP. We also wanted to know what revisions were made to the original RFP.

To answer the above questions, we reviewed the DHRS policies and procedures related to the Overpayment and Recovery process and compared them to the provisions of the original and revised RFPs. We held conversations with various DHRS personnel to gain insight into the State agency's Benefit Recovery function.

We compared the corrective actions recommended in the OIG report to recommendations made in the ACF report of September 1994. In this comparison, we sought to determine whether the DHRS had remedied the problems identified by the OIG.

The DHRS policies and procedures relating to Overpayments and Recoveries were reviewed and compared to the scope of work and deliverables of the RFP. In addition, we compared the terms and provisions of the RFP to the 15 corrective actions recommended in the ACF report. We used these comparisons to determine whether contractor performance of the provisions of the RFP could be reasonably expected to correct deficiencies in the DHRS' overpayment and recovery process. Field work was conducted at DHRS offices in Tallahassee, Florida in March and April 1996. Our review was conducted in accordance with generally accepted government auditing standards.

On May 16, 1996, ACF provided us with written comments to the draft report.

RESULTS OF REVIEW

Corrective Actions Recommended by ACF

The ACF made 15 recommendations for corrective action (See Appendix I). Of the 15 corrective actions recommended, only 2, and part of a third, would be addressed by the RFP. The remaining 12 recommendations, and part of another, would still require appropriate corrective action by DHRS.

Only three of the corrective action recommendations - increase collection of accounts receivable, take actions to reduce the backlog of cases for which no claim has been established, and take actions to establish claims timely for referred cases - (recommendations number 1, 3, and 5, respectively) would be addressed by the RFP contract.

However, the second part of ACF's recommendation number 3, that "...the State give consideration to establishing a pilot project in at least one district in which the regular EWs are assigned...responsibility for the claims establishment functions" would need to be implemented by DHRS.

We also found that the majority of the ACF recommendations (numbers 2, part of 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15) would be better addressed on an in-house basis by the DHRS, not by the RFP contractor.

Comparison of RFP Provisions to DHRS Policies and Procedures

Our comparison of the RFP scope of work and deliverables to DHRS policies and procedures pertaining to the Benefit Recovery function disclosed no significant differences.

Both the original and revised RFPs required compliance with specified Federal regulations and State policies and procedures. Both RFPs listed applicable Federal regulations, Florida Administrative Codes and Statutes, and DHRS Program Manuals for compliance by the contractor. The revised RFP further included language to the effect that the requirements of the specified Federal regulations, State statutes, and program guidelines were incorporated into the RFP. In this area, we believe the requirements of both the original and revised RFPs were compatible with DHRS policies and procedures.

The RFP required specific tasks of the contractor. These tasks were consistent with those required under DHRS policies and procedures. The specified tasks included, in part, that the contractor will: assure that referrals are reviewed within 180 days of receipt; maintain documentation as to the reason the referral was established as a claim or canceled. In addition, based on DHRS Fiscal Year (FY) 1994-1995 results, the RFP required the contractor to complete a minimum of 4,775 food stamp and AFDC referral reviews on a monthly basis, of which at least 90 percent result in a claim. According to DHRS personnel, the 90 percent is a higher standard than achieved by DHRS.

Additional tasks defined in the RFP required that the contractor must: complete all claim determinations within 180 days of the date the referral was received (according to DHRS personnel, this means within 180 days of the date the referral was reviewed); maintain documentation that shows how each claim overpayment was calculated and the information that was used to support the overpayment; maintain documentation to support the reason for benefit reduction taken on any claim and the disqualification action taken on each case. These tasks were also consistent with those required by the DHRS policies and procedures. In addition, the RFP required the contractor to establish a minimum of \$1,952,250 in food stamp and AFDC claim

dollars each month. This requirement of the contractor was also based on DHRS FY 1994-1995 results.

Still other tasks defined under the RFP required the contractor to: send collection letters to inactive clients to seek recovery of the debt; to maintain supporting documentation as to collection efforts, payments received and posting of payments to client accounts; provide to clients monthly receipts of payments made, whether through benefit reduction or cash, and their remaining balance; and post, by the end of each month, to each client's claim the amount of payment, including recoupment payments, child support enforcement credit, or community service credit received during the month. Some of the above tasks required a 95% accuracy rate under the provisions of the RFP. The 95 percent accuracy requirement was arbitrary.

Original and Revised RFP

We found the RFP to be reasonably clear and the terms and provisions were easily understood. No problems were noted in the original RFP except that little information was provided which would enable a potential contractor to estimate costs for completing the tasks required. This issue was alleviated by the inclusion of more financial data in the revised RFP issued on February 23, 1996.

The DHRS sent an announcement of the RFP to approximately 350 companies, in addition to advertising the RFP in a weekly circular. The RFP was released in December 1995. The DHRS received approximately 40 requests for complete copies of the RFP. Nineteen companies filed a notice of intent to bid. The DHRS received only one response to the RFP; and that respondent proposed costs that significantly exceeded the limits set by DHRS.

The respondent's estimate for the first 6 months of the contract was approximately \$5.8 million, while the funding available for this time period was only \$2.4 million. For a full year of contract performance, the respondent estimated a cost of approximately \$11.5 million. Available funding for full year contract performance was only \$6.5 million. Consequently, DHRS decided to revise the RFP in an effort to attract more respondents.

The revised RFP was essentially divided into two parts. The revised RFP gave potential vendors the option of taking on the entire Benefit Recovery function (as in the original RFP), or of only performing collection activities for those overpayment claims against inactive clients. Both the original and revised RFPs called for contracts that were based on a fixed price plus a contingency fee.

Conclusions and Recommendations

The RFP to contract out the Overpayment and Recovery functions could be reasonably expected to enhance collections of overpayment account receivables, reduce the backlog of overpaid AFDC cases for which no claim has been established and no recovery effort made, and enable referred cases to have a claim established timely. However, most of the recommendations made in the September 1994 ACF report will not be met by the RFP, but rather must still be addressed on an in-house basis by DHRS.

We found no significant operational differences between the RFP and DHRS policies and procedures. We also found no problems with the language or clarity of the RFP itself.

Accordingly, we recommend that ACF:

- o require DHRS to prepare and implement a corrective action plan based on the deficiencies noted in ACF's September 1994 report and
- o follow closely DHRS' implementation of any privatization effort and other corrective actions. After a reasonable trial period of privatization, the ACF should reevaluate the entire Overpayment and Recovery process of DHRS to determine the effectiveness of DHRS's actions.

ACF Comments

The ACF generally agreed with our findings and recommendations. In their written comments to the draft report, ACF said that the State would be asked to develop and submit a corrective action plan. Subsequent to our receipt of ACF's written comments, ACF requested the State to develop and submit such a plan no later than June 30, 1996. The complete text of ACF's comments are included as Appendix II.

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Please refer to Common Identification Number (CIN) A-04-96-00096 in any correspondence related to this report.

If you have any questions regarding this report, please contact John Drake, Audit Manager at 1-2446, extension 104.


Charles J. Curtis

APPENDICES

Corrective Actions Recommended by ACF

1. Increase collections of overpayment account receivables.
2. Resolve the interface problem between the Florida system/ARS. The State should request (1) a status report of the transition of responsibility for processing payment rejection listings from the Centralized Unit at headquarters to the District offices; and (2) a status report of the number and dollar value of unprocessed payment rejections currently in the backlog awaiting manual processing.
3. Take actions to reduce the backlog of 160,000 overpaid AFDC cases (as of 9/94) for which no claim has been established and no recovery effort made. The ACF recommended a pilot project at the district level where the Eligibility Workers (EW) will establish the claims.
4. Establish controls to ensure 100 percent referral of overpaid cases from the EW (or Quality Control - QC) to the Benefit Recovery Unit (BRU). The ACF also recommended controls be established to ensure that all referrals that are due to be made be made as soon as possible after identification of the overpayment to increase the likelihood of full recovery of the overpayment.
5. Cause cases that are referred to have a claim established in a timely manner.
6. Consider reexamining its priorities for referral processing to give first consideration to those cases still on AFDC and which could be placed under immediate automatic recoupment via grant reduction. The ACF also recommended the State give greater priority to those cases for which the overpayment is the greatest in terms of dollars.
7. Needed clearer guidelines on obtaining signed repayment agreements from current recipients.
8. Reduce the average total elapsed time between receipt of an overpayment referral by Benefit Recovery (BR) and the establishment of a claim to the regulatory standard of 120 days. The ACF also noted that some claims were not being pursued in the most efficient manner (cash recovery vs. benefit reduction).

Corrective Actions Recommended by ACF

9. Reconsider its emphasis on prosecuting cases unless the dollar amount of the alleged fraud is extraordinarily high (\$3,000) or the claimant is a repeat offender.
10. Obtain a signed repayment agreement from every claimant, whether the repayment method is via recoupment or cash installment payments. The ACF also recommended that recoupment be the sole method of overpayment recovery from claimants who are currently receiving AFDC benefits.
11. Raise its current policy of recoupment at the rate of 5% of the AFDC benefit to the 10% maximum. This would be closer to the Federal regulations of promptness.
12. Develop an action plan for increasing the timeliness of repayments. One technique which should be considered for this is to give the highest staff priority to implementing prompt recoupment for claimants currently receiving AFDC.
13. Strengthen the procedures for obtaining signed repayment agreements.
14. Consider assigning all claims in which there has been no payment received in a year (and for which a standard series of enforcement activities has already been used) be placed into the reporting category of "Claims for Which Collections Will No Longer be Pursued." These claims would be considered as written off.
15. Clarify expectations for the BR worker in using enforcement techniques/methods. The State should include more monitoring of enforcement methods done by district/headquarters staff. The State should consider referring "Claims Which Will No Longer be Pursued" to private for-profit debt collection agencies. Contractual agreements could be negotiated based on a percentage of the debt recovered by the agency.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Refer to: OFS ER (5735)

ADMINISTRATION FOR
CHILDREN AND FAMILIES

Memorandum

May 15, 1996

From: Regional Administrator,
Administration for Children
and Families

Subject: Comments Regarding Draft Audit Report; Privatization of
Florida's Overpayment Recovery Function (A-04-96-00096)

To: Regional Inspector General
for Audit Services

This is to advise you that Mr. Eugene Roth of our Financial Operations staff has reviewed the subject draft audit report.

While Mr. Roth agrees with the general conclusions of the draft audit report--that the planned privatization of the overpayment recovery function would only partially address problems cited by the OIG and ACF-- he believes that the three problems it would address are very significant problems.

While it is true that ACF did make 15 recommendations for corrective action to the State and that the RFP for privatization clearly would address only 3 of the recommendations, the 3 recommendations which would be addressed are either "end products" in themselves or primary means toward achieving "end projects".

1. Increasing collections of **existing** overpayment account receivables is an "end product". For many years the State of Florida has been the poorest performer in Region IV and one of the poorest performers in the nation with regard to the percentage of its accounts receivable it collects during a fiscal year.

As of the present time, Florida has an outstanding accounts receivable of some \$71 million in established claims. An increase in **actual** collections on these existing claims, as proposed by the privatization contract, would result in a significant return of FFP to ACF for AFDC payments which were inappropriately issued by the State due to either agency error, client error, or potential fraud.

- MAY 15 1996
2. Reducing the backlog of some 160,000 cases which were pending claims establishment as of the time of ACF's review (or the 347,000 case backlog which

currently exists) in concert with recommendation number 1, to increase collections on established claims, again, would result in significant returns of inappropriately issued AFDC payments to both the State and Federal agencies.

3. Improving on the timeliness of claims establishment in order to initiate overpayment recovery either before an AFDC recipient loses his/her AFDC eligibility or soon thereafter, would serve to prevent buildup of a backlog of "pending claims" and would, if the collection effort were improved as anticipated in recommendation 1, result in significant financial returns to the Federal and State agencies.

While ACF still believes strongly in the remaining 12 recommendations which were made in the report of findings from our overpayment recovery review, we believe most of them are "process" oriented and could be readily achieved by DHRS if it was so committed.

In summary, we believe that a short term experimental privatization contract for certain functions relating to the overpayment recovery process is well worth a try. Over the years the DHRS has not made significant improvements in its overpayment recovery performance and it has not been responsive to recommendations made by either the OIG or ACF. Its cost efficiency in its overpayment recovery efforts has been one of the poorest in the nation. Even if the proposed privatization contract does not result in a significant increase in recoveries, we believe the costs of the collection effort and the claims establishment effort (if it is included in the contract) could potentially be significantly lower, if contracted out.

Given the current uncertainty of the privatization contract and the fact that even if awarded, it would not address all of ACF's concerns and recommendations, we **fully concur with the audit recommendation that DHRS be required to prepare and implement a corrective action plan based on the deficiencies noted in ACF's September 1994 report.**

While we have informally advised the State of this requirement, we did not set a specific time frame for the State's preparation of responses to our recommendations and for development of a corrective action plan. Based on our receipt of the OIG's draft audit report, we will formally advise the State to develop and submit its corrective action plan no later than June 30, 1996. We

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will clearly advise the State that it must specifically address those weaknesses which it intends a private contractor to address and those which it intends to address, internally. We will also advise the State that it must submit a contingency corrective action plan in the event privatization does not become a reality.

We will provide your office with a copy of our letter to the State. We expect this letter will be completed by Friday, May 10, 1996. We will also provide your office with a copy of the State's response when it is received.

Please contact Eugene Roth at 331-5735, extension 230, if you have any questions concerning these comments.


Suanne Brooks