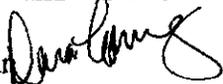




FEB 12 2004

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

FROM: Dara Corrigan 
Acting Principal Deputy Inspector General

SUBJECT: Review of Overpayment Collections for the Aid to Families with Dependent Children Program by San Diego County (A-09-02-00094)

We are alerting you to the issuance within 5 business days of our final report entitled "Review of Overpayment Collections for the Aid to Families with Dependent Children Program by San Diego County." A copy of the report is attached. To date, our reviews in 30 States have identified \$173 million in Aid to Families with Dependent Children (AFDC) overpayment collections that should be refunded to the Federal Government.

The AFDC program was repealed and replaced by the Temporary Assistance for Needy Families (TANF) program effective October 1, 1996. Despite the program's repeal, the Federal requirement to pursue and recover uncollected AFDC overpayments remains in place. For overpayments that occurred before October 1, 1996, States are required to refund to the Federal Government the Federal share of those recoveries.

Our objective was to determine whether California had refunded to the Federal Government the Federal share of AFDC overpayments collected by San Diego County. Our review covered overpayments collected from October 1, 1996 through June 30, 2002.

We found that the State had refunded the Federal share of overpayments collected in October and November 1996. For the remainder of the audit period, however, the State did not refund the Federal share. Based on statistically valid samples, we estimated that the outstanding Federal share totaled \$5,344,226. This noncompliance occurred because neither the State nor the county had established procedures to identify and remit to the Federal Government the Federal share of the county's AFDC overpayment collections.

We recommended that the State refund \$5,344,226 to the Federal Government and establish procedures to identify and refund the Federal share of the county's AFDC overpayments collected after June 30, 2002.

In its written comments on our draft report, the State concurred with our recommendations. The State noted that it was working with Office of Inspector General staff to develop a methodology to identify and repay the Federal share of outstanding AFDC collections in all counties.

If you have any questions or comments about this report, please do not hesitate to call me or have your staff call Donald L. Dille, Assistant Inspector General for Grants and Internal Activities, at (202) 619-1175 or email him at ddille@oig.hhs.gov. To facilitate identification, please refer to report number A-09-02-00094 in all correspondence.

Attachment



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

Report Number: A-09-02-00094
February 17, 2004

Mr. Larry Bolton
Chief Deputy Director, Acting
California Department of Social Services
744 P Street
Sacramento, California 95814

Dear Mr. Bolton:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Overpayment Collections for the Aid to Families with Dependent Children Program by San Diego County." A copy of the report will be forwarded to the action official noted below for her review and any action deemed necessary.

The HHS action official will make final determination as to the actions taken on all matters reported. 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 reports issued to HHS grantees and contractors are made available to members of the press and general public to the extent information is not subject to exemptions in the Act which HHS chooses to exercise (see 45 CFR Part 5).

To facilitate identification, please refer to report number A-09-02-00094 in all correspondence.

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**

**REVIEW OF OVERPAYMENT COLLECTIONS FOR
THE AID TO FAMILIES WITH DEPENDENT
CHILDREN PROGRAM BY SAN DIEGO COUNTY**



**FEBRUARY 2004
A-09-02-00094**

EXECUTIVE SUMMARY

OBJECTIVE

Our objective was to determine whether California had refunded to the Federal Government the Federal share of Aid to Families with Dependent Children (AFDC) overpayments collected by San Diego County. Our review covered overpayments collected from October 1, 1996, when the AFDC program was repealed and replaced by the Temporary Assistance for Needy Families (TANF) program, through June 30, 2002.

SUMMARY OF FINDINGS

The State refunded the Federal share of AFDC overpayments that the county collected during October and November 1996. However, the State did not refund an estimated \$5,344,226 Federal share of collections from December 1, 1996 through June 30, 2002.

Although the AFDC program has been repealed, Federal regulations still require that States pursue, recover, and remit to the Federal Government collections of AFDC overpayments that occurred before October 1, 1996. The State did not comply with this requirement because neither the State nor the county had established procedures to identify and remit the Federal share of AFDC overpayment collections.

RECOMMENDATIONS

We recommend that the State refund \$5,344,226 to the Federal Government and establish procedures to identify and refund the Federal share of the county's AFDC overpayments collected after June 30, 2002.

STATE'S COMMENTS

In responding to our draft report, the State concurred with our recommendations. We summarized the State's comments at the end of this report and included the complete text of the comments as Appendix C.

INTRODUCTION

BACKGROUND

The AFDC Program

Title IV-A of the Social Security Act established the AFDC program, which encouraged the care of needy dependent children in their own homes or in the homes of relatives. States were entitled to Federal reimbursement, through the Administration for Children and Families (ACF), for expenditures under the program. On October 1, 1996, the AFDC program was repealed and replaced by TANF, a Federal block grant program.

Under AFDC, some recipients received monthly assistance payments that were greater than the amounts allowed, thus resulting in overpayments. Federal regulations require State recovery efforts until the full amount of the overpayment is collected.

AFDC Overpayment Collections in California

The State required all 58 county welfare departments to take reasonable steps to promptly recover any overpayments. Counties were required to maintain a record of each overpayment, including the amount and the period in which it occurred. The county welfare departments used two primary methods for recovering overpayments: cash collections and grant adjustments. A grant adjustment reduced the amount of aid paid to a recipient.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether California had refunded to the Federal Government the Federal share of AFDC overpayments collected by San Diego County.

Scope and Methodology

Our review covered overpayments collected from October 1, 1996 through June 30, 2002. Our review of internal controls was limited to gaining an understanding of the county's methods for recording, collecting, and reporting AFDC overpayments and recoveries.

To accomplish our objective, we:

- reviewed 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 reports of assistance expenditures for October and November 1996 to the quarterly “AFDC Program Financial Report”;
- reviewed selected county monthly summary reports of assistance expenditures for reporting periods after November 1996 and traced the expenditures to the State compilations used for the quarterly “TANF ACF-196 Financial Report”;
- analyzed supporting documentation for selected summary reports of assistance expenditures and the “Quarterly Report of Overpayments and Collections”;
- reconciled cash collections reported on selected summary reports of assistance expenditures to cash collections reported on the “Quarterly Report of Overpayments and Collections”; and
- obtained an understanding of the overpayment, recovery, and adjustment codes used in the county’s automated systems.

To identify the Federal share of AFDC overpayments collected, we reviewed two statistically valid, stratified samples of overpayments collected from December 1, 1996 through June 30, 2002. In the first sample, we randomly selected 300 cash payment transactions from a total population of 158,870. Each payment transaction represented a cash collection of an overpayment. In the second sample, we randomly selected 300 case numbers from a population of 115,005 case numbers for which the county had reported 1 or more grant adjustments on monthly or quarterly reports. Each grant adjustment represented a reduction in a recipient’s aid in order to repay an overpayment. The population, as well as our sample, did not contain grant adjustments for April through June 30, 1998 because the county could not find its quarterly report covering that period. Appendices A and B describe our sampling methodologies in detail.

For each sampled item, we reviewed the case file and other supporting documentation. If the county could not provide either the case file or sufficient supporting documentation, we treated the sampled item as a non-AFDC overpayment recovery. We also verified, for each sampled item, that the recovery (1) was effective after November 1996, (2) was for a Federal AFDC overpayment, and (3) was an actual recovery and not a nonmonetary adjustment or correction.

We conducted fieldwork from September 2002 through August 2003 at the county offices in San Diego. We performed the audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The State appropriately refunded the Federal share of the county’s AFDC overpayment collections during October and November 1996. However, the State did not refund an estimated \$5,344,226 Federal share of collections from December 1, 1996 through June 30, 2002. At the time of our review, neither the State nor the county had procedures to identify and remit the Federal share of AFDC overpayment collections.

FEDERAL REGULATIONS AND INSTRUCTIONS

Regulations at 45 CFR § 233.20(a)(13) require States to recover AFDC overpayments. Also, ACF program instructions issued March 9, 1999 stated that in any quarter in which one or more AFDC overpayments are recovered, the Federal share must be refunded to the Federal Government. Program instructions dated September 1, 2000 clarify ACF's policy on the treatment of overpayments collected from individuals who received assistance benefits to which they were not entitled under either AFDC or TANF. These instructions state that, although the AFDC program was repealed and replaced by TANF, the requirement to pursue, recover, and remit uncollected AFDC overpayments remains unchanged.

MOST OVERPAYMENT COLLECTIONS NOT REFUNDED

Refunds Made for October and November 1996

The State properly refunded to the Federal Government its share of AFDC overpayments that the county collected in October and November 1996. These collections were included on the county's "Summary Report of Assistance Expenditures" and the State's "AFDC Program Financial Report" submitted to the Federal Government.

Refunds Not Made for December 1996 Through June 2002

Contrary to Federal regulations, the State did not refund the Federal share of AFDC overpayments that the county collected from December 1, 1996 through June 30, 2002. Based on our two samples, we estimated that these collections totaled at least \$10,688,451 (\$5,344,226 Federal share¹). We discuss the results of our samples below.

- **Cash payment transactions.** We reviewed 300 cash payment transactions totaling \$23,710. Of the \$23,710, \$17,350 represented amounts collected by the county for AFDC overpayments. Based on our sample, we are 95 percent confident that the county's AFDC cash payment transactions totaled at least \$6,872,307 (\$3,436,154 Federal share) from December 1, 1996 through June 30, 2002. (See Appendix A for details of the sampling methodology and results.)
- **Grant adjustments.** We reviewed 300 grant adjustments totaling \$27,927. Of the \$27,927, \$11,359 represented amounts collected by the county for AFDC overpayments. Based on our sample, we are 95 percent confident that the county's collected AFDC grant adjustments totaled at least \$3,816,144 (\$1,908,072 Federal share) from December 1, 1996 through June 30, 2002. (See Appendix B for details of the sampling methodology and results.)

¹ The Federal share was calculated by multiplying the total estimated amount recovered by the Federal Medicaid assistance percentage of 50 percent, which was the percentage in effect during fiscal year 1996.

AFDC COLLECTIONS INCORRECTLY APPLIED TO THE TANF PROGRAM

The State did not refund the Federal share of AFDC collections after November 1996 because neither the State nor the county had established procedures to identify and remit the Federal share. As of August 2003, procedures still were not in place.

With the introduction of California's TANF program at the end of November 1996, the county commingled AFDC overpayment recoveries with TANF overpayment recoveries on the "Summary Report of Assistance Expenditures." These indistinguishable recoveries were used to reduce the TANF expenditures reported by the State to the Federal Government on the quarterly "TANF ACF-196 Financial Report." That report did not provide a mechanism for refunding to the Federal Government its share of AFDC overpayment collections. Instead, the combined AFDC and TANF collections reduced the State's total expenditures applied against the TANF block grant amount. The unused block grant funds were then available to the State to fund additional TANF benefits.

RECOMMENDATIONS

We recommend that the State:

- refund \$5,344,226 to the Federal Government and
- establish procedures to identify and refund the Federal share of AFDC overpayments collected after June 30, 2002.

STATE'S COMMENTS

In its written comments, the State concurred with our recommendations. It agreed to repay \$5,344,226 and said that it was working with Office of Inspector General staff to develop a methodology to identify and repay the Federal share of outstanding AFDC collections in all counties. The complete text of the State's comments is included as Appendix C.

APPENDICES

**SAMPLE OF CASH PAYMENT TRANSACTIONS:
METHODOLOGY AND RESULTS**

The population for estimating the amount of cash payment transactions applicable to the AFDC program consisted of 158,870 transactions. A payment transaction represented a cash collection of an overpayment by San Diego County's Office of Revenue and Recovery and its disbursement to the county's Health and Human Services Agency.

Our stratified sample was designed so that each stratum would be about the same size. The sample consisted of 3 strata of 100 sampled items each. The Office of Inspector General, Office of Audit Services (OAS) statistical sampling software generated the random numbers used to select the sampled items. The Office of Revenue and Recovery's accounts receivable and trust system was used to draw a statistical sample to determine which sampled items should have been refunded to the Federal Government under the AFDC program.

We used the OAS Stratified Variable Appraisal Program to appraise the sample results. We used the difference estimator and projected a recovery at the lower limit of the 90-percent, two-sided confidence interval. Below are the projection of the sample results and the detail of the sample by stratum.

Projection of Sample Results

(Precision at the 90-Percent Confidence Level)

Upper Limit	\$11,518,880
Point Estimate	\$9,195,594
Lower Limit	\$6,872,307
Sample Precision	± 25.27 percent

Detailed Results of Sample by Stratum

Stratum Number	Period Covered	Population		Sample			
		Number of Payment Transactions	Total Dollar Value	Size	Examined Value	Number of Errors	Value of Errors
1	12/1/96 - 9/30/98	53,067	\$ 3,778,131	100	\$ 7,004	92	\$ 6,545
2	10/1/98 - 6/30/00	53,293	4,455,275	100	8,882	67	6,240
3	7/1/00 - 6/30/02	52,510	4,559,373	100	7,824	54	4,565
Total		158,870	\$12,792,779	300	\$23,710	213	\$17,350

SAMPLE OF GRANT ADJUSTMENTS: METHODOLOGY AND RESULTS

The population for estimating the grant adjustments applicable to the AFDC program consisted of 115,005 case numbers for which at least 1 grant adjustment was reported either on the December 1996 “Monthly Report of AFDC Overpayment Activity Listing of Current Cases” or on the “Quarterly Report of AFDC Overpayment Activity Listing of Current Cases” for the quarters ended March 31, 1997 through June 30, 2002. The population does not include case numbers for the quarter ended June 30, 1998 because the county was unable to locate that quarterly report. The sampling unit was a case number for which at least one grant adjustment was posted on a monthly or quarterly report.

We used a stratified sampling approach based on the county’s quarterly reporting periods, except that the period for December 1996 included only that month. The population was stratified because other work in a similar audit showed that grant adjustments related to AFDC overpayments diminished as time passed. The stratification was designed so that each stratum would be about the same size. The sample consisted of 3 strata of 100 sampled items each. The OAS statistical sampling software generated the random numbers used to select the sampled items.

We used the OAS Stratified Variable Appraisal Program to appraise the sample results. We used the difference estimator and projected a recovery at the lower limit of the 90-percent, two-sided confidence interval. Below are the projection of the sample results and the detail of the sample by stratum.

Projection of Sample Results

(Precision at the 90-Percent Confidence Level)

Upper Limit	\$5,511,627
Point Estimate	\$4,663,886
Lower Limit	\$3,816,144
Sample Precision	± 18.18 percent

Detailed Results of Sample by Stratum

Stratum Number	Monthly/Quarterly Reports for the Period	Population		Sample			
		Total Number of Case Numbers	Total Dollar Value	Size	Examined Value	Number of Errors	Value of Errors
1	12/96 - 9/98 ²	43,041	\$ 4,894,316	100	\$11,659	62	\$ 8,149
2	12/98 - 6/00	37,844	3,598,082	100	9,015	14	1,644
3	9/00 - 6/02	34,120	2,942,050	100	7,253	12	1,566
Total		115,005	\$11,434,448	300	\$27,927	88	\$11,359

² The population and our sample do not include case numbers for the quarter ended June 30, 1998 because the county was unable to locate that quarterly report.

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY

GRAY DAVIS, Governor

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, California 95814



October 29, 2003

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

Dear Ms. Ahlstrand:

Report Number: A-09-02-00094

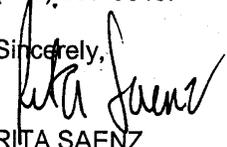
This letter is in response to the U.S. Department of Health and Human Services, Office of Inspector General (OIG), Office of Audit Services' (DHHS-016-OAS) draft report entitled "Review of Overpayment Collections Made for the Aid to Families with Dependent Children Program by the San Diego County Health and Human Services Agency." The California Department of Social Services (CDSS) concurs with the report recommendation to repay the \$5,344,226 federal share for the Aid to Families with Dependent Children (AFDC) overpayments recovered by the county from December 1, 1996 through June 30, 2002.

The draft report also requested that CDSS establish procedures to identify and refund the federal share of AFDC overpayment collections made by San Diego County after June 30, 2002. Unlike the approach used in San Bernardino County, which we described in our previous letter, San Diego County and the other 56 counties do not have this capability.

In spite of counties' inability to capture needed information, the CDSS is currently working with your regional staff to review and consider results of all three AFDC overpayment recovery audits in order to develop a methodology to identify and repay AFDC collection amounts outstanding in all counties.

If you have any questions, please contact me at (916) 657-2598 or have your staff contact Bruce Wagstaff, Deputy Director of the Welfare to Work Division, at (916) 657-3546.

Sincerely,


RITA SAENZ
Director



ACKNOWLEDGMENTS

This report was prepared under the direction of Lori A. Ahlstrand, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Thomas P. Lenahan, *Audit Manager*

Virginia Luzi, *Senior Auditor*

Sandra Hernandez, *Auditor*

Patricia Morgan, *Auditor*

Michael McGee, *Auditor*

Technical Assistance: Region IX Advanced Techniques staff

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.