



SEP - 9 2008

TO: Daniel C. Schneider
Acting Assistant Secretary for Children and Families

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of Improper Temporary Assistance for Needy Families Basic Assistance Payments in California for April 1, 2006, Through March 31, 2007 (A-09-07-00087)

Attached is an advance copy of our final report on improper Temporary Assistance for Needy Families (TANF) basic assistance payments in California for April 1, 2006, through March 31, 2007. We will issue this report to the California Department of Social Services (the State agency) within 5 business days. The Administration for Children and Families (ACF) and the Office of Management and Budget requested this review.

The TANF program, which the Federal and State Governments jointly fund and administer, is a block grant program that provides eligible families with work opportunities and other assistance, including basic assistance payments for such ongoing basic needs as food, clothing, shelter, and utilities. Federal and State laws, regulations, and other requirements establish TANF eligibility, payment, and documentation requirements.

Our objectives were to determine whether the State agency (1) made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations and (2) accurately reported basic assistance expenditures to ACF.

For the period April 1, 2006, through March 31, 2007, the State agency made some TANF basic assistance payments that did not meet Federal and State requirements and did not adequately document all eligibility and payment determinations. The State agency accurately reported basic assistance expenditures to ACF.

We did not identify any errors in 133 of the 150 payments in our statistical sample. However, the remaining 17 payments were improper. For 14 of these payments, the recipient families were ineligible for TANF basic assistance or the payments were calculated improperly. For three payments, the case files did not contain all required documentation supporting eligibility and payment determinations.

Based on our sample results, we estimated that the overall TANF improper payment rate was 5.7 percent of the Federal dollars expended and 11.3 percent of the number of basic assistance payments made for the 1-year audit period. Specifically, we estimated that the State agency paid \$91,613,100 (Federal share) for 558,647 improper payments.

We recommend that the State agency:

- use the results of this review to help ensure compliance with Federal and State TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring county office employees to verify eligibility information and maintain appropriate documentation in all case files,
- follow State law and guidance by ensuring that recipients are experiencing hardship when extending TANF basic assistance payments beyond the 60-month Federal lifetime limit,
- determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible, and
- recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

In its comments on our draft report, the State agency agreed with all of our recommendations except the second one. The State agency commented that it followed State law and guidance when granting hardship extensions of TANF basic assistance payments beyond the 60-month Federal lifetime limit. We maintain the validity of our finding and recommendation related to such extensions.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at Lori.Pilcher@oig.hhs.gov or Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360 or through e-mail at Lori.Ahlstrand@oig.hhs.gov. Please refer to report number A-09-07-00087.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

SEP 16 2008

Region IX
Office of Audit Services
90 - 7th Street, Suite 3-850
San Francisco, CA 94103

Report Number: A-09-07-00087

Mr. John A. Wagner
Director
California Department of Social Services
744 P Street
Sacramento, California 95814

Dear Mr. Wagner:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Improper Temporary Assistance for Needy Families Basic Assistance Payments in California for April 1, 2006, Through March 31, 2007." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Alice Norwood, Audit Manager, at (415) 437-8360 or through e-mail at Alice.Norwood@oig.hhs.gov. Please refer to report number A-09-07-00087 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Sharon M. Fuji
Regional Administrator
Administration for Children and Families
U.S. Department of Health and Human Services
90 Seventh Street, Ninth Floor
San Francisco, California 94103

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF IMPROPER
TEMPORARY ASSISTANCE FOR
NEEDY FAMILIES BASIC
ASSISTANCE PAYMENTS IN
CALIFORNIA FOR APRIL 1, 2006,
THROUGH MARCH 31, 2007**



Daniel R. Levinson
Inspector General

September 2008
A-09-07-00087

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Temporary Assistance for Needy Families (TANF) program, a block grant program, provides eligible families with work opportunities and other assistance, including basic assistance payments for such ongoing basic needs as food, clothing, shelter, and utilities. The Federal and State Governments jointly fund and administer the TANF program. The Administration for Children and Families (ACF), Office of Family Assistance, administers the program at the Federal level.

Federal and State laws, regulations, and other requirements establish TANF eligibility, payment, and documentation requirements. To be eligible for TANF, a needy family must, among other requirements, include a minor child or pregnant woman, not exceed established time limits for receiving assistance, engage in work activities, not exceed income and resource thresholds established by the State, meet citizenship and residency requirements, submit a written application for benefits, and furnish the Social Security number of each family member. The State must maintain records on the provision of assistance, including facts to support eligibility and payment determinations.

In California, the Department of Social Services (the State agency) administers the TANF program. The government offices of the 58 California counties (county offices) determine the eligibility of applicants and the payment amounts for basic assistance. For the period April 1, 2006, through March 31, 2007, the State agency made 4,929,234 monthly basic assistance payments totaling \$2,592,785,088 (\$1,614,527,274 Federal share) to or on behalf of TANF recipient families.

ACF and the Office of Management and Budget (OMB) requested this review.

OBJECTIVES

Our objectives were to determine whether the State agency (1) made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations and (2) accurately reported basic assistance expenditures to ACF.

SUMMARY OF FINDINGS

For the period April 1, 2006, through March 31, 2007, the State agency made some TANF basic assistance payments that did not meet Federal and State requirements and did not adequately document all eligibility and payment determinations. The State agency accurately reported basic assistance expenditures to ACF.

We did not identify any errors in 133 of the 150 payments in our statistical sample. However, the remaining 17 payments were improper:

- For 14 payments, the recipient families were ineligible for TANF basic assistance or the payments were calculated improperly.
- For three payments, the case files did not contain all required documentation supporting eligibility and payment determinations.

Based on our sample results, we estimated that the overall TANF improper payment rate was 5.7 percent of the Federal dollars expended and 11.3 percent of the number of basic assistance payments made for the 1-year audit period. Specifically, we estimated that the State agency paid \$91,613,100 (Federal share) for 558,647 improper payments, including \$89,689,384 for 492,924 overpayments and \$1,923,716 for 65,723 underpayments. The following table summarizes our statistical estimates.

Statistical Estimates of Improper Payments

Error Category	Improper Payment Rate		Improper Payments	
	Federal Dollars	No. of Payments	Federal Dollars	No. of Payments
Eligibility and payment calculation errors	4.51%	9.33%	\$72,889,240	460,062
Documentation errors	1.16%	2.00%	18,723,860	98,585
Overall	5.67%	11.33%	\$91,613,100	558,647

RECOMMENDATIONS

We recommend that the State agency:

- use the results of this review to help ensure compliance with Federal and State TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring county office employees to verify eligibility information and maintain appropriate documentation in all case files,
- follow State law and guidance by ensuring that recipients are experiencing hardship when extending TANF basic assistance payments beyond the 60-month Federal lifetime limit,
- determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible, and
- recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

STATE AGENCY COMMENTS

In its comments on our draft report (Appendix E), the State agency agreed with all of our recommendations except the second one. The State agency commented that it followed State law and guidance when granting hardship extensions of TANF basic assistance payments beyond the 60-month Federal lifetime limit.

The State agency also expressed its concerns about the audit methodology, development of a national TANF payment error rate, and posting our individual State reports on the Internet before the eight-State review process is complete.

OFFICE OF INSPECTOR GENERAL RESPONSE

We maintain the validity of our finding and recommendation regarding the extension of TANF benefits, as well as the validity of our audit methodology.

The Improper Payments Information Act of 2002 requires Federal agencies to estimate the annual amount of improper payments in their programs and to report that estimate to Congress. ACF and OMB requested this review of the TANF program for fiscal year 2008 performance and accountability reporting. With respect to posting reports on the Internet, the Consolidated Appropriations Act of 2008 (Public Law 110-161), section 746, requires that each Office of Inspector General post on its Web site any public report or audit issued within 1 day of its release.

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INTRODUCTION

BACKGROUND

The Administration for Children and Families (ACF) and the Office of Management and Budget (OMB) requested this review of the Temporary Assistance for Needy Families (TANF) program for fiscal year 2008 performance and accountability reporting.

Improper Payments Information Act of 2002

The Improper Payments Information Act of 2002 (Public Law 107-300) requires Federal agencies to estimate and report to Congress on the annual amount of improper payments in their programs, the causes of the improper payments, and the corrective actions taken. Section 2(d)(2) of this Act (31 U.S.C. § 3321) states that an improper payment:

- . . . (A) means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and
- (B) includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.

To clarify this definition, OMB Circular A-123, Appendix C, part I.A, states that “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error.”

Temporary Assistance for Needy Families Program

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) established the TANF program to help families progress from welfare to self-sufficiency. The Federal and State Governments jointly fund and administer the program. At the Federal level, the ACF Office of Family Assistance administers the program. Within broad national guidelines established by Federal statutes, regulations, and other requirements, States have significant flexibility in designing their programs and determining eligibility requirements.

The Federal Government provides TANF funds in the form of block grants, which are specified amounts directly allocated to States. To be eligible for a TANF block grant, a State must submit a State plan to ACF within the 27-month period prior to the Federal fiscal year in which the funds are to be provided. The State plan is an outline of how each State will operate its TANF program, including program administration, criteria for determining eligibility and delivering benefits, and assurances against fraud and abuse. ACF reviews the State plan for completeness

but does not issue an approval. ACF has stated that a determination that a plan is complete does not constitute its endorsement of State policies.¹

Pursuant to section 401 of the Social Security Act (the Act), the TANF program provides assistance and work opportunities to needy families. As a general rule, States must use the funds for eligible families with a minor child or pregnant woman and for one of the four purposes of the TANF program, including providing assistance to needy families.² Federal regulations (45 CFR § 260.31(a)(1)) define assistance as cash, payments, vouchers, and other forms of benefits designed to meet a family's ongoing basic needs, including, but not limited to, food, clothing, shelter, and utilities. Such assistance is referred to as "basic assistance."

States may use various funding options to provide benefits and services under their TANF programs (e.g., commingled Federal and State funds or segregated State funds). The funding option chosen determines what specific requirements apply and whether a particular use of funds is appropriate. Commingled Federal and State funds are subject to Federal laws and requirements.

California's Temporary Assistance for Needy Families Program

In California, the Department of Social Services (the State agency) administers the TANF program. The government offices of the 58 California counties (county offices) determine the eligibility of applicants for TANF benefits. The county offices use one of four computerized payment and information reporting systems to process and pay TANF basic assistance benefits.³

The State agency has opted to commingle Federal and State funds in its TANF program. During our audit period, the State agency, on average, funded 62 percent of its basic assistance expenditures from the Federal TANF block grant, and the State and counties paid the remaining 38 percent.

The State agency requires individuals to submit written applications for TANF basic assistance. The county offices review the applications and determine whether individuals meet TANF eligibility requirements. For each applicant determined eligible, the county office determines the amount of assistance to be paid to the family. As part of the application process, the county office informs the applicant of his or her responsibility to notify the county office of specified changes that might affect eligibility or payment status.

¹See 64 Federal Register 17720, 17847 (April 12, 1999).

²The other purposes of TANF are to (1) end the dependence of needy parents by promoting job preparation, work, and marriage; (2) prevent and reduce out-of-wedlock pregnancies; and (3) encourage the formation and maintenance of two-parent families (section 401 of the Act).

³The four systems are (1) Consortium-IV; (2) the California Work Opportunity and Responsibility to Kids (CalWORKs) Information Network; (3) the Interim Statewide Automated Welfare System; and (4) the Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting System.

On a quarterly basis, the county offices are required to redetermine recipient eligibility by verifying a limited number of eligibility requirements and to redetermine assistance amounts using prospective budgeting.⁴ The county offices base eligibility and assistance amounts for the upcoming quarter on information that recipients provide on their Quarterly Eligibility/Status Reports. Assistance amounts may not be revised during the quarter, except under specified circumstances.

On an annual basis, recipients must submit new written applications, and the county offices must verify any updated information and redetermine eligibility.

Federal and State Requirements Related to Temporary Assistance for Needy Families Basic Assistance

The State agency must comply with certain Federal requirements in determining and redetermining eligibility and payment amounts. Federal regulations (45 CFR §§ 205.51–205.60 and parts 260–264) set forth basic TANF eligibility requirements that States must impose on families receiving assistance, including time limits and work requirements for adults. Appendix A of this report contains the specific Federal requirements related to TANF basic assistance.

In addition, the California State plan, the California Welfare and Institutions Code (WIC, Division 9, Part 3, Chapters 1 and 2), and State guidance establish TANF basic assistance requirements. The State plan incorporates Federal requirements and establishes all other eligibility requirements, such as income and resource levels and standards of need,⁵ as set forth in State law and guidance. Appendix B of this report contains the specific State requirements related to TANF basic assistance.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether the State agency (1) made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations and (2) accurately reported basic assistance expenditures to ACF.

⁴Prospective budgeting uses reasonably anticipated income to determine recipient benefits. Income is considered reasonably anticipated when (1) the income has been or will be approved or authorized as of a date within the upcoming quarter, or the household is otherwise reasonably certain that the income will be received within the quarter, and (2) the amount of income is known (WIC § 11265.2(a) and (b)).

⁵The State sets the standard of need based on the number of household members and uses the standard to determine eligibility for TANF basic assistance (WIC § 11450).

Scope

Our audit period covered April 1, 2006, through March 31, 2007. We did not review the overall internal control structure of the California TANF program. Rather, we reviewed the State agency's procedures relevant to the objectives of the audit.

We performed fieldwork from June 2007 through February 2008 at the State agency in Sacramento, California, and at selected county offices throughout the State.

Methodology

To accomplish our objectives, we:

- reviewed Federal and State laws, regulations, and other requirements related to TANF basic assistance eligibility and payment amounts;
- held discussions with ACF regional officials and with State officials to obtain an understanding of policies, procedures, and guidance for determining TANF basic assistance eligibility and payment amounts;
- obtained a list of TANF basic assistance payments for the period April 1, 2006, through March 31, 2007, from the four computerized payment and information reporting systems used in California and from four counties;⁶
- combined payments to or on behalf of each recipient family in a month and obtained a universe of 4,929,234 monthly payments totaling \$2,592,785,088 (\$1,614,527,274 Federal share);
- validated the universe of payments, including reported expenditures;
- calculated the average Federal share of California's TANF basic assistance expenditures for the audit period by dividing the Federal dollars listed on line 5A (basic assistance payments) of California's quarterly reports to ACF by the total dollars listed on line 5A; and
- selected a simple random sample of 150 payments from the universe of 4,929,234 monthly payments, as detailed in Appendix C.

For each of the 150 sampled items, we determined whether the corresponding case file (electronic or paper) contained sufficient information for the county office to have made a TANF basic assistance eligibility determination on the date of initial determination or redetermination.

⁶During the audit period, four counties transitioned from legacy systems to the CalWORKs Information Network. For these counties, we obtained payment information from the counties for the months before the transitions occurred and from the CalWORKs Information Network for the months after the transitions occurred.

We also attempted to obtain sufficient independent information to determine whether the recipient family was eligible for TANF basic assistance and received the proper payment amount on the payment date selected. Specifically, we determined whether:

- the case file contained a completed application from the recipient family head of household;
- the case file contained a Social Security number for each member of the recipient family and, if so, whether the Social Security Administration had issued the number to the family member;
- the recipient family resided in California by checking driver's licenses, rental agreements, or Federal, State, or local government correspondence;
- each family member's identity, including name and age, was adequately documented in the case file (e.g., birth certificates, adoption papers, court decrees, and passports);
- each noncitizen family member's citizenship status in the case file matched the information on file with the U.S. Citizenship and Immigration Services' Systematic Alien Verification for Entitlement program;
- the recipient family's income was at or below the income threshold required to be eligible for TANF basic assistance on the payment date selected by reviewing information from the State's Income Eligibility and Verification System, the State Employment Development Department, and the case file;
- the recipient family's resources were at or below the resource threshold required to be eligible for TANF basic assistance on the payment date selected by checking the State Department of Motor Vehicles records on automobile ownership;
- the recipient family was not receiving concurrent payments from California and a neighboring State (Oregon, Nevada, or Arizona) by checking the State agency's Integrated Fraud Detection System;
- no member of the recipient family was a fugitive felon or parole violator by checking the application and the Quarterly Eligibility/Status Report in the case file;
- the recipient family complied with child support requirements by reviewing information from the case file and the county child support enforcement agency;
- assistance was not provided to any adult member, minor head of household, or minor spouse in the recipient family for a total of more than 60 cumulative months by reviewing information from the State agency's Welfare Data Tracking Implementation Project; and

- the parent or caretaker in the recipient family met work requirements by reviewing the case file.

We estimated, for the total universe of 4,929,234 TANF monthly basic assistance payments, the total Federal dollar value of payments with eligibility or calculation errors and with documentation errors (overpayments, underpayments, and combined over/underpayments). We also estimated, for the total universe, the total number of these improper payments.

In addition, we determined the improper payment rate in dollars by dividing the estimated improper Federal dollars by the total Federal dollars in the universe. We also determined the improper payment rate for the number of payments in error by dividing the estimated number of improper payments by the total number of payments in the universe.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

The State agency made some TANF basic assistance payments that did not meet Federal and State requirements and did not adequately document all eligibility and payment determinations. The State agency accurately reported basic assistance expenditures to ACF.

Of the 150 payments in our statistical sample, 17 payments totaling \$2,788 (Federal share) were improper because the recipient families were ineligible for TANF basic assistance, the payments were calculated improperly, or the case files did not contain all required documentation supporting eligibility and payment determinations. The 17 improper payments consisted of 15 overpayments totaling \$2,729 and 2 underpayments totaling \$59. We did not identify any errors in the remaining 133 payments.

Based on our sample results, we estimated that the overall TANF improper payment rate was 5.7 percent of the Federal dollars expended and 11.3 percent of the number of basic assistance payments made for the 1-year audit period. Specifically, we estimated that the State agency paid \$91,613,100 (Federal share) for 558,647 improper payments, including \$89,689,384 for 492,924 overpayments and \$1,923,716 for 65,723 underpayments. (See page 10 for additional statistical estimates.)

IMPROPER PAYMENTS

Table 1 summarizes the errors noted in the 17 improper payments in our sample.

Table 1: Summary of Improper Payments

Type of Error	Improper Federal Payments	No. of Improper Payments
Eligibility and Payment Calculation Errors		
Recipient families were ineligible:		
Income threshold exceeded on payment dates	\$765	3
60-month limit exceeded	<u>300</u>	<u>1</u>
Subtotal	\$1,065	4
Payments were calculated improperly:		
Incorrect household income	\$681	5
Incorrect budget amounts	141	3
Noncompliance with work requirements	83	1
Noncompliance with school attendance requirements	<u>248</u>	<u>1</u>
Subtotal	<u>1,153</u>	<u>10</u>
Subtotal	\$2,218	14
Documentation Errors		
Documentation was not sufficient to support eligibility and payment determinations	<u>\$570</u>	<u>3</u>
Total	\$2,788	17

We have provided details on each of these payment errors to the State agency.

Eligibility and Payment Calculation Errors

Recipient Families Were Ineligible

Pursuant to 45 CFR § 263.2(b)(3), income and resource thresholds are established by the State and must be included in the State plan. Generally, income thresholds vary based on the number of family members in the household. Federal regulations (45 CFR §§ 205.51 and 205.55) establish requirements for income and eligibility verification. These regulations, which govern the Income and Eligibility Verification System, require a State to request information from other agencies to verify individuals' eligibility for assistance under the State plan and the correct amount of assistance payments for applicants and recipients.

The county offices are required to inform each applicant and recipient, at the time of application and subsequently, of his or her initial and continuing responsibilities to furnish accurate, complete, and current eligibility information (WIC § 11004(a) and (b)). In addition, WIC § 11265.3 requires each applicant and recipient to make a timely report to the county office of certain changes that may affect eligibility or the amount of the monthly assistance payment.

Pursuant to 45 CFR § 264.1(a)(1), no State may use any of its Federal TANF funds to provide assistance to a family that includes an adult head of household or a spouse of the head of household who has received Federal assistance for a total of 5 years (i.e., a cumulative total of

60 months, whether or not consecutive). However, 45 CFR § 264.1(c) allows States the option to extend assistance beyond the 5-year limit for up to 20 percent of the average monthly number of families receiving assistance during the fiscal year on the basis of hardship, as defined by the State, or battery of a family member.⁷ Pursuant to WIC § 11454(c), assistance to a family will not be discontinued upon receipt of 60 months of TANF basic assistance if the family is experiencing a hardship. Hardship exists when all parent or caretaker relatives living with the child meet any of the following requirements: (1) they are at least 60 years of age; (2) they have primary responsibility for providing care for a child, and such care impairs their ability to be regularly employed or to participate in welfare-to-work activities; (3) they are required to be present in the home because of another household member's illness or incapacity, and their caretaking responsibilities impair their ability to be regularly employed or to participate in welfare-to-work activities; (4) they are receiving State Disability Insurance or Workers' Compensation Temporary Disability Insurance, and the disability significantly impairs their ability to be regularly employed or to participate in welfare-to-work activities; or (5) they are incapable of maintaining employment or participating in welfare-to-work activities, as determined by the county.

Of the 150 sampled payments, 4 payments totaling \$1,065 (Federal share) were made to or on behalf of recipient families who did not meet Federal and State eligibility requirements:

- For three overpayments totaling \$765 (Federal share), the recipient families' household incomes exceeded the TANF basic assistance income threshold on the payment dates.
- For one overpayment totaling \$300 (Federal share), the recipient family received TANF assistance for more than 60 months and did not qualify for an extension on the basis of hardship or battery of a family member. According to State agency officials, the State agency extended assistance because it relied on hardship experienced by the recipient before the 60 months had expired.

Payments Were Calculated Improperly

Under Federal regulations (45 CFR § 263.2(b)(3)), States determine whether recipients are financially eligible for assistance. Pursuant to WIC § 11265.1(a), county offices are required to redetermine recipient eligibility and assistance amounts on a quarterly basis using prospective budgeting. The county offices must use the information on recipients' Quarterly Eligibility/Status Reports to prospectively determine eligibility and assistance amounts for the following quarter. The budget must be recalculated whenever there is a change in the recipient's income or household circumstances.

Federal regulations (45 CFR § 261.10(a)(1)) require that a parent or caretaker receiving assistance engage in work activities when the State has determined that the individual is ready to

⁷Section 408(a)(7)(C) of the Act exempts families from being terminated from TANF assistance once they reach the 60-month limit; it does not exempt them from accruing months toward the limit. The statute permits States to continue to provide assistance to families beyond the 60-month limit based on hardship or battery of a family member (69 Fed. Reg. 17847, April 12, 1999).

do so or when he or she has received assistance for a total of 24 months, whichever is earlier. If an individual refuses to engage in work, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions that the State may establish (45 CFR § 261.14(a)). Under WIC § 11327.5(c), as stated in the California State plan, a public assistance recipient who refuses or fails without good cause to comply with employment requirements must be removed from the assistance unit until the individual performs the required employment activity.⁸ WIC § 11320.3(b) establishes the circumstances under which an applicant or recipient may be exempt from employment requirements. (See page 4 of Appendix B.)

All children in an assistance unit for whom school attendance is compulsory are required to attend school (WIC § 11253.5). If a child does not attend school regularly as required, the calculation of assistance will not include the needs of the noncompliant child who is age 16 or older, or, in the case of a noncompliant child under age 16, the calculation of assistance will not consider the needs of any adults included in the assistance unit.

Of the 150 sampled payments, 10 payments totaling \$1,153 (Federal share) were made to or on behalf of recipient families who were eligible for basic assistance but for whom payments were calculated improperly:

- Five overpayments totaling \$681 (Federal share) were calculated using incorrect income amounts.
- Three payments totaling \$141 (Federal share) were calculated using incorrect budget amounts. The three payments consisted of one overpayment of \$82 that resulted from using an incorrect household size and two underpayments totaling \$59 that resulted from incorrect adjustments.
- One overpayment totaling \$83 (Federal share) was calculated without a reduction for a recipient family member who did not comply with work requirements and did not qualify for an exemption from the State agency.
- One overpayment totaling \$248 (Federal share) was calculated without a reduction for a recipient family member who did not comply with State school attendance requirements.

Documentation Errors

State agencies are required to maintain records regarding applications and eligibility determinations for the provision of financial assistance. Included in such records should be facts supporting initial and continuing eligibility determinations (45 CFR § 205.60(a)). OMB Circular A-123, Appendix C, part I.A, states that when a Federal agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must be considered an error.

⁸An assistance unit is a group of related persons living in the same home who have been determined to be eligible for TANF assistance and for whom cash aid has been authorized ("Manual of Policies and Procedures," section 80-301(a)(9)(QR)).

Pursuant to WIC § 11050, a State-prescribed written application must be completed for each case. In addition, WIC § 11265(a) requires that all variable factors of need and eligibility be reconsidered, reevaluated, and verified at least every 12 months. At the time of the redetermination, the family must complete a certificate of eligibility containing a written declaration of the information required to establish continuing eligibility and the assistance amount. WIC § 11265(b) provides that the certificate must include (1) the names of all children receiving aid; (2) their present residence; (3) the names and status of adults living in the home; (4) the name and, if known, the Social Security number and present whereabouts of a parent who is not living in the home; and (5) any outside income that may have been received through employment, gifts, or the sale of real or personal property.

The case files for three sampled payments totaling \$570 (Federal share) did not contain adequate documentation to support eligibility and payment determinations. For these overpayments, the missing documentation included an application covering the payment month and/or facts supporting exemptions from work activities.

CONCLUSION

Some of the sampled payments did not meet Federal and State eligibility, payment, or documentation requirements. For these payments, (1) recipient families did not fully disclose information at the time of application or eligibility redetermination and did not notify the county offices of changes in financial situation or other changes affecting eligibility, (2) the county offices did not verify all information provided to support applications, (3) one county office incorrectly provided assistance to a recipient beyond the 60-month Federal limit, or (4) the county offices did not maintain appropriate documentation to support eligibility and payment determinations.

Based on our sample results, we estimated that the TANF improper payment rate was 5.7 percent of the Federal dollars expended and 11.3 percent of the number of basic assistance payments made for the 1-year audit period. Specifically, we estimated that the State agency paid \$91,613,100 (Federal share) for 558,647 improper payments, including \$89,689,384 for 492,924 overpayments and \$1,923,716 for 65,723 underpayments. Table 2 summarizes our statistical estimates. (See Appendix D for details on our sample results and estimates.)

Table 2: Statistical Estimates of Improper Payments

Error Category	Improper Payment Rate		Improper Payments	
	Federal Dollars	No. of Payments	Federal Dollars	No. of Payments
Eligibility and payment calculation errors	4.51%	9.33%	\$72,889,240	460,062
Documentation errors	1.16%	2.00%	18,723,860	98,585
Overall	5.67%	11.33%	\$91,613,100	558,647

We are not recommending recovery of the overpayments identified in this report primarily because ACF decided to assess penalties⁹ in the TANF program rather than take disallowances in response to audit findings.

RECOMMENDATIONS

We recommend that the State agency:

- use the results of this review to help ensure compliance with Federal and State TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring county office employees to verify eligibility information and maintain appropriate documentation in all case files,
- follow State law and guidance by ensuring that recipients are experiencing hardship when extending TANF basic assistance payments beyond the 60-month Federal lifetime limit,
- determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible, and
- recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its comments on our draft report (Appendix E), the State agency agreed with all of our recommendations except the second one. The State agency commented that it followed State law and guidance when granting hardship extensions of TANF basic assistance payments beyond the 60-month Federal lifetime limit and that it was referring this issue to ACF for policy clarification.

In addition, the State agency expressed concerns about the findings, audit methodology, development of a national TANF payment error rate, and posting of individual State reports on the Internet. The State agency's specific comments on these issues and our responses follow.

Findings

State Agency Comments

The State agency disagreed that one case did not qualify for the hardship extension of the 60-month Federal lifetime limit and disputed our application of the hardship rule. With respect to the finding that a recipient family member did not comply with State school attendance

⁹Penalties are set forth in section 409 of the Act.

requirements, the State agency disagreed with the scope of the review because it included California-specific requirements. The State agency agreed that three cases lacked documentation but said that the errors were procedural and should not be treated as payment errors.

Office of Inspector General Response

We applied Federal and State requirements regarding the extension of TANF benefits. Because the recipient family received TANF assistance for more than 60 months and did not qualify for an extension on the basis of hardship or battery of a family member, the sampled payment was erroneous. With respect to our application of California-specific requirements, the objective of our review was to determine the State agency's compliance with both Federal and State requirements. OMB Circular A-123, Appendix C, part 1.A, states that "when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error."

Sampling Methodology

State Agency Comments

Because we used five different sources of data to compile our sampling frame, the State agency questioned whether the frame was truly representative of the target population so that every member of that population had an equal probability of selection. In addition, the State agency commented that the sample size was too small and that the report did not state the confidence interval or measure of error. Finally, the State agency commented that we had not provided, as requested, the descriptive statistics for the sampling frame.

Office of Inspector General Response

Our sampling frame was valid and represented TANF payments reimbursed to California from April 2006 through March 2007. The sources of the payment data that we used for the sampling frame were the same sources that California used to prepare its Federal claim. We reconciled the payments included in the sampling frame to the amounts on the State agency's Federal claim. Our sample unit was a monthly TANF basic assistance payment to or on behalf of a recipient family. The payment included all basic assistance payments made to or on behalf of the family for the month. Therefore, each monthly payment in the sampling frame had an equal probability of being selected for review.

We used our statistical sampling software to generate 150 random numbers and selected the items with corresponding numbers from the sampling frame. Our software has passed numerous tests for randomness prescribed by the National Bureau of Standards (now known as the National Institute of Standards and Technology). Because our software includes a valid random number generator, all sample units in the frame had an equal probability of being selected.

The sample size does not affect the validity of the statistical estimates, which we calculated using an unbiased estimator. The upper and lower limits of the confidence interval take into

account the sample size, and we fully disclosed those limits in Appendix D. The sample allowed us to estimate the amount of improper payments in the sampling frame. We reported the point estimate and the sampling error at the 90-percent confidence level in Appendix D. Our sampling and estimation methodologies were unbiased and statistically valid.

With respect to the State agency's request for descriptive statistics, we provided the State agency with the data necessary to calculate the statistics for the sampling frame.

Estimates Generated From the Review

State Agency Comments

The State agency commented that using the lower limit estimates would be more appropriate than using the point estimates to calculate error rates. In addition, the State agency commented that we had mistakenly extrapolated findings to the universe of participants.

Office of Inspector General Response

According to the theory of probability and the principles of statistical sampling, the lower limit would not represent a more appropriate estimate of the errors in the population than the point estimate. The 90-percent confidence interval provides 90-percent assurance that the true error value is within the upper and lower limits. The point estimate is the midpoint of that range.

We extrapolated the findings to the sampling frame, which consisted of monthly payments.

Unit of Analysis and Definition of Error

State Agency Comments

The State agency commented that the report did not define the unit of analysis for the measurement of the objectives as the TANF worker error rate. The State agency also commented that (1) the two categories of errors were treated as though they were independent and were mistakenly summed to obtain improper payment rates and (2) documentation errors were a likely subset of eligibility and payment calculation errors.

Office of Inspector General Response

Our objective was to examine payment errors, not worker error rate. As stated in Appendix C, the sample unit was a monthly TANF basic assistance payment to or on behalf of a recipient family for the audit period. The payment included all basic assistance payments made to or on behalf of the family for the month.

We did not treat documentation errors as a subset of eligibility and payment calculation errors. The overall improper payment rates consisted of (1) eligibility and payment calculation errors and (2) documentation errors. Eligibility and payment calculation errors are payments made by

the State agency that did not comply with Federal and/or State requirements. Documentation errors are payments for which the documentation was not sufficient for us to determine whether the payments were proper.

Controlling for Nonsampling Errors

State Agency Comments

The State agency questioned whether our auditors were trained to properly categorize payments so that each case was evaluated in a standardized fashion. The State agency also questioned whether we used a standardized set of criteria to classify documentation errors.

Office of Inspector General Response

To assist our auditors in evaluating the sampled payments, the State agency provided training on eligibility requirements and payment calculations. We evaluated each of the 150 sampled payments for compliance with applicable Federal and State requirements.

Our review found that 17 of the sampled payments were improper. The 17 payments were treated as either eligibility errors or documentation errors but not both. The State agency agreed with our conclusions on 16 of the 17 errors. For the only error with which the State agency disagreed, the State agency said that it would contact ACF for policy clarification.

National Payment Error Rate and Posting Reports on the Internet

State Agency Comments

The State agency expressed its concerns about developing a national TANF payment error rate because States are allowed to use different eligibility criteria, budgeting methodologies, and sanctioning procedures in their programs. The State agency requested that we refrain from posting our individual State reports on the Internet until the entire eight-State TANF review process is complete and all reports are final.

Office of Inspector General Response

The Improper Payments Information Act of 2002 requires Federal agencies to estimate the annual amount of improper payments in their programs and to report that estimate to Congress. As stated on page 1 of this report, ACF and OMB requested this review of the TANF program for fiscal year 2008 performance and accountability reporting.

With respect to posting reports on the Internet, the Consolidated Appropriations Act of 2008 (Public Law 110-161), section 746, requires that each Office of Inspector General post on its Web site any public report or audit issued within 1 day of its release.

APPENDIXES

**FEDERAL REQUIREMENTS RELATED TO TEMPORARY ASSISTANCE
FOR NEEDY FAMILIES BASIC ASSISTANCE**

- Section 401 of the Social Security Act (the Act) states that one purpose of the Temporary Assistance for Needy Families (TANF) program is to provide assistance to needy families.
- The Federal Register, Vol. 64, No. 69, page 17825 (April 12, 1999) defines a needy family as one that is financially deprived, i.e., lacking adequate income and resources.
- Regulations (45 CFR § 260.31(a)(1)) define assistance as cash, payments, vouchers, and other forms of benefits designed to meet a family's ongoing basic needs (i.e., food, clothing, shelter, utilities, household goods, personal care items, and general incidental expenses), as well as supportive services, such as transportation and childcare provided to families whose household heads are not employed.
- Regulations (45 CFR § 263.2(b)) state that cash assistance benefits may be provided only to or on behalf of eligible families.
- Section 408(a)(1) of the Act requires that a State not use any part of the grant to provide assistance to a family unless the family includes a minor child who resides with the family or includes a pregnant woman.
- Section 408(a)(4) of the Act requires that a State not use any part of the TANF grant to provide assistance to an individual who has not attained 18 years of age, is not married, has a minor child at least 12 weeks of age in his or her care, and has not successfully completed a high school education or its equivalent.
- Section 408(a)(7) of the Act and 45 CFR § 264.1(a)(1) provide that a State may not use Federal TANF funds to provide assistance to a family that includes an adult who has received Federal assistance for more than 60 cumulative months. However, 45 CFR § 264.1(c) allows States the option to extend assistance beyond the 5-year limit for up to 20 percent of the average monthly number of families receiving assistance during the fiscal year on the basis of hardship, as defined by the State, or battery of a family member.
- Regulations (45 CFR § 261.10(a)(1)) require that a parent or caretaker receiving assistance engage in work activities when the State has determined that the individual is ready to do so or when the individual has received assistance for a total of 24 months, whichever is earlier.
- Regulations (45 CFR §§ 205.52(a)(1) and (2)) require, as a condition of eligibility, that each applicant for or recipient of aid furnish his or her Social Security number to the State or local agency. If the individual cannot recall or was not issued a Social Security number, the individual is required to apply to the Social Security Administration (SSA)

for a number through procedures adopted by the State or local agency. If such procedures are not in effect, the individual must apply directly for such a number, submit verification of such application, and provide the number upon its receipt.

- Regulations (45 CFR § 205.52(g)) require the State agency to submit all unverified Social Security numbers to SSA for verification.¹
- Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193, as codified, in part, at 8 U.S.C. §§ 1601–1646) requires a TANF recipient to be a citizen or national of the United States or a qualified alien. Legal resident aliens and other qualified aliens who entered the United States on or after August 22, 1996, are ineligible for assistance for the first 5 years after entry.
- Regulations (45 CFR § 263.2(b)(3)) state that TANF basic assistance income and resource thresholds are established by the State and must be included in the State plan.
- Regulations (45 CFR §§ 205.51 and 205.55) establish requirements for income and eligibility verification. These regulations governing the Income and Eligibility Verification System require States to request information from other Federal and State agencies to verify individuals' eligibility for assistance under the State plan and the correct amount of assistance payments for applicants and recipients.
- Regulations (45 CFR § 264.30(a)) require the State agency to refer to the child support enforcement agency all appropriate individuals in the family of a child for whom paternity has not been established or for whom a child support order needs to be established, modified, or enforced. Referred individuals must cooperate in establishing paternity and in establishing, modifying, or enforcing a support order with respect to the child.
- Section 408(a)(2) of the Act provides that if an individual does not cooperate with the State in establishing paternity or in establishing, modifying, or enforcing a support order, the State must reduce assistance by at least 25 percent or may deny the family any assistance.
- Section 408 of the Act prohibits assistance for individuals who (1) fail to assign support rights to the State, (2) fail to attend high school or an equivalent training program when the individual is a teenage parent, (3) fail to reside in an adult-supervised setting when the household head is a teenager, (4) are fugitive felons or parole violators, or (5) are minor children absent from the home or parents who fail to notify the State agency of the absence.

¹The State agency may accept as verified a Social Security number provided directly to the State agency by SSA or by another Federal or federally assisted benefit program that has received the number from SSA or has submitted it to SSA for verification.

- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193, as codified, in part, at 8 U.S.C. §§ 1601–1646), section 115(a)(1), prohibits assistance for individuals who have been convicted of a drug-related felony.
- Regulations (45 CFR § 205.60(a)) require State agencies to maintain records regarding applications and eligibility determinations for the provision of assistance. Included in such records should be facts supporting initial and continuing eligibility determinations.
- Regulations (45 CFR part 265) establish that States must report TANF financial data on a quarterly basis to ACF. Pursuant to 45 CFR §§ 265.7(a) and 265.4(a), each State's quarterly reports must be complete, accurate, and filed within 45 days of the end of the quarter. A complete and accurate report means that (1) the reported data accurately reflect information available to the State in case records, financial records, and automated data systems; (2) the data are free from computational errors and are internally consistent; and (3) the reported data include all applicable elements (45 CFR § 265.7(d)).

**STATE REQUIREMENTS RELATED TO TEMPORARY ASSISTANCE
FOR NEEDY FAMILIES BASIC ASSISTANCE**

- The California State plan states that California's welfare reform program, the California Work Opportunity and Responsibility to Kids (CalWORKs) program, is supervised by the Department of Social Services (the State agency) and administered by county welfare departments.
- The State agency's "Manual of Policies and Procedures" (MPP), sections 40-107(c) and (d), state that the county is responsible for determining that the applicant or recipient meets the requirements of all necessary eligibility factors based on an evaluation of all available evidence. Once the applicant's eligibility is established, the county is responsible for determining his or her financial and medical needs. The county is also responsible for developing and carrying out plans for meeting such needs within the limitations of the Welfare and Institutions Code (WIC) and State regulations.
- WIC § 11050 requires that a State-prescribed written application be completed for each case.
- WIC § 11265 requires that the counties redetermine eligibility annually. At the time of the redetermination, counties must require the family to complete a certificate of eligibility containing a written declaration of the information required to establish continuing eligibility and the amount of the grant. The certificate must include blanks for indicating (1) the names of all children receiving aid; (2) their present place of residence; (3) the names and status of adults living in the home; (4) the name and, if known, the Social Security number and present whereabouts of a parent who is not living in the home; and (5) any outside income that may have been received through employment, gifts, or the sale of real or personal property.
- Pursuant to WIC § 11265.1(a), counties must redetermine recipient eligibility and grant amounts on a quarterly basis using prospective budgeting. Counties must use the information reported on a recipient's quarterly report to prospectively determine eligibility and the grant amount for the following quarterly reporting period.
- MPP 44-316.321 requires a recipient to report the following changes during the quarter within 10 days of the date that the change becomes known to the assistance unit: (1) income exceeding the income reporting threshold, (2) occurrences of drug felony convictions, (3) occurrences of fleeing felon status, (4) occurrences of violation of conditions of probation or parole, and (5) address changes.
- WIC §§ 11004(a) and (b) state that an applicant or recipient is responsible for reporting accurately and completely, within his or her competence, those facts material to a correct determination of eligibility and grant amount.

- WIC § 11004(c) states that current and future grants payable may be reduced because of prior overpayments. If the overpayments were caused by agency error, grant payments must be reduced by 5 percent of the maximum aid payment to the assistance unit. If the overpayments were caused by any other reason, grant payments must be reduced by 10 percent of the maximum aid payment.
- WIC § 11265.3(d) states that during the quarterly reporting period, a recipient may report to the county any changes in income or household circumstances. Counties must act only on changes in household composition voluntarily reported by the recipient that result in an increase in benefits, after verification is received.
- WIC § 11268(a) requires, as a condition of eligibility, that each applicant for or recipient of aid furnish his or her Social Security number or submit verification of application for a Social Security number.
- The California State plan states that a family member must be a citizen or qualified alien pursuant to the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.
- WIC § 11105(a) states that to be eligible for assistance, the recipient must live in the State.
- WIC § 11450(b) states that to receive family assistance, a family must include a child or a pregnant woman. WIC § 11250 states that to receive family assistance, a family must include a deprived related child under the age of 18, except as provided in section 11253. A child is deprived of parental support or due care because of (1) the death, physical or mental incapacity, or incarceration of a parent; (2) the unemployment of a parent or parents; or (3) the continued absence of a parent from the home due to divorce, separation, desertion, or any other reason, except absence due to active duty in the uniformed services of the United States.
- Pursuant to WIC §§ 11324.8(a)(1)(C) and 11477.02, the applicant or recipient must cooperate in establishing paternity and enforcing child support obligations and must assist individuals in establishing paternity and obtaining child support as a condition of eligibility. If the applicant or recipient is found to have not cooperated without good cause, the applicant's or recipient's family grant must be reduced by 25 percent for such time as the failure to cooperate lasts.
- WIC § 11477 requires, as a condition of eligibility, that each applicant or recipient assign to the county any rights to support from any other person that the applicant or recipient may have on his or her own behalf or on behalf of any other family member for whom the applicant or recipient is applying for or receiving aid.

- WIC § 11254(a) requires that a teenage parent who has not attained 18 years of age, is not married, and has a minor child in his or her care must reside in the parent's, legal guardian's, or adult relative's home.
- WIC § 11454 requires that a parent or caretaker relative not receive more than a cumulative total of 60 months of Federal assistance. This provision is not applicable when all parent or caretaker relatives of the aided child who are living with the child meet any of the following requirements:
 - They are 60 years of age or older.
 - They have primary responsibility for providing care for a child, and such care impairs their ability to be regularly employed or to participate in welfare-to-work activities.
 - They are required to be present in the home because of illness or incapacity of another member of the household, and their caretaking responsibilities impair their ability to be regularly employed or to participate in welfare-to-work activities.
 - They are receiving State Disability Insurance or Workers' Compensation Temporary Disability Insurance, and the disability significantly impairs their ability to be regularly employed or to participate in welfare-to-work activities.
 - They are incapable of maintaining employment or participating in welfare-to-work activities, as determined by the county.
- WIC § 11251.3 states that convicted drug felons are ineligible for assistance. WIC § 11486.5 states that fleeing felons and probation and parole violators are ineligible for assistance.
- Pursuant to WIC § 11322.8(a), an adult in a single-parent household is required to participate in work activities for a minimum of 32 hours per week. For two-parent families, WIC § 11322.8(b) states that a recipient must participate in work activities for at least 35 hours per week. Both parents in the assistance unit may contribute toward the 35 hours.
- The California State plan states that any nonexempt recipient of assistance who refuses to sign his or her welfare-to-work plan, refuses to cooperate in meeting program requirements, or fails to fulfill the terms of his or her welfare-to-work plan without good cause must be removed from the assistance unit, incurring a financial sanction, until the individual performs the required welfare-to-work activity.

- WIC § 11320.3(b) exempts an applicant or a recipient of public assistance from participation in public assistance work activities if he or she is determined to be (1) an individual under age 16; (2) a child attending an elementary, secondary, vocational, or technical school on a full-time basis; (3) disabled or of advanced age; (4) a nonparent caretaker relative who has primary responsibility for providing care for a child, and the county determines that the caretaking responsibilities are beyond those considered normal day-to-day parenting responsibilities such that they impair the caretaker relative's ability to be regularly employed or to participate in welfare-to-work activities; (5) an individual whose presence in the home is required because of illness or incapacity of another member of the household and whose caretaking responsibilities impair the recipient's ability to be regularly employed or to participate in welfare-to-work activities; (6) a parent or other relative who has primary responsibility for providing care to a child under 12 months of age; or (7) a woman who is pregnant and for whom it has been medically verified that the pregnancy impairs her ability to be regularly employed or to participate in welfare-to-work activities.
- WIC § 11450.12(a) states that an applicant family is not eligible for assistance unless the family's income, exclusive of the first \$90 of earned income for each employed person, is less than the minimum basic standard of adequate care, as adjusted for cost-of-living increases. The minimum basic standard of adequate care is designed to ensure (1) safe, healthful housing; (2) minimum clothing for health and decency; (3) a low-cost adequate food budget; (4) utilities; (5) other items, including household operation, education and incidentals, recreation, personal needs, and insurance; and (6) allowance for essential medical, dental, or other remedial care (WIC § 11452(a)).
- Pursuant to WIC § 11450.12(b), a recipient family is not eligible for assistance if income, exclusive of exempt amounts, equals or exceeds the maximum aid payment.
- WIC § 11155(a) specifies that the maximum amount of assets that a family may own and still qualify for assistance is \$2,000.
- The California State plan states that a minor child must not be absent from the home for more than 1 full calendar month of at least 30 days, with some exceptions defined in State regulations.
- WIC § 10830(b) requires every applicant or recipient of aid, other than dependent children or persons who are physically unable to be fingerprint imaged, as a condition of eligibility, to be fingerprint imaged.
- WIC § 11253 states that aid may not be granted to or on behalf of any child who has attained the age of 18 unless (1) the child is less than 19 years of age and is attending high school or the equivalent level of vocational or technical training on a full-time basis and (2) the child can reasonably be expected to complete the educational or training program before his or her 19th birthday.

- Pursuant to WIC § 11253.5, all children in an assistance unit for whom school attendance is compulsory must attend school. If the eligible child under age 16 does not attend school regularly, the needs of all adults in the assistance unit will not be considered in the computation of the grant amount. If the eligible child who is 16 years old or older does not attend school regularly, the needs of the child will not be considered in the computation of the grant amount. In addition, MPP 40-105.5(b) states that recipients must cooperate in providing routinely available documentation of school attendance for all applicable school-age children in the assistance unit when requested by the county.
- WIC § 11265.8 requires all applicants and recipients to provide documentation that all children in the assistance unit not required to be enrolled in school have received all age-appropriate immunizations, unless it has been medically determined that an immunization for a child is not appropriate or the applicant or recipient has filed with the county an affidavit that the immunizations are contrary to the applicant's or recipient's beliefs.
- WIC § 11264 states that no child maintained in an institution, for whom a bona fide offer of a proper home has been made, is eligible for further aid. In addition, WIC § 11269 states that no child may receive aid while he or she is a patient in a public hospital, except with respect to temporary medical or surgical care not exceeding 2 calendar months.

SAMPLE DESIGN AND METHODOLOGY

SAMPLE OBJECTIVE

Our objective was to determine whether the State agency made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations.

AUDIT UNIVERSE

The universe consisted of all TANF basic assistance payments made for the 12-month audit period that ended March 31, 2007.

SAMPLING FRAME

The sampling frame was a computer file containing 4,929,234 monthly basic assistance payments to or on behalf of TANF recipients in California for the 12-month period that ended March 31, 2007. The total TANF reimbursement for the 4,929,234 payments was \$2,592,785,088 (\$1,614,527,274 Federal share).

SAMPLE UNIT

The sample unit was a monthly TANF basic assistance payment to or on behalf of a recipient family for the audit period. The payment included all basic assistance payments made to or on behalf of the family for the month.

SAMPLE DESIGN

We used a simple random sample.

SAMPLE SIZE

We selected a sample size of 150 monthly TANF basic assistance payments.

SOURCE OF THE RANDOM NUMBERS

The source of the random numbers was the Office of Inspector General, Office of Audit Services, statistical sampling software, RAT-STATS 2007, version 1. We used the random number generator for our simple random sample.

METHOD FOR SELECTING SAMPLE ITEMS

We sequentially numbered the payments in our sampling frame and selected the sequential numbers that correlated to the random numbers. We then created a list of 150 sampled items.

CHARACTERISTICS TO BE MEASURED

We based our determination of whether each sampled payment was improper on Federal and State laws, regulations, and other requirements. Specifically, if at least one of the following characteristics was met, we considered the payment under review improper:

- The recipient family did not meet one or more eligibility requirements.
- The recipient family was eligible for assistance but received an improper payment amount (overpayment or underpayment).
- The case file did not contain sufficient documentation to support eligibility and payment determinations as required by Federal and State regulations.

ESTIMATION METHODOLOGY

We used RAT-STATS to calculate our estimates. We estimated the total Federal dollar value of TANF basic assistance payments with eligibility or payment calculation errors and with documentation errors (overpayments, underpayments, and combined over/underpayments). We also estimated the total number of these improper payments.

In addition, we determined the improper payment rate for the dollars expended by dividing the estimated improper Federal dollars by the total Federal dollars in the universe. We also determined the improper payment rate for the number of payments in error by dividing the estimated number of improper payments by the total number of payments in the universe.

SAMPLE RESULTS AND ESTIMATES

OVERALL SAMPLE RESULTS AND ESTIMATES

Sample Details

Value of Universe (Federal Share)	No. of Payments in Universe	Value of Sampled Payments (Federal Share)	Sample Size
\$1,614,527,274	4,929,234	\$50,709	150

Overall Sample Results

	Value of Improper Payments (Federal Share)	No. of Improper Payments
Overpayments	\$2,729	15
Underpayments	59	2
Overall	\$2,788	17

Overall Estimates

Limits Calculated for a 90-Percent Confidence Interval

	Overall		Overpayments		Underpayments	
	Estimated Value of Improper Payments	Estimated No. of Improper Payments	Estimated Value of Improper Payments	Estimated No. of Improper Payments	Estimated Value of Improper Payments	Estimated No. of Improper Payments
Point estimate	\$91,613,100	558,647	\$89,689,384	492,924	\$1,923,716	65,723
Lower limit	46,879,122	362,367	44,942,423	308,855	-352,808	11,704
Upper limit	136,347,078	814,009	134,436,346	738,403	4,200,239	203,944

Calculation of Overall Improper Payment Rate

Dollar value of payments	$\frac{\text{Estimated improper Federal dollars}}{\text{Total Federal dollars in universe}} = \frac{\$91,613,100}{\$1,614,527,274} = 5.67\%$
Number of payments	$\frac{\text{Estimated No. of improper payments}}{\text{Total No. of payments in universe}} = \frac{558,647}{4,929,234} = 11.33\%$

**SAMPLE RESULTS AND ESTIMATES FOR ELIGIBILITY
AND PAYMENT CALCULATION ERRORS**

Sample Results—Eligibility and Payment Calculation Errors

	Value of Improper Payments (Federal Share)	No. of Improper Payments
Overpayments	\$2,159	12
Underpayments	59	2
Overall	\$2,218	14

Estimates—Eligibility and Payment Calculation Errors
Limits Calculated for a 90-Percent Confidence Interval

	Overall		Overpayments		Underpayments	
	Estimated Value of Improper Payments	Estimated No. of Improper Payments	Estimated Value of Improper Payments	Estimated No. of Improper Payments	Estimated Value of Improper Payments	Estimated No. of Improper Payments
Point estimate	\$72,889,240	460,062	\$70,965,524	394,339	\$1,923,716	65,723
Lower limit	32,410,842	282,501	30,489,136	230,732	-352,808	11,704
Upper limit	113,367,639	700,230	111,441,914	623,026	4,200,239	203,944

Calculation of Improper Payment Rate—Eligibility and Payment Calculation Errors

Dollar value of payments	$\frac{\text{Estimated improper Federal dollars}}{\text{Total Federal dollars in universe}} = \frac{\$72,889,240}{\$1,614,527,274} = 4.51\%$
Number of payments	$\frac{\text{Estimated No. of improper payments}}{\text{Total No. of payments in universe}} = \frac{460,062}{4,929,234} = 9.33\%$

SAMPLE RESULTS AND ESTIMATES FOR DOCUMENTATION ERRORS

Sample Results—Documentation Errors

Value of Improper Payments (Federal Share)	No. of Improper Payments
\$570	3

Estimates—Documentation Errors

Limits Calculated for a 90-Percent Confidence Interval

	<u>Estimated Value of Improper Payments</u>	<u>Estimated No. of Improper Payments</u>
Point estimate	\$18,723,860	98,585
Lower limit	-1,593,905	26,978
Upper limit	39,041,624	250,782

Calculation of Improper Payment Rate—Documentation Errors

Dollar value of payments	$\frac{\text{Estimated improper Federal dollars}}{\text{Total Federal dollars in universe}} = \frac{\$18,723,860}{\$1,614,527,274} = 1.16\%$
Number of payments	$\frac{\text{Estimated No. of improper payments}}{\text{Total No. of payments in universe}} = \frac{98,585}{4,929,234} = 2.00\%$

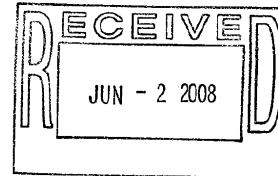


CDSS

JOHN A. WAGNER
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DEPARTMENT OF SOCIAL SERVICES
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GOVERNOR

May 30, 2008

Ms. Lori A. Ahlstrand
Regional Inspector General for Audits Services
Department of Health and Human Services
Office of Inspector General
Region IX
Office of Audit Services
90 – 7th Street, Suite 3-650
San Francisco CA 94103



Dear Ms. Ahlstrand:

The California Department of Social Services (CDSS) has reviewed the draft report, dated April 30, 2008, entitled "Review of Improper Temporary Assistance for Needy Families (TANF) Basic Assistance Payments in California for April 1, 2006 Through March 31, 2007." This letter serves as our formal response to the report A-09-07-00087, as well as to the proposed establishment of a national payment error rate for the TANF program. The letter also provides a more detailed response to the audit's methodology, findings and recommendations.

I would like to be clear that it is essential to ensure that TANF payments are made properly and that TANF recipients receive the amount of aid to which they are entitled. However, establishing a national error rate is not the way to go about it. California agrees with the concerns of the other seven audited states and the American Public Human Services Association, the National Association of State TANF Administrators, and the National Association for Program Information and Performance Management regarding these TANF Program audits. The establishment of a national payment error rate for a flexible block grant program such as TANF will result in a state-by-state comparison that is not meaningful. Under TANF, states now have the flexibility of using differing eligibility criteria, budgeting methodologies, and sanctioning procedures to implement each state's strategy to increase the self sufficiency of program participants. These vastly differing policies and processes make comparison from state to state in the context of a national payment error rate highly questionable.

Representatives of the eight affected states have met twice with federal officials to discuss these concerns. The states' concerns have not been adequately addressed, nor has reasonable consideration been given to a proposed alternative methodology that would more reasonably and appropriately evaluate individual state program compliance with federal requirements.

The cover letter to this draft report indicates that within ten business days after the final report is issued, the Office of Inspector General (OIG) will post the report to the internet. I respectfully

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request that the OIG refrain from posting information on specific state reviews until the entire eight-state review is complete and all reports are final. The review process was constructed with the "ultimate objective of determining a nationwide payment error rate," and the construct requires that all of the eight state reviews be conducted and completed in order to establish that rate. Given that the review of all eight states is not complete and that the audit methodology is highly suspect as to its application of determining an error rate, posting a state's results without the larger nationwide context will be confusing and misleading to the public.

Following are our specific responses to California's review.

AUDIT METHODOLOGY

We have reviewed the sampling strategy employed by the OIG, the review protocols used to determine the overpayments, and confidence intervals of the point-estimates (error rates) disclosed in the OIG draft report.

Overall, we disagree with the findings, because they are based on an improper sampling method and inappropriate extrapolation of findings to the TANF caseload in California. Our disagreement is based on widely accepted scientific principles for sampling and generalizing findings to populations. Any use of the data to establish or compare state or national error rates would be inaccurate and problematic.

Sampling Methodology: The quality of a sample frame is critical to the inferential value provided by the power of a simple random sample. More clearly, a sample frame needs to be truly representative of the target population, so that every member of that target population would have appropriate representation and would have an equal probability of selection. There is no indication from the OIG of the validity of the sample frame used for this audit – the report does not provide any evidence using standard scientific principles of sampling that all of the payments for the time period of study, April 1, 2006 through March 31, 2007, had an equal probability of being selected in the simple random sample drawn by the OIG.

For example, the OIG's universe of 4,929,234 cases comprised TANF basic assistance payments from five different sources: from the four computerized payment and information reporting systems used in California and from four counties that had transitioned from legacy systems to the CalWORKs Information Network automation system. This raises concerns regarding the homogeneity of the data elements originating from different sources and their representation in the sample of 150 cases.

Furthermore, based on widely accepted statistical principles, the sample size of 150 is too small to build a confidence interval that will contain the true proportion of errors. The statistical method for determining the sample size is not stated in the report, and is likely based on the premise of cost effectiveness of the audit rather than the statistical validity.

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Finally, the report states that the confidence level is 90 percent, but does not state the confidence interval or measure of error. Without this information and the descriptive statistics for the sample frame, which we requested on May 6, 2008 but have not yet received, it is inaccurate to assume that the results of the 150 sample cases should be considered representative of the state's entire TANF program.

Estimates Generated from the Review: Because of the likelihood of sampling errors relating to sample size and sample design, the range in the estimates of payments found to be improper is enormous. For example, for the overall sample estimates, the limits are \$46 million and \$136 million with the point-estimate (mid-point) of \$91 million, suggesting that the sample size may be too small to generate statistically valid estimates. It also indicates that the coefficient of variation of the sample dollars paid and the dollars overpaid is much higher than the generally accepted ten percent, especially when a smaller sample is used to develop a point-estimate. Due to these factors, the use of the lower limit estimates is more appropriate in the calculation of the error rates since by definition, it compensates for these errors created by the small sample size.

The OIG mistakenly extrapolated findings to the universe of participants. This is inappropriate given that the unit of analysis is worker error (see below). Also, the OIG mistakenly interprets the sample error rate as the universe or population error rate in its application of findings. In other words, they applied their findings as though they had 100 percent confidence.

Unit of Analysis: The report does not define the unit of analysis for the measurement of the objectives as TANF worker error rate. However, one of the objectives of the OIG audit was to detect several types of errors committed by workers, and therefore, the unit of analysis is worker error. The unit of analysis is not participant error, and selection should not take place at the participant level. The objectives of the audit would require a stratified sampling method by worker; first, by randomly selecting workers, and second, randomly selecting case(s) from workers identified in the first step.

Definition of Error: The two categories of errors described in the report are treated as though they are independent and mistakenly summed to obtain improper payment rates of 5.7 percent of TANF funding and 11.33 percent of payments. Documentation errors are a likely subset of eligibility and payment calculation errors, which mean the overall improper payment rate would be less than the percentages noted above.

Controlling for the Non-sampling Errors: The non-sampling error encompasses all factors other than the sampling error that contribute to the total error of an estimate¹. Two areas of concern in the OIG's review of California TANF basic assistance payments that are unclear and may have impacted the error rates are:

- (1) Whether each reviewer was trained to use specific objective criteria to categorize payments as whole dollar amounts vs. partial dollar amounts in error so that each case was evaluated in a standardized fashion, and

¹ Non-sampling errors arise mainly due to misleading definitions, inadequate sampling frames, unsatisfactory evaluation procedures, and defective methods of data collection.

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- (2) Whether a standardized set of criteria was used to classify the errors due to lack of documentation, as the word "error" used in this context is not synonymous with a minor compliance issue.

In summary, it appears that the sampling strategy used by the OIG is based on the premise of cost effectiveness of the review rather than the statistical validity of the same. We feel that given the noted concerns regarding the statistical sampling and review strategy, the findings of this review are not appropriate for use in the calculation of published state or national error rates. The use of the point estimate methodology is especially problematic if the error rates from different states are used for computation of a national error rate or state comparisons, because the error margins are too large and would differ from state to state. The result of these types of computation or comparisons would be misleading to the general public.

FINDINGS

As noted above, we disagree with the findings, because the sampling methodology is significantly flawed, and the conclusions drawn from the audit are not justified by widely accepted statistical principles.

Eligibility and Payment Calculation Errors: Seventeen cases out of 150 reviewed were found to include an improper payment. For 14 payments, the recipient families were ineligible for TANF basic assistance or the payments were calculated improperly.

Response: CDSS has corrected 13 of the 14 payment errors. There is one case in the category of improper payment that CDSS takes issue with regarding the application of the hardship rule. CDSS disagrees with the finding that one case did not qualify for the hardship extension of the 60-month time limit. This finding is based on OIG's interpretation of the application of the hardship rule. We dispute that interpretation as well as the OIG's jurisdiction on this matter. We are referring the issue to the Administration of Children and Families (ACF) as the proper entity to review and provide policy clarification in this area. Any recalculating of the payment for the cited case is on hold pending that determination.

Even though the payment has been corrected, CDSS does not agree with the scope of the review including specific state requirements not found in other states. The standards that states should be measured against should be consistent nationwide and be limited to those imposed by federal statute and regulation. The finding in question relates to the imposition of school attendance requirements, and that is a California-specific rule not found in federal rules. In that regard, we question the validity of applying state specific rules across states when developing a national error rate.

Documentation Errors: Three cases out of the 17 errors found do not contain documentation to support eligibility and payment determinations.

Response: While CDSS agrees that the cases lacked documentation, CDSS finds these errors to be procedural and that they should not be treated as payment errors.

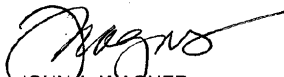
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RECOMMENDATIONS

1. Use the results of this review to help ensure compliance with federal and state TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring county office employees to verify eligibility information and maintain appropriate documentation in all case files.
Response: CDSS agrees with the recommendation.
2. Follow state law and guidance by ensuring that recipients are experiencing hardship when extending TANF basic assistance payments beyond the 60-month federal lifetime limit.
Response: CDSS is following state law and guidance in this regard and disagrees with the interpretation made by the OIG and is referring the matter to ACF for policy clarification.
3. Determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible.
Response: CDSS has completed this review.
4. Recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.
Response: CDSS has confirmed with the counties that all appropriate recalculations have been made.

If you have any questions about this letter or need further information, please contact me at (916) 657-2598 or Charr Lee Metsker, Deputy Director, at (916) 657-3546 or via e-mail at CharrLee.Metsker@dss.ca.gov.

Sincerely,



JOHN A. WAGNER
Director

c: California Welfare Directors Association