



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION



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FEBRUARY 7, 1980

B-197050

The Honorable Patricia Roberts Harris
The Secretary of Health, Education,
and Welfare

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Dear Mrs. Harris:

Subject: State Advance Payments to Aid to Families
with Dependent Children Recipients Are In-
consistent with Federal Regulations
(HRD-80-50)

We recently completed a survey of the Aid to Families
with Dependent Children (AFDC) program. The purpose of
the survey was to examine the program policies, management
characteristics, and operational procedures in six States 1/
and several of their local welfare agencies to identify areas
for further audit or analysis.

Although we identified several matters on which addi-
tional work is planned, we noted an issue concerning assist-
ance payments that warrants your immediate attention. Pur-
suant to payment policies which we believe are inconsistent
with Federal regulations, New York and Massachusetts (the
latter with your approval) are making advance payments to
AFDC recipients and are obtaining 50-percent Federal par-
ticipation. During 1978 these payments amounted to a mini-
mum of about \$6 million in New York and about \$33.6 million
in Massachusetts. In addition, an undeterminable portion
of the \$6 million and about \$1.4 million of the \$33.6
million are overpayments, which may not be recouped.

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We recommend that you disapprove the advance payment
policy in Massachusetts and disallow any claims by the
States for Federal participation in advance payments.

1/California, Illinois, Massachusetts, New York, Oregon,
and Texas.

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PERTINENT FEDERAL REGULATIONS
GOVERNING ASSISTANCE PAYMENTS

The Code of Federal Regulations (45 C.F.R. 233.20(a) (2)(i)) require that a State plan must specify a statewide standard--expressed in money amounts--to be used in determining the (1) need of applicants and recipients and (2) amount of the assistance payment. The payment standard may be less than the need standard depending on the State's financial ability. As of April 1978 (the most recent data available), 22 States, including New York and Massachusetts, provided payments that, along with any recipient income, equal 100 percent of the need standard for all recipients.

Federal participation in the assistance payment is available on the basis that any recipient income plus the monthly payment does not exceed the need standard (45 C.F.R. 233.20(b)(1)). Furthermore, regulations (45 C.F.R. 233.10 (b)(3)) provide for Federal participation in the monthly AFDC grant only if the recipient was eligible on the date aid was paid.

ADVANCE AFDC PAYMENTS IN NEW YORK

New York has a policy that authorizes advance payment of AFDC funds upon request to recipients who face eviction or utility shutoffs for an overdue payment. These advance payments are in addition to the regular monthly grants and, in effect, are loans. We believe this policy is inconsistent with the above regulations because the additional moneys are (1) more than the need standard in the approved State plan and are for expenses covered by prior months' grants and (2) based on the assumption that a recipient will be eligible in the future.

New York's policy does not limit the size, number, or total amount of advances a recipient can obtain and have outstanding. According to New York City program officials, about \$6 million in advance payments were received by the city's AFDC recipients during 1978. State officials did not know the statewide total of these advance payments for the year. Although these advance payments are subject to repayment from future monthly grants, neither city nor State officials could tell us how much had been repaid or the outstanding amounts. We were advised by a New York

City program official that, if a case with an advance outstanding is discontinued from assistance for any reason, often the advance payment is not recouped.

The purpose of these advance payments is to forestall evictions and utility shutoffs for overdue payments. According to a New York City program official, some clients realize they can obtain a "no-interest" loan easily, so they abuse the system. It seems to us that, if recipients are aware that a supplement is readily available, they may have little incentive to budget their regular assistance payments.

No approval of advance
payment policy by HEW

We discussed New York's policy on advance payments *DLG03813* with regional officials of HEW's Office of Family Assistance, who stated that they have reviewed the State regulations authorizing the advance payments, but have never formally approved them. Their position has been that the Social Security Act neither authorizes nor explicitly prohibits New York's advance payment policy. While HEW has not taken a definitive position on the matter, it is sharing in the cost of these advance payments.

ADVANCE QUARTERLY AFDC
PAYMENTS IN MASSACHUSETTS

Federal regulations provide for Federal participation in a full month's grant only where a recipient was eligible on the date aid was paid. Massachusetts, however, has a policy that provides AFDC recipients with a portion of their assistance payment in advance quarterly payments. This policy appears inconsistent with the Code of Federal Regulations because it presumes continued eligibility for a 3-month period. Federal participation should be claimed only for that portion of a quarterly advance payment which applies to those months in the quarter the recipient was eligible, rather than to the entire quarter. Massachusetts has claimed Federal participation in total advance payments made.

According to a State official, quarterly advance payments began several years ago because of an increase in AFDC benefits voted by the State legislature. The current policy

requires advance checks to be issued in March, June, September, and December for the subsequent 3 months, respectively. If an applicant becomes eligible for AFDC during a quarter, he/she receives a prorated advance based upon the number of semi-monthly pay periods remaining in the quarter. For example, an individual whose application for assistance is granted in late January, would receive that portion of the quarterly advance payment covering February and March.

Conversely, Massachusetts does not require recipients to repay an advance payment, or a proportionate amount, if they become ineligible at any time during the quarter. This practice has resulted in overpayments for 1978, which we estimated at about \$1.4 million by multiplying the average bonus payment for each quarter by the number of cases discontinued from assistance each month during each quarter.

Rationale for quarterly advance payment policy

We discussed this policy with State officials, who said that it has, in effect, resulted in a "forced savings" plan for recipients, providing them with "extra" funds at key times during the year--for example, Christmas, Easter, summer vacations, and autumn (back-to-school). They believe this is a benefit of the policy. Conversely, since the practice has resulted in overpayments, State officials told us in June 1979 that they were considering discontinuing quarterly advance payments and increasing the semimonthly grant payments proportionately. However, in November 1979 they told us they had decided not to eliminate advance payments.

CONCLUSIONS AND RECOMMENDATIONS

New York's policy of making advance payments conflicts with Federal regulations by (1) providing more assistance than the need standard specified in the approved State plan and (2) presuming future eligibility. We believe these payments should not be federally reimbursed. Accordingly, we recommend that you disallow any claims for Federal participation in these payments and initiate appropriate efforts to recover the Federal share of any outstanding advance payments.

Furthermore, we believe Federal participation is not authorized in the total quarterly advance payments made in Massachusetts because the policy for these payments presumes future eligibility. Accordingly, we recommend that you revoke your prior approval of the quarterly advance payment policy and limit Federal participation to payments for those months in each quarter that each recipient was eligible.

We also recommend that you require the Social Security Administration to review all State AFDC plans and regulations, to see whether their payment policies are consistent with the Code of Federal Regulations, and establish a mechanism within the Administration to make sure that changes are made to those State plans with payment policies that are not consistent with the Code.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of interested Committees and Subcommittees and to the Director, Office of Management and Budget, and appropriate New York and Massachusetts State officials.

Sincerely yours,



Gregory J. Ahart
Director