

**Memorandum**

Date . SEP 10 2002
From Janet Rehnquist
Inspector General

A handwritten signature in black ink that reads "Janet Rehnquist".

Subject Review of New Mexico's Human Services Department Systems and Procedures for Recovering and Refunding Overpayments Made Under the Aid to Families with Dependent Children Program (CIN: A-06-02-00030)

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

As a part of the Office of Inspector General's self-initiated audit work, we are alerting you to the issuance within 5 business days of our final audit report related to overpayments made under the Aid to Families with Dependent Children (AFDC) program by the State of New Mexico. We are recommending recovery of approximately \$3.4 million. Copies of the report are attached.

The objectives of the review were to determine whether New Mexico has systems and procedures to: (1) properly identify, collect and report AFDC overpayment recoveries, and (2) refund the correct amount of AFDC overpayment recoveries to the Federal Government. State agencies are required to pursue AFDC overpayments made prior to October 1, 1996 and make appropriate refunds to the Federal Government. Collections of overpayments occurring after that date are to be used to offset Temporary Assistance to Needy Families expenditures in the year collected.

Generally, the state has systems that identify, collect and report overpayment recoveries. However, these systems did not separately identify recoveries of AFDC overpayments. As a result, the state did not refund to the Federal Government its proportionate share of those collections. State officials concurred with our recommendations and stated that they would make a refund to the Federal Government no later than October 1, 2002.

The results in New Mexico are consistent with reviews completed or underway in other states, which have been reported to you earlier.

Any questions or comments on any aspect of this memorandum are welcome. Please contact me or have your staff call Donald L. Dille, Assistant Inspector General, Grants and Internal Activities at (202) 619-1175.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 6B6
Dallas, TX 75242

SEP 13 2002

Common Identification Number: A-06-02-00030

Ms. Robin Dozier Otten
Secretary-Designate
New Mexico Human Services Department
2009 South Pacheco Street
Santa Fe, New Mexico 87504-2348

Dear Ms. Otten:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled "Review of New Mexico's Human Services Department Systems and Procedures for Recovering and Refunding Overpayments Made Under the Aid to Families with Dependent Children Program." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG/OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR part 5.) As such, within 10 business days after the final report is issued, it will be posted on the World Wide Web at <http://oig.hhs.gov>.

To facilitate identification, please refer to Common Identification Number A-06-02-00030 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink that reads "Gordon L. Sato".

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosure – as stated

Direct Reply to HHS Action Official:

Mr. Leon R. McCowan
Regional Hub Director
Administration for Children and Families
U.S. Department of Health and Human Services
1301 Young Street, Room 914
Dallas, TX 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF NEW MEXICO'S
HUMAN SERVICES DEPARTMENT
SYSTEMS AND PROCEDURES FOR
RECOVERING AND REFUNDING
OVERPAYMENTS MADE UNDER
THE AID TO FAMILIES WITH
DEPENDENT CHILDREN PROGRAM**



JANET REHNQUIST
Inspector General

SEPTEMBER 2002
A-06-02-00030



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

SEP 13 2002

Office of Audit Services
1100 Commerce, Room 6B6
Dallas, TX 75242

Common Identification Number: A-06-02-00030

Ms. Robin Dozier Otten
Secretary-Designate
New Mexico Human Services Department
2009 South Pacheco Street
Santa Fe, New Mexico 87504-2348

Dear Ms. Otten:

This report provides you with the results of our review of New Mexico Human Services Department's (NMHSD) systems and procedures for recovering and refunding overpayments made under the Aid to Families with Dependent Children (AFDC) program. The objectives of the review were to determine whether NMHSD has systems and procedures to: (1) properly identify, collect and report AFDC overpayment recoveries, and (2) refund the correct amount of AFDC overpayment recoveries to the Federal Government.

The NMHSD has systems that identify, collect and report overpayment recoveries. However, these systems did not separately identify recoveries of AFDC overpayments. As a result, NMHSD did not have a process in place to refund the federal share of the AFDC overpayment collections to the Federal Government.

An NMHSD analysis determined that from July 1, 1997 through June 30, 2001 a total of \$4.7 million (\$3.4 million federal share) in AFDC overpayments had been recovered. Of that amount, \$2.2 million was from cash restitutions and \$2.5 million was from recoupments (reduction of benefits). We tested the NMHSD data used to determine the AFDC overpayment recoveries and found it to be supported. An NMHSD official stated that they would try to expedite the refund of the \$3.4 million to the Federal Government.

As a result, we are recommending that NMHSD: (1) refund \$3.4 million to the Administration for Children and Families (ACF) in accordance with federal requirements, (2) begin to separately identify AFDC overpayment recoveries, and (3) refund the federal share of subsequent AFDC recoveries to ACF in the form of a check at least quarterly.

In its response to our draft report, NMHSD concurred with the recommendations in the draft report. The NMHSD stated that it has identified and separated the overpayment information of all AFDC accounts from the Temporary Assistance for Needy Families (TANF) accounts. The NMHSD expects to refund the recommended \$3.4 million no later than October 1, 2002. In addition, they are developing procedures to support the processing of future refunds to ACF on a quarterly basis. See Appendix for a complete copy of the response.

BACKGROUND

Title IV-A of the Social Security Act established the AFDC program to encourage the care of dependent children of low-income families in their homes. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act replaced the AFDC program with the Temporary Assistance for Needy Families (TANF) program. The ACF provides funding for and administers both programs.

Federal regulations for AFDC require states to collect overpayments until the full amount has been recovered. Although the AFDC program was replaced by TANF, a number of AFDC overpayments remain outstanding and state agencies are still obligated to pursue and recover any uncollected amounts. The regulations also require that state agencies maintain information on the individual and total number and amount of overpayments identified and their disposition for current and former recipients.

For recoveries of AFDC overpayments made before October 1, 1996, federal guidance issued in September 2000, requires states to repay the federal share of collected AFDC overpayments by December 31, 2000 via check based on the Federal Medical Assistance Percentage (FMAP) rate in effect for the state during fiscal year 1996.

States that had not been properly tracking recovery of AFDC overpayments made prior to October 1, 1996 are to perform an analysis of their accounts receivable systems to identify all recoveries made by recoupment and cash collections and pay the federal share of the recovered amounts to ACF via check by December 31, 2000. After a state becomes current with remitting past due AFDC overpayment recoveries, it is required to remit the federal share of future AFDC recoveries to ACF via check no less frequently than quarterly.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the review were to determine whether NMHSD has systems and procedures to: (1) properly identify, collect and report AFDC overpayment recoveries, and (2) refund the correct amount of AFDC overpayment recoveries to the Federal Government.

To accomplish our objectives, we:

- reviewed the policies and procedures established by NMHSD to identify and recover overpayments;
- reviewed overpayment recovery transactions to determine whether NMHSD's calculation of the total amount collected for overpayments made before October 1, 1996 were supported; and
- interviewed NMHSD officials to determine if AFDC overpayment recoveries were being refunded to the Federal Government.

Our review was performed in accordance with generally accepted government auditing standards.

Our review of NMHSD's internal controls was limited to obtaining an understanding of the policies and procedures applicable to the identification, collection and reporting of overpayments.

We performed our field work at the New Mexico Human Services Department in Santa Fe, New Mexico in March 2002.

RESULTS OF REVIEW

The NMHSD has not refunded AFDC overpayment recoveries in accordance with federal requirements. The NMHSD did not modify its existing accounts receivable system to separately identify AFDC overpayments and recoveries when the AFDC program ended effective September 30, 1996 and the TANF program began. As a result, all AFDC overpayment recoveries were used to offset TANF expenditures.

Federal Requirements

Federal regulations for AFDC require states to collect overpayments until the full amount has been recovered. For recoveries of AFDC overpayments made prior to October 1, 1996, federal guidance requires states to analyze their accounts receivable systems to identify all recoveries made either by recoupment or cash collections and repay the federal share of collected AFDC overpayments by December 31, 2000 via check based on the FMAP rate in effect for the state during fiscal year 1996. After a state becomes current with remitting past due AFDC overpayment recoveries, it is required to remit the federal share of future AFDC recoveries to ACF via check no less frequently than quarterly.

NMHSD Accounts Receivable System

We sampled and reviewed selected transactions to evaluate the systems used by NMHSD to identify, collect and report AFDC overpayment recoveries. These transactions were overpayment recoveries that occurred after the AFDC program ended.

The AFDC overpayments recovered after the AFDC program ended were improperly used to reduce TANF program expenditures instead of being refunded in accordance with federal requirements. The accounts receivable system identifies the amount of overpayments, the dates the overpayments occurred and the method to be used to recover the overpayments. The system records the recovery of overpayments by cash restitutions and recoupments (reductions of benefits). In addition, the system was programmed to apply all AFDC overpayments to the TANF program. As a result, overpayment recoveries identified in the accounts receivable system relating to these programs were used to offset the TANF program.

NMHS D Analysis

At our request, the NMHSD completed an analysis of AFDC overpayments made prior to October 1, 1996 and determined that from July 1, 1997 through June 30, 2001 a total of \$4.7 million (\$3.4 million federal share) in AFDC overpayments had been recovered. Of that amount, \$2.2 million was from cash restitutions and \$2.5 million was from recoupments (reduction of benefits). We tested the NMHSD data used to determine the AFDC overpayment recoveries and found it to be supported.

RECOMMENDATIONS

We recommend that NMHSD:

- (1) refund \$3.4 million to ACF via check in accordance with federal requirements;
- (2) begin to separately identify AFDC overpayment recoveries; and
- (3) refund the federal share of subsequent AFDC recoveries to ACF in the form of a check at least quarterly.

AUDITEE COMMENTS

In its response to our draft report, NMHSD concurred with the recommendations in the draft report. The NMHSD stated that it has identified and separated the overpayment information of all AFDC accounts from the Temporary Assistance for Needy Families (TANF) accounts. The NMHSD expects to refund the recommended \$3.4 million no later than October 1, 2002. In addition, they are developing procedures to support the processing of future refunds to ACF on a quarterly basis. See Appendix for a complete copy of the response.

Sincerely,



Gordon L. Sato
Regional Inspector General
For Audit Services

APPENDIX



NEW MEXICO HUMAN SERVICES DEPARTMENT

Office of the Secretary • P.O. Box 2348 • Santa Fe, New Mexico 87504-2348

Phone: (505) 827-7750

Cary E. Johnson
Governor

Robin Dozier Otten
Secretary-Designate

August 22, 2002

Mr. Gordon L. Sato
Regional Inspector General
Office of Audit Services
Dallas, TX 75242

Common Identification Number: A-06-02-00030

Dear Mr. Sato

This is in response to your review of the New Mexico Human Services Department's systems and procedures for recovering and refunding overpayments under the Aid to Families with Dependent Children (AFDC) program.

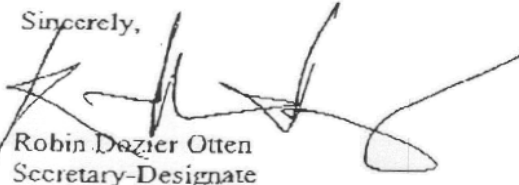
First, I want to acknowledge that HSD has agreed to repay the Administration for Children and Families (ACF) in the amount of \$3,433,252.90. We have initiated the necessary adjustments to our federal reports and financial statements, and expect to make the repayment no later than October 1, 2002.

The overpayment information for all AFDC accounts has been identified and separated from the Temporary Assistance for Needy Families (TANF) accounts. The accounting transactions have been adjusted to record financial activity within our system and to support future payment activity between HSD and ACF.

In addition, we are developing procedures to support the processing of future refunds to ACF every quarter. These payments will be based on the Federal Medical Assistance Percentage (FMAP) rate in effect for New Mexico during fiscal year 1996.

If you have any questions in this regard, please do not hesitate to contact Al Castillo, Deputy Director of HSD's Administrative Services Division, at (505) 827-9445.

Sincerely,


for Robin Dozier Otten
Secretary-Designate

cc: Kenneth Alessio, HSD Deputy Secretary for Finance
Marise McFadden, Director, HSD Income Support Division
Al Castillo, Deputy Director, HSD Administrative Services Division