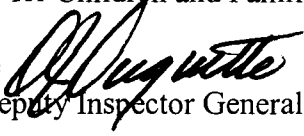




APR 30 2003

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

From: Dennis J. Duquette 
Acting Principal Deputy Inspector General

Subject: Review of Overpayment Collections Made for the Aid to Families with Dependent Children Program by the Los Angeles County Department of Public Social Services (A-09-02-00072)

As 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 overpayment collections made for the Aid to Families with Dependent Children (AFDC) Program by the Los Angeles County Department of Public Social Services (the county). We are recommending recovery of approximately \$24 million. Copies of the report are attached.

The objective of the review was to determine if California (state) had refunded to the Federal Government the federal share of AFDC overpayments collected by the county. We found that the state did not follow program instructions issued September 1, 2000, and had not refunded the federal share of AFDC recoveries collected by the county. In California, county welfare departments perform the day-to-day overpayment and recovery activities. The county welfare departments are required to maintain a record of each overpayment that includes the overpayment amount, the period the overpayment occurred, and information on all recoveries. Sufficient information was maintained by the county to identify the recoveries for the AFDC overpayments that occurred prior to October 1, 1996.

The state generally concurred with our recommendations. In its written comments, the state agreed to repay the estimated federal share of AFDC overpayments recovered by the county during our audit period. The state also disclosed that it is working with the county on a methodology to repay the federal share of AFDC overpayments recovered after our audit period and would provide a full response after our audit is completed in San Diego County on the same issue.

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

If you have any questions or comments about this report, please do not hesitate to call me or Donald L. Dille, Assistant Inspector General for Grants and Internal Activities Audits, at (202) 619-1175 or through email at ddille@oig.hhs.gov. To facilitate identification, please refer to report number A-09-02-00072 in all correspondence.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

MAY - 2 2003

Region IX
Office of Audit Services
50 United Nations Plaza
San Francisco, CA 94102

Ms. Rita Saenz
Director
California Department of Social Services
744 P Street
Sacramento, CA 95814

Dear Ms. Saenz:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled "Review of Overpayment Collections for the Aid to Families with Dependent Children Program by the Los Angeles County Department of Public Social Services." A copy of the report will be forwarded to the action official noted below for her 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 HHS'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 HHS chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to report number A-09-02-00072 on all correspondence relating to this report.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Sharon Fujii, Regional HUB Director
Administration for Children and Families
U.S. Department of Health and Human Services
Region IX
50 United Nations Plaza, Room 450
San Francisco, CA 94102

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF OVERPAYMENT
COLLECTIONS MADE FOR THE
AID TO FAMILIES WITH
DEPENDENT CHILDREN PROGRAM
BY THE LOS ANGELES COUNTY
DEPARTMENT OF PUBLIC
SOCIAL SERVICES**



JANET REHNQUIST
Inspector General

MAY 2003
A-09-02-00072



MAY - 2 2003

Region IX
Office of Audit Services
50 United Nations Plaza
San Francisco, CA 94102

Ms. Rita Saenz
Director
California Department of Social Services
744 P Street
Sacramento, California 95814

Dear Ms. Saenz:

This report provides you with the results of our audit of overpayment collections made for the Aid to Families with Dependent Children (AFDC) program by the Los Angeles County Department of Public Social Services (county).

The objective of our audit was to determine if the California Department of Social Services (state) refunded to the Federal Government the federal share of AFDC overpayments collected by the county after the AFDC program was terminated on October 1, 1996.

We found that the state refunded the federal share of AFDC overpayment¹ collections made by the county during the period October 1, 1996 through November 30, 1996. However, the state did not refund the federal share of \$23,980,126 in estimated AFDC overpayments collected by the county during the period December 1, 1996 through December 23, 2001. Instead, the AFDC overpayment collections were commingled with overpayment recoveries for the Temporary Assistance for Needy Families (TANF) program and incorrectly applied as offsets to TANF expenditures. This occurred because, during the transition from AFDC to TANF, the state did not ensure procedures were established to identify and remit the federal share of the county's AFDC overpayment collections to the Federal Government. After the period of our audit, the county continued to collect AFDC overpayments.

Although the AFDC program was repealed and replaced with the TANF program, there was no change in the federal requirement to pursue, recover, and remit collections to the Federal Government for AFDC overpayments that occurred prior to October 1, 1996. Collections for overpayments that occurred after the AFDC program was repealed may be retained by the state and used for the TANF program.

We recommend that the state refund \$23,980,126 to the Federal Government. This amount represents the federal share of estimated AFDC overpayments collected by the county during the period December 1, 1996 through December 23, 2001. We also recommend that the state ensure (i) procedures are established to identify and refund the federal share of AFDC overpayment collections made by the county; and (ii) appropriate refunds are made to the Federal Government for recoveries collected after December 23, 2001.

In a written response to our draft report, the state generally concurred with our recommendations. We summarized the state's comments at the end of the FINDINGS AND RECOMMENDATIONS section of this report. The complete text of the state's comments is appended to this report.

¹ For purposes of our audit, cash collections were recognized when posted to the county overpayment record. Offsets were recognized when the reduction in aid was applied.

INTRODUCTION

Background

AFDC Overpayments

Title IV-A of the Social Security Act established the AFDC program. Under AFDC, the care of needy dependent children in their own homes or in the homes of relatives was encouraged. Entitlement to AFDC benefits and services was terminated October 1, 1996, when that program was repealed and replaced with the TANF program.

Under AFDC, some recipients received monthly assistance payments that were greater than the amounts allowed, thus resulting in overpayments. Federal regulations required recovery efforts by the state until the full amount of AFDC overpayments were collected. Although AFDC was repealed and replaced with the TANF program, AFDC overpayment collections continued and the requirement to pursue and recover uncollected AFDC overpayments remained in place.

Federal Criteria

Federal regulations at 45 Code of Federal Regulations 233.200(1)(13) required states to recover AFDC overpayments. Also, federal program instructions (issued March 9, 1999) stated that, in any quarter in which one or more AFDC overpayments are recovered, the federal share must be refunded to the Federal Government. Subsequent Administration for Children and Families (ACF) instructions, dated September 1, 2000, clarified ACF policy on the treatment of overpayment recoveries collected from individuals who had received assistance benefits to which they were not entitled under either the AFDC or TANF program. These instructions stated that, although the AFDC program was repealed and replaced by the TANF program, there was no change in the requirements to pursue, recover, and remit the remaining uncollected AFDC overpayments.

Prior to October 1, 1996, states were entitled to reimbursement for expenditures made under the AFDC program. After the passage of the TANF program, states were entitled only to the federal block grant amount made available under that program. For recoveries of AFDC overpayments, states were required to repay to the Federal Government the federal share of the recoveries. This rule applied regardless of the fiscal year in which the recoveries were collected and received by a state.

AFDC Overpayment Collections in California

The state required all 58 county welfare departments to take all reasonable steps necessary to promptly recover any overpayments. Counties were required to maintain a record of each overpayment, including the overpayment amount and period the overpayment occurred, as well as other information on recoveries. County welfare departments collected overpayments using a variety of methods including: collecting cash, reducing the amount of aid paid, and intercepting state income tax refunds.

Objective, Scope, and Methodology

The objective of our audit was to determine if the state refunded to the Federal Government the federal share of AFDC overpayments collected by the county after the AFDC program was repealed on October 1, 1996. Our review was limited to the overpayments collected and recorded by the county as of December 23, 2001. Our audit was performed in accordance with generally accepted government auditing standards. Our review of internal controls at the county was limited to gaining an understanding of the methods used for recording, collecting, and reporting AFDC overpayments and recoveries.

To accomplish the audit objective, we:

- reviewed applicable federal and state regulations, policies, and procedures pertaining to AFDC and TANF;
- gained an understanding of the process for recording, collecting, and reporting overpayments and recoveries;
- reconciled the county's monthly *Summary Report of Assistance Expenditures* for the reporting periods of October and November 1996 to the quarterly *AFDC Program Financial Report*;
- reviewed judgmentally selected county monthly *Summary Report of Assistance Expenditures* for reporting periods after November 1996 and traced them to the state compilations that were used for the quarterly *TANF ACF-196 Financial Report*;
- analyzed supporting documentation for selected *Summary Report of Assistance Expenditures* and the *Quarterly Report of Overpayments and Collections*;
- reconciled cash collections reported on selected *Summary Report of Assistance Expenditures* to cash collections reported on the *Quarterly Report of Overpayments and Collections*;
- obtained an understanding of the overpayment, recovery, and adjustment codes used on the county's automated systems; and
- reviewed a statistical sample of 240 overpayment records.

A stratified statistical approach, as described in Appendix A of this report, was used to determine the amount of collections not refunded to the Federal Government. For each sample item, we reviewed recoveries and/or adjustments that were posted to the county's overpayment records to determine the federal share of AFDC recoveries. In determining if a collection was appropriate for federal refund, we examined case file documentation, payment receipts, payment listings, and information maintained on the county's automated systems to ascertain the accuracy of the overpayment and repayment data. Collections posted to the overpayment record that were in excess of the AFDC overpayment amount were not considered appropriate for federal refund.

For the overpayment records for which the county could not provide either case files or supporting documentation, we relied upon the county's policies and procedures for determining if the posted recoveries and adjustments were required to be refunded to the Federal Government.

Our field audit was performed during the period of April 2002 through September 2002 with fieldwork conducted at the county offices in Los Angeles, California.

FINDINGS AND RECOMMENDATIONS

We found that the state appropriately refunded the federal share of AFDC overpayment collections made by the county during the period October through November 1996. However, we also found that:

- during the period December 1, 1996 through December 23, 2001, the state did not refund the federal share of \$23,980,126 in estimated AFDC overpayments collected by the county to the Federal Government, and
- after December 23, 2001, the county continued to collect AFDC overpayments.

At the time of our review, neither the state nor the county had procedures to identify and remit the federal share of the AFDC overpayment collections in accordance with federal regulations.

We recommend that the state refund the federal share of the estimated AFDC overpayments collected by the county totaling \$23,980,126 to the Federal Government. We also recommend that the state ensure (i) procedures are established to identify and refund the federal share of AFDC overpayment collections made by the county, and (ii) appropriate refunds are made to the Federal Government for recoveries collected after December 23, 2001.

In its written reply to our draft report, the state generally concurred with our recommendations. The state's comments, in their entirety, are included as part of this report in Appendix B.

AFDC Overpayment Collections – October 1996 through November 1996

The state properly refunded to the Federal Government the federal share of AFDC overpayment recoveries collected by the county for October and November 1996. The AFDC collections were included by the county on its *Summary Report of Assistance Expenditures* and reported by the state to the Federal Government on the *AFDC Program Financial Report*.

AFDC Overpayment Collections - December 1996 through December 2001

Contrary to federal regulations, the state did not refund the federal share of AFDC overpayments collected by the county during the period December 1, 1996 through December 23, 2001. Using stratified random sampling techniques, we reviewed a sample of 240 county overpayment records that had post-November 1996 recoveries totaling \$691,705. Of the \$691,705, we found that \$607,219 represented amounts collected by the county for AFDC overpayments. Based on

our sample, we are 95 percent confident that the county's AFDC overpayment collections totaled at least \$47,960,253 (federal share \$23,980,126²) during the period December 1, 1996 through December 23, 2001. (See Appendix A for the details of the sampling methodology and results of sample.)

With the introduction of California's TANF program at the end of November 1996, we found that the county commingled AFDC overpayment recoveries with TANF overpayment recoveries on the *Summary Report of Assistance Expenditures*. These combined and undistinguishable recoveries were used to reduce the TANF expenditures reported by the state to the Federal Government on the quarterly *TANF ACF-196 Financial Report*. This financial report does not provide a mechanism for refunding the federal share of AFDC overpayments collected to the Federal Government. Instead, the combined AFDC and TANF collections reduced the state's total expenditures applied against the TANF block grant amount. The unused block grant funds were then available to the state to fund additional TANF benefits.

AFDC Collections Subsequent to Audit Period

From our review of the sample overpayment records, we noted that the county planned additional collections of AFDC overpayments after our audit period. However, at the time of our review, procedures to segregate the AFDC and TANF overpayment collections were nonexistent. Therefore, the federal share of AFDC overpayment collections subsequent to the period of our audit may not have been appropriately remitted to the Federal Government by the state. The state should take steps to ensure the federal share of all AFDC overpayments collected by the county are identified and returned to the Federal Government as required.

Recommendations

We recommend that the state:

1. Refund \$23,980,126 to the Federal Government. This amount represents the federal share of estimated AFDC overpayments collected by the county during the period December 1, 1996 through December 23, 2001.
2. Ensure (i) procedures are established to identify and refund the federal share of AFDC overpayment collections made by the county, and (ii) appropriate refunds are made to the Federal Government for recoveries collected after December 23, 2001, the end of our audit period.

Auditee Comments

In its written comments, the state generally concurred with our recommendations. It agreed to repay the federal share of the estimated AFDC overpayments recovered by the county during the period December 1, 1996 through December 23, 2001.

² The federal share was calculated by multiplying the total estimated amount recovered by the federal Medicaid assistance percentage of 50 percent, which was the percentage in effect for the state during fiscal year 1996 .

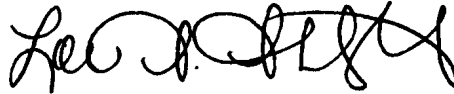
The state also disclosed that it was working with the county on a methodology to repay the federal share of AFDC overpayments recovered after December 23, 2001 and would provide a full response after our audit of the same issue in San Diego County is completed. The complete text of the state's comments is included as Appendix B to this report.

OTHER MATTERS

We determined that the county received, but had not recorded, an additional \$5 million of overpayment collections relating to both AFDC and TANF during our audit period. These overpayment collections were not included in our statistical sample. Until these collections are posted to the county's overpayment records, the federal share relating to the AFDC overpayments cannot be determined. During our onsite work, county officials informed us that the posting of these collections had commenced.

To facilitate identification, please refer to report number A-09-02-00072 on all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand". The signature is fluid and cursive, with a large initial "L" and "A".

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

APPENDICES

SAMPLING METHODOLOGY AND RESULTS OF SAMPLE

The population consisted of 75,965 non-duplicative overpayment records that contained one or more overpayments that occurred prior to October 1, 1996, and had total post-November 1996 recoveries/adjustments greater than \$0. The post-November 1996 recoveries and adjustments were amounts posted on the county's automated systems as of December 23, 2001. The overpayments for this population were caused through administrative or client error. The sampling unit was an overpayment record.

We used a stratified sampling approach with total post-November 1996 recovery amounts for the overpayment records as the basis for stratification. The stratified sample consisted of five strata. The Office of Audit Service (OAS) Statistical Sampling Software generated the random numbers used for selection of the sample items. The OAS Statistical Sampling Software program was used to estimate the total sample size and the distribution of the sample items into the five strata. The sample sizes generated for each stratum were the result of mathematical formulas. Where necessary, the sample size generated for a stratum was adjusted upward to 30 sample items to meet current OAS sampling policy.

The OAS Statistical Sampling Software was used to appraise the sample results. We used the difference estimator and projected the post-November 1996 AFDC overpayment collections at the lower limit of the 90 percent two-sided confidence interval. Below we have shown the projection of the sample results and the detail of the results of the sample by stratum.

PROJECTION OF SAMPLE RESULTS

(Precision at the 90 Percent Confidence Level)

Upper Limit	\$53,469,249
Point Estimate	\$50,714,751
Lower Limit	\$47,960,253
Sample Precision	±5.43 percent

DETAILED RESULTS OF SAMPLE BY STRATUM

Stratum Number	Range of Post November 1996 Recoveries and Adjustments	Population		Sample			
		Number of Overpayment Records	Total Dollar	Size	Examined Value	Number Of Errors	Value of Errors
1	\$0.01 to \$289.99	34,696	\$ 3,950,162	30	\$ 3,921	25	\$ 3,286
2	\$290 to \$799.99	19,713	\$ 9,908,498	30	\$ 15,448	28	\$ 12,873
3	\$800 to \$1,644.99	11,934	\$13,758,718	30	\$ 35,403	29	\$ 32,258
4	\$1,645 to \$3,154.99	6,851	\$15,295,410	30	\$ 67,904	29	\$ 61,963
5	\$3,155 and higher	2,771	\$13,976,347	120	\$569,029	118	\$496,839
Total		75,965	\$56,889,135	240	\$691,705	229	\$607,219

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, California 95814



February 21, 2003

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

Report Number: A-09-02-00072

Dear Ms. Ahlstrand:

This letter is in response to the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' draft report entitled "Review of Overpayment Collections for the Aid to Families with Dependent Children Program by the Los Angeles County Department of Public Social Services." The California Department of Social Services (CDSS) concurs with the report recommendation to repay the estimated cost of the federal share for the AFDC overpayments recovered by the county from December 1, 1996 through December 23, 2001.

The draft report also requested that CDSS establish procedures to identify and refund the federal share of Aid to Families with Dependent Children (AFDC) overpayment collections made by Los Angeles County after December 23, 2001. Unlike San Bernardino, Los Angeles County and the other 56 counties use automated systems that do not have the ability to capture AFDC collection data specifically. It would be very costly and time-consuming to identify recoveries that were for AFDC overpayments. This issue was discussed during the audit entrance meeting with your staff.

In spite of counties' inability to capture needed information, the Department is currently working to develop a methodology to repay the Federal share of AFDC overpayments recovered by Los Angeles County after December 23, 2001. CDSS will provide a full response once the San Diego audit has been completed.

We look forward to hearing the results of the San Diego audit and working with you to resolve this matter as soon as possible. In the meantime, if you or your staff have any questions regarding our response, please contact me at (916) 657-2598 or have your staff contact Bruce Wagstaff, Deputy Director, Welfare to Work Division at (916) 657-3546.

Sincerely,

A handwritten signature in black ink that reads "Rita Saenz".

RITA SAENZ
Director

ACKNOWLEDGMENTS □

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

Thomas P. Lenahan, *Audit Manager*

Virginia Luzi, *Senior Auditor*

Dennis Ensminger, *Auditor*

Sandra Hernandez, *Auditor*

Technical Assistance: Region IX Advanced Techniques staff