



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

JUL 30 2002

Memorandum

Date *for* *Michael Mangano*
From Janet Rehnquist
Inspector General

Subject Review of Aid to Families with Dependent Children Overpayment Recoveries by the Wisconsin Department of Workforce Development Madison, Wisconsin (CIN: A-05-02-00031)

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

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 the recovery of Aid to Families with Dependent Children (AFDC) overpayments by the State of Wisconsin. We are recommending recovery of approximately \$10.7 million. Copies of the report are attached.

The objective of the review was to determine whether the state properly collected and refunded 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 (TANF) expenditures in the year collected.

Generally, the state had systems to identify and collect AFDC overpayments but did not refund to the Federal Government its proportionate share of those collections. While the State of Wisconsin agreed with the data analysis in determining the overpayment collected amount, it believes that the federal guidance on this matter was contradictory and applied retroactively and that repayment was not necessary. We believe that the regulations were clear on what was required of the states for the applicable time period.

The results in Wisconsin 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 Audit Division at (202) 619-1175.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

Common Identification Number A-05-02-00031

AUG - 5 2002

Ms. Jennifer Reinert, Secretary
Wisconsin Department of Workforce Development
Office of the Secretary
201 East Washington Avenue
GEF-1, Room 400X
Madison, WI 53702

Dear Ms. Reinert:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' (OAS) report entitled "Review of Aid to Families with Dependent Children (AFDC) Overpayment Recoveries for the period July 1, 1996 through September 30, 2001." A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. 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, Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, 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.)

To facilitate identification, please refer to Common Identification Number A-05-02-00031 in all correspondence relating to this report.

Sincerely yours,

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures - as stated

Direct Reply to HHS Action Official:
Director, Division of Financial Integrity
Room 702, Aerospace Building
370 L'Enfant Promenade S.W.
Washington D.C. 20447

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF AID TO FAMILIES WITH
DEPENDENT CHILDREN
OVERPAYMENT RECOVERIES
FOR THE PERIOD JULY 1, 1996
THROUGH SEPTEMBER 30, 2001**

**WISCONSIN DEPARTMENT OF
WORKFORCE DEVELOPMENT
MADISON, WISCONSIN**



JANET REHNQUIST
Inspector General

AUGUST 2002
A-05-02-00031



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

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OFFICE OF
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AUG - 5 2002

Common Identification Number A-05-02-00031

Ms. Jennifer Reinert, Secretary
Wisconsin Department of Workforce Development
Office of the Secretary
201 East Washington Avenue
GEF-1, Room 400X
Madison, WI 53702

Dear Ms. Reinert:

This final report presents the results of our review of Aid to Families with Dependent Children (AFDC) Overpayment Recoveries. The review was conducted as part of a nationwide review of AFDC overpayment recoveries in various States. The objective of our review was to determine whether the Wisconsin Department of Workforce Development's (State agency) practices for reporting and remitting AFDC overpayment collections were in accordance with Federal requirements.

We determined that the State agency had recovered AFDC overpayments, occurring before October 1, 1996, but did not refund the Federal share of \$10,711,338 to Administration for Children and Families (ACF). The Federal share includes \$10,385,998 that was collected after Wisconsin's implementation of the Temporary Assistance to Needy Families (TANF) program and \$325,340 of cash recoveries that were not previously reported to ACF on the State agency's final AFDC expenditure report. The State agency lacks written procedures to ensure that recoveries of AFDC and TANF overpayments are treated in accordance with ACF program instructions.

We recommend that the State agency implement procedures to refund the Federal share of current (\$10,711,338) and future recoveries of AFDC overpayments occurring prior to October 1, 1996. The accounts receivable system should be reviewed on a quarterly basis to determine recoveries to be refunded in accordance with ACF program instructions.

In a letter dated May 20, 2002, the State agency concurred with our procedural recommendations to implement written procedures to perform a quarterly analysis of its accounts receivables, segregate collections of AFDC overpayments from TANF overpayments, make appropriate refund to ACF, and implement necessary modifications to its accounts receivable system to separate AFDC and TANF overpayments and recoveries either by program or occurrence date. The State agency does not concur with our recommendations to refund AFDC overpayments of \$10,385,988 that occurred prior to October 1, 1996 but were recovered after the implementation of TANF or AFDC overpayments of \$325,340 that occurred and were recovered prior to the implementation of TANF.

INTRODUCTION

BACKGROUND

In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) repealed the AFDC program and replaced it with the TANF program. At the Federal level, U.S. Department of Health and Human Services, Administration for Children and Families (ACF) administers the AFDC and TANF programs. In Wisconsin, the AFDC and TANF programs are State agency supervised and locally administered by 72 local public and private agencies (local agencies). Wisconsin began implementing the TANF program on August 22, 1996 and completed implementation on September 30, 1996.

Although the AFDC program was repealed and replaced with the TANF program, the former AFDC requirement for States to pursue and recover uncollected AFDC overpayments remains in place. States must continue to return the Federal share of recovered AFDC overpayments that occurred prior to October 1, 1996. Title 45 of the Code of Federal Regulations, paragraph 233.20(a)(13)(i)(E), requires States to:

... (1) Recover the overpayment, (2) initiate action to locate and/or recover the overpayment from a former recipient, or (3) execute a monthly recovery agreement from a current recipient's grant or income/resources....

The State agency recovers AFDC overpayments from current recipients through a reduction in the recipient's monthly assistance payment, also called recoupments. Recoveries from former recipients are collected primarily through voluntary and involuntary repayment methods permitted under State laws and regulations.

OBJECTIVES, SCOPE AND METHODOLOGY

Our audit was conducted in accordance with generally accepted government auditing standards. The primary objective of our audit was to determine whether State agency practices for reporting and remitting AFDC overpayment collections were in accordance with Federal requirements. Our audit covers the period of July 1, 1996 through September 30, 2001.

To accomplish our objectives, we reviewed applicable Federal laws, regulations, and policies regarding State identification and handling of AFDC overpayments. We reviewed State laws, regulations, policies and procedures, implemented since welfare reform, for reporting and remitting overpayments. We assessed whether the Federal share of recovered AFDC overpayments, occurring prior to October 1, 1996, were returned to ACF.

During the course of our audit, the State agency completed the required analysis of its accounts receivable records to determine the accumulated recoveries of AFDC overpayments occurring prior to October 1, 1996. We reviewed the accounts receivable analysis for accuracy and reasonableness. Our audit was limited to the recovery procedures applicable to AFDC overpayments recorded in the State agency accounting records. We did not evaluate the State or local agencies' procedures for determining the amount of overpayments or the accuracy of these determinations.

Our review of the State agency internal control structure was limited to areas related to AFDC overpayment recovery activities. In that regard, we obtained an understanding and assessed control risk for the implemented policies and procedures related to Federal financial reporting, accounts receivable identification, and collections. Our limited review would not have necessarily disclosed all weaknesses relating to the State agency's overpayment recovery procedures and practices. Except for matters discussed in the FINDINGS AND RECOMMENDATIONS section of this report, we found that items tested were in compliance with applicable laws and regulations.

We conducted our field work at the State agency central offices in Madison, Wisconsin from December 2001 through March 2002. We provided the State agency a draft report for comment on April 12, 2002. The State agency's relevant comments are summarized after each finding and the State agency's written comments are appended in their entirety to this report (see Appendix).

FINDINGS AND RECOMMENDATIONS

Although the State agency's practices for collecting AFDC overpayments were generally in accordance with Federal requirements, the State agency retained the recovered AFDC overpayments that should have been refunded to ACF. Since the State's implementation of TANF through September 30, 2001, the State agency had not refunded the Federal share of recovered AFDC overpayments, occurring prior to October 1, 1996 in the amount of \$10,711,338. This amount includes \$10,385,998 that was collected after Wisconsin's implementation of the TANF program and \$325,340 of cash recoveries that were not adjusted on the State agency's final AFDC expenditure report. The State agency should implement procedures to ensure that they return the recovered AFDC overpayments to ACF in a timely manner.

RECOVERED AFDC OVERPAYMENTS DUE TO ACF

Under the AFDC program and until TANF implementation the State routinely recovered overpayments and credited them on the quarterly Form ACF-231, Aid to Families with Dependent Children Program Financial Report. Since TANF implementation, the State continued to receive AFDC overpayment recoveries but did not refund the AFDC recoveries to ACF. Although the previous reporting of AFDC overpayment recoveries on the ACF-231 effectively reduced the current year draw-down capability, the TANF quarterly reports do not accommodate adjustments for AFDC recoveries. Although ACF had instructed the States to continue recovering AFDC overpayments, many States did not forward the recoveries to ACF.

On September 1, 2000, ACF issued a TANF Program Instruction, delineating State responsibilities to recover AFDC and TANF overpayments and to return the AFDC overpayment recoveries to ACF. ACF Program Instruction TANF-ACF-PI-2000-2, Paragraph 1 states:

...For recoveries of former AFDC program overpayments **made before October 1, 1996** (emphasis added), States are required to repay to the Federal government the Federal share of these recoveries. These rules apply regardless of the fiscal year in which the recoveries are collected and received by the State. The Federal share of these recovered overpayments must be calculated by multiplying the total

amount recovered by the Federal Medical Assistance Percentage (FMAP) rate in effect for the State during fiscal year 1996....

ACF Program Instruction TANF-ACF-PI-2000-2, Paragraphs 1C and 1D, continues:

“States that have not been properly tracking recovery of AFDC overpayments that occurred prior to October 1, 1996 must perform an analysis of their accounts receivable systems to identify all such recoveries received both via recoupment of AFDC or TANF benefits and via cash collections. Upon completion of such analysis, the Federal share of the accumulated amounts recovered should be remitted to ACF via check. Both of these processes should be completed no later than December 31, 2000. Once States have become current with past due remittances, checks should be submitted to ACF no less frequently than quarterly.”

During the course of our review, the State agency completed the required analysis of its accounts receivable records to determine the accumulated recoveries of AFDC overpayments occurring prior to October 1, 1996. The results of the State agency’s analysis indicate that the net amount of recovered AFDC overpayments, occurring prior to October 1, 1996, was \$17,405,723 (Federal share \$10,385,998). The total recovery of AFDC overpayments was reduced by \$313,502 (Federal share \$187,067) for recovered TANF overpayments that were misclassified as AFDC. The original assistance payments were made from TANF.

Recommendations

We recommend that the State agency:

- Refund \$10,385,998 for the net Federal share of recovered AFDC overpayments, occurring prior to October 1, 1996;
- Implement written procedures to perform a quarterly analysis of its accounts receivables, segregate collections of AFDC overpayments from TANF overpayments, and make appropriate refund to ACF; and
- Implement necessary modifications to its accounts receivable system to separate AFDC and TANF overpayments and recoveries either by program or occurrence date.

State Agency Comments

The State agency believes that they were acting in accordance with TANF transmittals, specifically Transmittal No. TANF-ACF-PI-99-2 (dated March 9, 1999) and its revision (dated May 1, 2000), and should not be penalized for the entire audit period for following the instructions in those documents. The State agency does not agree that it has a liability for the entire amount questioned. It does accept that they are liable for recoveries since the issuance of TANF-ACF-PI-2000-02 on September 1, 2000. The State agency does agree that our procedural

recommendations to implement written procedures and modify its accounts receivable system to more appropriately account for AFDC and TANF recoveries.

OAS Response

The requirements under the former AFDC program regarding the collection of overpayments by States have been clearly defined. States are obligated to recover overpayments and remit to the Federal Government its proportional share. This requirement remained in effect after TANF was implemented. Therefore, the State should not have assumed that the AFDC recoveries could be reprogrammed under the TANF program. In March 1999, ACF issued Program Instructions on this matter, which only confirmed what the States should have been doing during the preceding two years. For AFDC overpayments made on or before September 30, 1996, the Federal share must be returned by check to DHHS. Therefore, our recommendation to refund \$10.4 million is valid.

AFDC OVERPAYMENT RECOVERIES NOT RETURNED TO ACF

Prior to TANF implementation, the State had routinely recovered overpayments and reduced its AFDC funding draw-downs on the quarterly Form ACF-231, as required. We noted, however, that the State agency did not report AFDC overpayment cash recoveries for July, August and September 1996 as a credit to Federal expenditures on any of its final Form ACF-231 expenditure reports and did not return these AFDC cash recoveries to ACF.

The State agency has not properly remitted cash collections of AFDC overpayments recovered during July, August and September 1996, totaling \$545,232 (Federal share \$325,340). State officials attributed the unreturned AFDC cash recoveries to timing differences between State and local agency record keeping and reporting procedures for overpayment recoveries.

Recommendation

We recommend that the State agency refund \$325,340 for the Federal share of recovered cash collections of AFDC overpayments.

State Agency Comments

The State believes that they are in compliance with TANF transmittals and should not be penalized for following the instructions in those documents.

OAS Response

The recommended refund of \$325,340 relates to AFDC overpayments recovered during the three months preceding the implementation of TANF and should have been refunded through the normal AFDC quarterly reporting process. These recoveries were erroneously excluded from the quarterly AFDC report and should not have been reprogrammed under the TANF program. Therefore, our recommendation is valid.

To facilitate identification, please refer to Common Identification Number A-05-02-00031 in all correspondence relating to this report. Any questions on any aspect of the report are welcome. Please contact Mr. Ross Anderson of my staff at telephone number (312) 353-2618.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson
Regional Inspector General
for Audit Services

APPENDIX

Governor

Jennifer Reinert
Secretary



State of Wisconsin
Department of Workforce Development

201 East Washington Avenue
P.O. Box 7946
Madison, WI 53707-7946
Telephone: (608) 266-7552
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APPENDIX
Page 1 of 2

May 20, 2002

Paul Swanson
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, IL 60601

Dear Mr. Swanson:

This letter is the State of Wisconsin Department of Workforce Development's (DWD) response to the draft report that your office issued last month that is entitled "Review of Aid to Families with Dependent Children (AFDC) Overpayment Recoveries for the period July 1, 1996 through September 30, 2001". The Common Identification Number for this report is A-05-02-00031.

DWD's responses to each of the recommendations follow.

Recommendation 1: We recommend that the State agency refund \$10,385,998 for the net Federal share of recovered AFDC overpayments, occurring prior to October 1, 1996.

DWD Response: We believe we were acting in compliance with TANF transmittals, specifically Transmittal No. TANF-ACF-PI-99-2 and TANF-ACF-PI-99-2 (Revised) and should not be penalized for the entire audit period for following the instructions in those documents. Not until Transmittal No. TANF-ACF-PI-2000-02 under which the audit was conducted did we become non-compliant by failing to return AFDC overpayment collections by check.

We do agree that we have a liability to the U.S. DHHS, which it will calculate, for funds which should have been repaid to DHHS via check since the 9/30/00 effective date of Transmittal No. TANF-ACF-PI-2000-02. This amount is estimated at \$1.4 million. We would like to make this payment in the form of a reduction in the balance of additional TANF funds credited to DWD, which was increased when we reported AFDC recoveries. There are strong equitable considerations for allowing us to make the payment in this manner.

We dispute that any change needs to be made in our accounting for the repayment of recovered AFDC overpayments during the period from 8/22/96 to 9/30/00. As stated above, we believe we were acting in compliance with

TANF transmittals, specifically Transmittal No. TANF-ACF-PI-99-2 and TANF-ACF-PI-99-2 (Revised) and should not be penalized for following the instructions in those documents.

Recommendation 2: We recommend that the State agency implement written procedures to perform a quarterly analysis of its accounts receivables, segregate collections of AFDC overpayments from TANF overpayments and make appropriate refund to ACF.

DWD Response: We agree with this recommendation.

Recommendation 3: We recommend that the State agency implement necessary modifications to its accounts receivable system to separate AFDC and TANF overpayments and recoveries either by program or occurrence date.

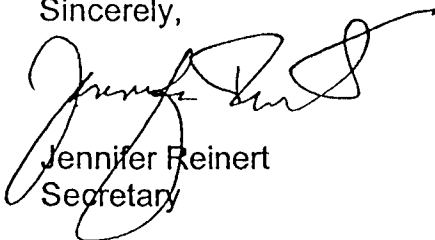
DWD Response: We will modify our accounts receivable system to produce a report that separates AFDC and TANF overpayments and recoveries by program and occurrence date.

Recommendation 4: We recommend that the State agency refund \$325,340 for the Federal share of recovered cash collections of AFDC overpayments.

DWD Response: Per our response to Recommendation 1, we believe we were acting in compliance with TANF transmittals, specifically Transmittal No. TANF-ACF-PI-99-2 and TANF-ACF-PI-99-2 (Revised) and should not be penalized for following the instructions in those documents. Since this \$325,340 was collected prior to 9/30/00 when Transmittal No. TANF-ACF-PI-2000-02 was issued, we dispute the repayment of this amount. Refer to our response to Recommendation 1 for further explanation of the various transmittals that are being cited.

A copy of this letter is also being forwarded to Joyce Thomas, Midwest Hub Director Region V, so that DHHS and DWD can start to work out the potential solutions that we are suggesting. If you have any questions or concerns regarding our response, please contact Kipp Sonnentag, DWD's Controller, at (608) 266-7272.

Sincerely,



Jennifer Reinert
Secretary

cc: Joyce Thomas, Eric Baker, Larry Studesville, Kipp Sonnentag, Tom Smith,
Howard Bernstein, Ron Hunt, Ron Thorson, Maureen Hlavacek, Mary Rowin,
Fay Simonini