

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF OVERPAYMENT  
COLLECTIONS BY AID TO FAMILIES  
WITH DEPENDENT CHILDREN (AFDC)  
BY KANSAS DEPARTMENT OF  
SOCIAL AND REHABILITATION  
SERVICES (DSRS)**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**JANUARY 2002  
A-07-02-03011**



Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

CIN: A-07-02-03011  
January 8, 2002

Sandra C. Hazlett, Director  
Economic & Employment Support Division  
Department of Social & Rehabilitation Services  
Sixth Floor, 915 Harrison St.  
Topeka, Kansas 66612

Dear Ms. Hazlett:

This report provides you with the results of our review of Overpayment Collections made for the former Aid to Families with Dependent Children (AFDC) program by the State of Kansas Department of Social and Rehabilitation Services (DSRS). The objective of our review was to determine whether the DSRS remitted the Federal share of AFDC overpayment collections to the Federal government after the program was repealed.

During the period October 1, 1996 through March 31, 2001, the DSRS remitted the Federal share of AFDC overpayments totaling \$2,102,779 to the U.S. Department of Health and Human Services - Administration for Children and Families (ACF) as required. However, the DSRS did not begin submitting quarterly payments for the above period until December 26, 2000. We are recommending the DSRS continue making *quarterly* payments for the Federal share of AFDC overpayments as required.

The DSRS agreed with our findings and recommendation. The DSRS's response is included in its entirety as Appendix C.

## Introduction

### BACKGROUND

The AFDC program was a Federal and State funded income maintenance program. It was administered by the State on behalf of needy families with dependent children. Beginning in 1996, States were eligible to participate in a new program entitled Temporary Assistance for Needy Families (TANF). This new program was implemented by the State of Kansas on October 1, 1996.

Under the former AFDC program, an individual recipient might, on occasion, receive a monthly Maintenance Assistance Payment in excess of the amount to which he or she was entitled. The State Agency responsible for administering the Title IV-A program was then obligated to recover the overpayment from the recipient by means of a reduction in future payments to the recipient or by collecting a cash settlement.

Federal regulations at 45 CFR 233.20 require States to continue efforts until the full amount of overpayment has been recovered. Although the AFDC program was repealed and replaced with TANF, the requirement to recover AFDC overpayments remains in effect.

The ACF issued a Program Instruction (PI), Transmittal Number: TANF-ACF-PI-2000-2 dated September 1, 2000. This PI stated that:

*For recoveries of former AFDC program overpayments made before October 1, 1996, 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 Medicaid Assistance Percentage (FMAP) rate in effect for the State during fiscal year 1996. States should not use the FMAP rate in effect during the year in which the overpayment occurred or the FMAP rate in effect during the year in which the recovery is made.*

## **SCOPE OF REVIEW**

Our review was conducted in accordance with generally accepted government auditing standards, except our review objectives did not require evaluation of the internal control structure. The objective of our review was to determine whether the State of Kansas remitted the Federal share of AFDC overpayment collections to the Federal government. We examined supporting documentation for AFDC overpayments collected by the DSRS from October 1, 1996 through March 31, 2001.

To achieve our objective, we reviewed applicable sections of program instructions issued by the ACF and Federal regulations at 45 CFR 233.20. We researched the Cash Management Improvement Act - 31 CFR 205 to determine Federal requirements regarding interest on collections that were not remitted on a timely basis.

We examined copies of transmittal letters used to remit payments to the ACF for the period October 1, 1996 through March 31, 2001 prepared by the DSRS. We considered other information provided to us, such as the quarterly summary reports that supported the AFDC overpayment data. A schedule of collections and payments covering October 1, 1996 through March 31, 2001 is attached as Appendix A.

Our fieldwork was performed at the offices of the DSRS in Topeka, Kansas during June 2001.

## **Findings and Recommendations**

The DSRS collected \$2,102,779 representing the Federal share of AFDC overpayments collected between October 1, 1996 and March 31, 2001. That amount was remitted to the Federal government in three payments beginning December 26, 2000.

**Overpayment Collections Not Timely Remitted**

On March 9, 1999, the ACF issued a PI, Transmittal Number: TANF-ACF-PI 99-2 that states:

*In any quarter in which one or more of these overpayments are recovered, the Federal share must be returned to this agency with a check made payable to the U.S. Department of Health and Human Services. . . .*

The Federal share of AFDC overpayment collections made between October 1, 1996 and March 31, 2001 were remitted by the DSRS on three separate occasions. A lump-sum payment for \$1,972,512 was remitted on December 26, 2000. Subsequent payments for \$75,098 on January 30, 2001 and \$55,169 on May 11, 2001 were remitted on a quarterly basis as required.

**Recommendation**

We recommend the DSRS continue to remit *quarterly* payments for the Federal share of AFDC overpayment collections as required.

**Other Matters**

In accordance with the Cash Management Improvement Act (CMIA):

*A State will incur an interest liability to the Federal Government on a refund transaction of Federal funds. A State interest liability will accrue from the day the refund is credited to a State account to the day the refund is either paid out for program purposes or credited to a Federal Government account.*

Since the DSRS collected overpayments but did not make quarterly remittances or apply the Federal share against another program such as TANF, the State may be liable for interest related to collections that were not remitted on a timely basis. The DSRS made a lump-sum payment for the Federal share of overpayments (\$1.9 million) that were collected over a four-year period. The State should take these balances into consideration and include them in their yearend settlement with the U.S. Treasury Department.

**Auditee Response**

The DSRS agreed with our findings and recommendation. Additionally, the DSRS computed interest on the Federal share of AFDC recoveries and has indicated that the interest will be considered in their year-end settlement with the U.S. Treasury. The DSRS's response is included in its entirety as Appendix C.

-----  
**INSTRUCTIONS FOR AUDITEE RESPONSE**

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on 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 are made available to the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5). As such, within ten business days after the final report is issued, it will be posted on the world wide web at <http://www.hhs.gov/progorg/oig>.

Sincerely,



James P. Aasmundstad  
Regional Inspector General for  
Audit Services, Region VII

Enclosures

HHS Action Official:  
Ms. Linda Lewis  
Regional Administrator, Region VII  
601 East 12<sup>th</sup> Street, Room 276

Appendix A

**Schedule of Collections and Remittances  
Federal Share of AFDC Overpayments  
Department of Social & Rehabilitation Services  
Topeka, Kansas  
For the Period October 1, 1996 through March 31, 2001**

<u>Quarter</u>	<u>Amount Collected</u>	<u>Amount Remitted</u>	<u>Date Remitted</u>
<u>FFY 97</u>			
Oct – Dec	\$ 160,184	\$	
Jan – Mar	134,254		
Apr – Jun	145,037		
Jul – Sep	121,662		
<u>FFY 98</u>			
Oct – Dec	101,439		
Jan – Mar	100,245		
Apr – Jun	154,214		
Jul – Sep	111,962		
<u>FFY 99</u>			
Oct – Dec	96,850		
Jan – Mar	85,732		
Apr – Jun	183,466		
Jul – Sep	183,809		
<u>FFY 00</u>			
Oct – Dec	65,145		
Jan – Mar	130,991		
Apr – Jun	90,520		
Jul – Sep	107,002	1,972,512	12/26/00 <sup>1</sup>
<u>FFY 01</u>			
Oct – Dec	75,098	75,098	01/30/01
Jan – Mar	55,170	55,169	05/11/01
	<u>\$2,102,780<sup>2</sup></u>	<u>\$2,102,779</u>	

<sup>1</sup> This payment represents the period October 1, 1996 through September 30, 2000.

<sup>2</sup> Amounts collected are different from amounts remitted because of rounding.

**Appendix B**

REVIEW OF  
AFDC OVERPAYMENT COLLECTIONS  
BY THE STATE OF KANSAS

AUDIT REPORT CIN: A-07-02-03011  
KANSAS CITY, MISSOURI

OFFICE OF AUDIT INDIVIDUALS HAVING ACCESS TO SOURCE  
INFORMATION REGARDING THIS AUDIT REPORT

Name, Title

Gregory Tambke, Audit Manager  
Randy Parker, Senior Auditor  
Michael Helmick, Auditor  
John Klatt, Independent Reviewer

Class of Persons Having Access to this Report

Office Administrative Personnel



KANSAS DEPARTMENT OF SOCIAL  
AND REHABILITATION SERVICES

915 SW HARRISON STREET, TOPEKA, KANSAS 66612

JANET SCHALANSKY, SECRETARY

December 26, 2001

Mr. Gregory Tambke, Audit Manager  
HHS/OIG/OAS  
2425 Hyde Park Road  
Jefferson City, Missouri 65109

RE: Review of AFDC Overpayment Collections by KS Dept of SRS (CIN A-07-02-03011)

Dear Mr. Tambke:

Thank you for the opportunity to comment on your draft report concerning AFDC overpayment collections. I am pleased that you found the department in compliance with the recent overpayment process issued by the Administration for Children and Families. The department continues to remit quarterly payments for the federal share of AFDC overpayment collections, as you have recommended.

In the section entitled *Other Matters*, the draft report suggested that Kansas may be liable for interest on the federal share of collections remitted as a lump sum payment. The department has investigated this matter and concludes that this liability is approximately \$8,000, an amount that appears immaterial.

To explain our conclusion, I will state two long standing accounting principles employed by the department. First, AFDC recoveries are receipted according to the state/federal funding mix in effect at the time of the recovery. Secondly, benefit reductions are reduced according to the funding mix prevailing at the time of recovery. Thus, the draw down of federal funds is reduced by the amount of the recoveries. Prior to the TANF Program, the state remitted 59.04 percent of recoveries to the federal government. Therefore, the state would have benefitted from the use of recovered AFDC funds only if the federal fund percentage during the TANF Program was less than the former federal share of 59.04 percent.

The following table shows the expenditures (in millions) made in the TANF program. The percentage of expenditures from the TANF Block Grant is compared to the former AFDC federal share, to arrive at the state's net gain or loss from the use of AFDC recoveries. The table shows that the state benefitted in federal fiscal years 1997 and 2000, but lost funds in fiscal years 1998 and 1999.

Federal Fiscal Year	Total TANF Program Expenditures	State Expenditures	TANF Block Grant Expenditures	TANF Block Grant Share	Former AFDC Federal Share	State Gain (+) / Loss (-)
1997	\$142.85	\$71.88	\$70.97	49.68%	59.04%	9.36%
1998	\$166.10	\$64.17	\$101.93	61.37%	59.04%	-2.33%
1999	\$170.28	\$68.35	\$101.93	59.86%	59.04%	-0.82%
2000	\$178.33	\$76.40	\$101.93	57.16%	59.04%	1.88%



Mr. Gregory Tambke  
December 26, 2001  
Page Two


The gain and loss percentages were then applied to the federal share of the recovered amounts repaid to the U.S. Department of Health and Human Services. The next table shows in detail the net benefit to the state. The first column denotes the quarter in which the recovery occurred, with the federal share of the recovery shown in the second column. The third column repeats the state's percentage gain or loss from the use of the recovered funds from the previous table. In the fourth column, this percentage is applied to the federal share of the recoveries to obtain the dollar gain or loss from the use of federal funds. The next column shows the compound interest factor from the applicable quarter to the quarter preceding the state's lump sum payment (the second quarter of calendar year 2000). The final column calculates the state's benefit from the use of the recovered funds.

Initial Quarter	Federal Share of Recovery	State Gain (+)/ Loss (-) (Percent)	State Gain (+)/ Loss (-) of Fed Funds	Compound Interest Factor	Interest Amount
1996:4	\$160,184	9.36%	\$14,991	0.2091	\$3,134
1997:1	134,254	9.36%	12,564	0.1938	2,435
1997:2	145,037	9.36%	13,573	0.1785	2,423
1997:3	121,662	9.36%	11,386	0.1634	1,860
1997:4	101,439	-2.33%	(2,360)	0.1485	(350)
1998:1	100,245	-2.33%	(2,332)	0.1336	(312)
1998:2	154,214	-2.33%	(3,588)	0.1191	(427)
1998:3	111,962	-2.33%	(2,605)	0.1049	(273)
1998:4	96,850	-0.82%	(794)	0.0914	(73)
1999:1	85,732	-0.82%	(703)	0.0795	(56)
1999:2	183,466	-0.82%	(1,505)	0.0674	(101)
1999:3	183,809	-0.82%	(1,508)	0.0553	(83)
1999:4	65,145	1.88%	1,226	0.0428	52
2000:1	130,991	1.88%	2,465	0.0294	72
2000:2	90,520	1.88%	1,704	0.0148	25
<b>Net Interest</b>					<b>\$8,326</b>

The net interest from the state's use of the recoveries is \$8,326. As you recommended in your draft, this balance will be considered in our year-end cash settlement with the U.S. Treasury.

Thank you for the opportunity to respond to your draft report and to apprise you of the actions we will take on this matter.

Sincerely,

  
Sandra C. Hazlett, Director  
Economic and Employment Support

cc: Ray Dalton, Chief Accountant  
Candy Shively, Deputy Secretary