

**Memorandum**

Date . NOV 10 1992

From Bryan B. Mitchell *Bryan Mitchell*  
Principal Deputy Inspector General

Subject Audit of Controls for Each Phase of the Overpayment Recovery  
Process in the Aid to Families with Dependent Children  
Program (A-01-92-02506)

To Jo Anne B. Barnhart  
Assistant Secretary for  
Children and Families

The attached final report provides you with the results of the subject review. The objectives of our audit were to determine whether State and local agencies had established systems and procedures to: (1) process and collect on a timely basis outstanding overpayments from current and former Aid to Families with Dependent Children (AFDC) recipients, (2) determine when it is no longer cost-effective to continue recovery efforts, and (3) accurately report the results of overpayment activities to Administration for Children and Families (ACF). We evaluated these systems to assure that overpayments are processed in compliance with applicable Federal regulations. The results of our audits of the State and local agencies were also used to determine whether ACF's policies and procedures, as promulgated through regulations set forth in Title 45 Code of Federal Regulations (CFR) section 233.20(a)(13), provide specific uniform procedures for each phase of the overpayment recovery process. Our audit included State and local agency overpayment recovery activities at various times during Fiscal Years 1989, 1990, and 1991 (See APPENDIX I).

Overall, we found that ACF's policies and procedures, as promulgated through regulations set forth in Title 45 CFR section 233.20 are too general and do not provide State and local agencies with specific uniform procedures to use for each phase of the overpayment recovery process. We believe that specific regulations are essential to achieving the level of accountability ACF needs from State and local agencies to facilitate performance measurement and program monitoring.

We previously reported to you that as of 1989, about \$3.5 billion in potential overpayments may have been made, but had not yet been actually identified and reported by State agencies. Since that time, the backlog of potential overpayments has not been reduced. According to its own

quality control data, the ACF estimates that in 1990 State and local agencies continued to make \$1 billion in AFDC program overpayments.

Considering this magnitude, and the results of our reviews in six States, we believe the need for intensified program oversight to protect Federal interests is essential. We further believe that the results of these reviews are sufficient to elevate the classification of this area from a "Significant Management Concern" to a reportable "Material Management Control" weakness. Accordingly, we reported this matter in our Semiannual Report for the 6-month period ended March 31, 1992.

We are recommending that ACF review its control procedures in each of the four phases of the overpayment recovery process: (1) timely processing of potential overpayments, (2) collecting overpayment amounts due from current and former recipients, (3) determining when it is not cost-effective to continue recovery efforts, and (4) reporting data on overpayment recovery activities in each State. We are also recommending that ACF take several actions requiring State and local agencies to apply uniform procedures in the recovery of overpayments from current and former AFDC recipients.

In your response to our draft report (See APPENDIX II), you stated general agreement with our findings and recommendations. You also stated that ACF has initiated a corrective action plan to address the problems identified in our report.

Please advise us, within 60 days, on any further actions taken or planned on our recommendations. If you need further information, please contact me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF CONTROLS FOR EACH PHASE  
OF THE OVERPAYMENT RECOVERY  
PROCESS IN THE AID TO FAMILIES WITH  
DEPENDENT CHILDREN PROGRAM**



A-01-92-02506

## SUMMARY

Overpayments occur when individuals receive payments to which they are not entitled. When not recouped, such overpayments result in taxpayers financing unwarranted program expenses. We previously reported that as of 1989, about \$3.5 billion in potential overpayments may have been made, but had not yet been actually identified and reported by State agencies. Since that time, the backlog of potential overpayments has not been reduced. According to its own quality control data, the Administration for Children and Families (ACF) estimates that in 1990 State and local agencies continued to make \$1 billion in Aid to Families with Dependent Children (AFDC) program overpayments. Considering this magnitude, and the results of our reviews in six States, we believe the need for intensified program oversight to protect Federal interests is essential. Overall, our reviews have shown that ACF's policies and procedures as promulgated through regulations set forth in Title 45 Code of Federal Regulations section 233.20(a)(13) are too general and do not provide specific uniform procedures for each phase of the overpayment recovery process. We believe that specific regulations are essential to achieving the level of accountability ACF needs from State and local agencies to facilitate performance measurement and program monitoring.

The ACF needs to review its control procedures in each of the four phases of overpayment recovery: (1) timely processing of potential overpayments, (2) collecting from current and former recipients, (3) determining when it is not cost-effective to continue recovery efforts, and (4) reporting data on overpayment recovery activities in each State. Each of these areas are discussed briefly below.

The ACF has not provided specific guidance to State and local agencies concerning the timely processing of potential AFDC program overpayments. The ACF's regulations do not address the processing of potential overpayments. Without any specific requirements for processing potential overpayments, State and local agencies have accumulated large backlogs of cases needing further review before overpayments are validated and recovery action initiated. Consequently, delays in processing potential cases could result in untimely collections and lost opportunities for recovery.

The ACF needs to strengthen its policy regarding collections of overpayments from current recipients. In August 1991, ACF issued a Notice of Proposed Rule Making which mandates that States use recoupment from assistance payments to collect outstanding overpayments from current recipients. However, our reviews have shown that the ACF policy needs to address situations where State and local agencies suspend recovery activities pending the outcome of investigations for fraud. State and local agencies

have incorrectly assumed that collection activities are supposed to be suspended pending the outcome of the investigation.

We also found that collection activities related to former recipients need improvement. In this regard, we noted that State and local agencies were not making use of all available data for determining if recoveries can be made for those outstanding overpayments related to former recipients.

The ACF has not established guidance for State and local agencies to follow in determining when it is no longer cost-effective to continue overpayment recovery efforts. The ACF's current policy leaves it to the discretion of each State and local agency to determine when to stop recovery efforts. Our reviews in six States disclosed that only one had established policies and procedures in this area. As a result, many overpayments have been outstanding for long periods of time, and even though no collection activity was apparent, the State and local agencies classified the cases as active for recovery.

The ACF does not have the information it needs to effectively and efficiently manage overpayment collection activities. For example, data are not being collected on the characteristics of the overpayment workload, such as the age and amount of debt, the costs of collection practices by type, program or case, and the effectiveness of recovery tools. Prior to October 1988, ACF collected some data via the Quarterly Report of Recoveries of Overpayments (SSA-4972). However, ACF officials indicated that the SSA-4972 was dropped when the Office of Management and Budget approval expired in September 1988. According to ACF officials, the form was not renewed because it failed to adequately distinguish recoverable overpayments from unrecoverable overpayments. The ACF has not established a replacement data collection form.

Based on the results of our review, we are recommending that ACF strengthen the overpayment recovery process by requiring that State and local agencies:

- o recoup overpayments from current recipients regardless of whether the case is pending investigation,
- o establish procedures to identify and recoup outstanding overpayments from former recipients returning to the AFDC rolls, and
- o periodically match overpayment files with State earnings records to identify any former recipients who are now employed and have a means of repaying outstanding balances.

We are also recommending that ACF:

- o establish uniform procedures to achieve accountability over States' processing of potential overpayments,
- o establish uniform policies and procedures for State agencies to use in determining how long accounts receivable should be maintained before it is considered no longer cost-effective to continue recovery efforts,
- o develop new reporting requirements that will obtain information on: (1) the processing of both potential and actual overpayments, (2) the status of collections as the cases proceed through the various stages of the recovery process, and (3) amounts of collections and outstanding overpayments for both current and former recipients, including the age and amount of debt, and
- o explore the possibility of collecting overpayments through income tax refund intercept.

In response to our draft report, ACF agreed with our recommendations and indicated that a corrective action plan addressing the problems identified in the report has been initiated (See APPENDIX II). The planned actions include: (1) issuance of final regulations on the overpayment recovery and quality control processes, (2) development of a guide for State agency use in determining when it is no longer cost-effective to attempt recovery of overpayments, (3) performance of comprehensive onsite reviews by ACF Regional Office staff of all State agency overpayment recovery systems, and (4) development of a comprehensive financial management reporting form that captures the data recommended in our report.

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## INTRODUCTION

This report summarizes the results of our audits of State and local agency AFDC overpayment recovery activities at various times during Fiscal Years (FY) 1989, 1990, and 1991. The entities audited included Connecticut, Illinois, Florida, Maine, and the local agencies that administer the AFDC programs in New York City and Los Angeles County.

The objectives of our audits were to determine whether State and local agencies had established systems and procedures to: (1) process and collect on a timely basis outstanding overpayments from current and former AFDC recipients, (2) determine when it is no longer cost-effective to continue recovery efforts, and (3) accurately report the results of overpayment activities to the ACF. We evaluated these systems to assure that overpayments are processed in compliance with applicable Federal regulations. The results of our audits of the State and local agencies were also used to determine whether ACF's policies and procedures as promulgated through regulations set forth in Title 45 Code of Federal Regulations (CFR) section 233.20(a)(13) provide specific uniform procedures for each phase of the overpayment recovery process.

## 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 own homes. Payments to recipients under this program are made based on the family's need, taking into consideration the size, income, and resources of the family. Currently, all 50 States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands have AFDC programs. In FY 1989, approximately 11 million recipients were receiving aid at a cost of about \$17.2 billion under the AFDC program. The Federal Government provides Federal financial participation at a minimum rate of 50 percent for AFDC payments.

States generally assign the responsibility for administering the AFDC program to a single State agency. The single State agency develops and implements a State plan for the grant program that must be approved by the Department of Health and Human Services' ACF, formerly the Family Support Administration. The ACF is the Federal agency responsible for monitoring State agency compliance with the AFDC program regulations. The State agency estimates program and administrative costs for each year and applies for a grant. Based on this, the ACF awards annual grants and authorizes quarterly funding for the State's program.

Occasionally, AFDC families may be provided excess amounts of aid as a result of errors on the part of the State agency in calculating the AFDC award or because recipients provide incorrect information or fail to report changes in the family



size, income, or resources. The ACF has estimated from its own quality control data that States made an average of \$1.1 billion per year in AFDC overpayments during the 5-year period ending 1990.

The Omnibus Budget Reconciliation Act of 1981 provides that State agencies administering the AFDC program promptly take all necessary steps to correct any overpayments made to individuals covered under the State plan. Title 45 CFR section 233.20, requires State agencies to recover an overpayment by one of two methods: (1) repayment from the current or former recipient, or (2) recoupment through a monthly recovery agreement to offset the current recipient's grant or income resources. The regulations also require that State agencies maintain information on the individuals and total number and amount of overpayments identified and their disposition for current and former recipients.

State agencies utilize various methods for identifying potential AFDC overpayments. For example, the State agency may utilize computer matches with State banking institutions and unemployment compensation records or other employee earnings records, tips received via telephone fraud hotlines, and also the AFDC eligibility redetermination process. Another means of identifying overpayments is through the AFDC quality control system which identifies the cause of errors and whether they were the fault of the State agency or the recipient. Once identified, State agencies generally utilize other State agencies to pursue collection from former recipients and to investigate and, if necessary, to prosecute individuals for intentionally misrepresenting their circumstances.

Prior to October 1, 1988, State agencies were required to report the status of AFDC overpayments on a quarterly basis to the ACF. The Quarterly Report of Recoveries of Overpayments (SSA-4972) was to be used by ACF to monitor State compliance with the identification, reporting, and recovery of AFDC overpayments. However, the ACF did not request renewal of SSA-4972 from the Office of Management and Budget (OMB) and as a result the requirement for the report expired on September 30, 1988. Presently, States are required to report only the Federal share of cash overpayments recovered on line nine of Form FSA-231, the AFDC quarterly expenditure report. However, this represents only a small portion of total overpayment collections as the majority of overpayment recoveries are made through the grant reduction process which do not get reported separately on the quarterly expenditure report.

#### SCOPE OF AUDIT

Our audits were performed in accordance with generally accepted government auditing standards. The objectives of our audits were

to determine whether State and local agencies had established systems and procedures to: (1) process and collect on a timely basis outstanding overpayments from current and former AFDC recipients, (2) determine when it is no longer cost-effective to continue recovery efforts, and (3) accurately report the results of overpayment activities to ACF. We evaluated these systems to assure that overpayments are processed in compliance with applicable Federal regulations. The results of our audits of the State and local agencies were also used to determine whether ACF's policies and procedures as promulgated through regulations set forth in Title 45 CFR section 233.20(a)(13) provide specific uniform procedures for each phase of the overpayment recovery process. Our audits included State and local agency overpayment recovery activities at various times during FYs 1989, 1990, and 1991 (See APPENDIX I). During the 5-year period ending 1990, ACF has estimated from its own quality control data that States have made an average of \$1.1 billion per year in AFDC overpayments.

We accomplished our objectives through reviews at selected State and local agencies. These included Connecticut, Illinois, Florida, Maine, and the local agencies that administer the AFDC programs in New York City and Los Angeles County. At each State agency, we reviewed the systems in place to ensure that all overpayments are identified, accounted for and monitored through their resolution. Specifically, we reviewed:

- (1) procedures used in the initial processing of the overpayments for determining their validity,
- (2) procedures for coordinating and monitoring the activities of other agencies/units involved in the recovery process,
- (3) procedures utilized to ensure that recovery of outstanding overpayments related to current recipients were being made,
- (4) methods used to identify potential sources of recovery of those outstanding overpayments associated with former recipients,
- (5) procedures for determining if recovery efforts related to outstanding overpayments are no longer cost-effective, and
- (6) selected SSA-4972 quarterly reports to determine their accuracy by reconciling them to State agency internal financial and statistical records used to record the status of overpayments.

To determine the potential balance of outstanding overpayments as of FY 1989 and assure that we had a reliable figure, we examined SSA-4972's submitted by States for the FY 1985 through FY 1989 and compared the amount of overpayments reported to data from the State Quality Control reports as verified by ACF.

This financial related audit did not require a comprehensive understanding or assessment of the internal controls over all State and local agency financial accounting and reporting systems. Accordingly, our review of internal controls was limited to an analysis of State and local agency procedures and controls for: (1) timely processing potential overpayments, (2) collecting overpayments from both current and former AFDC recipients, (3) determining if recovery activities are no longer cost-effective, and (4) reporting the results of recovery activities to ACF.

We did not evaluate State and local agency procedures for determining the amount of overpayments identified for each case, nor did we verify the accuracy of these determinations. Additionally, we did not examine the process State agencies use to identify cases with potential overpayments. This will be covered by a separate review.

Other than for the items noted in the Findings and Recommendations section of this report, we found no instances of noncompliance with applicable laws and regulations. For those items not tested, nothing came to our attention to cause us to believe that untested items were not in compliance with applicable laws and regulations.

Our reviews were performed at various times during 1990 and 1991 at the six State and local agencies noted on Page 3. On July 14, 1992, we provided ACF with a draft report for comment. The ACF response is appended to this report (See APPENDIX II).

#### FINDINGS AND RECOMMENDATIONS

Our reviews have shown that ACF's policies and procedures as promulgated through regulations set forth in Title 45 CFR section 233.20(a)(13) are too general and do not provide specific uniform procedures for each phase of the overpayment recovery process. We believe that specific regulations are essential to achieving the level of accountability ACF needs from States to facilitate performance measurement and program monitoring. Essential to the recovery of AFDC overpayments is a good system of control procedures. The U.S. Comptroller General's standards for internal controls in the Federal Government states that:

"The ultimate responsibility for good internal controls rests with management. Internal controls should not be looked upon as separate, specialized systems within an

agency. Rather, they should be recognized as an integral part of each system that management uses to regulate and guide its operations. In this sense, internal controls are management controls. Good internal controls are essential to achieving the proper conduct of Government business with full accountability for the resources made available. They also facilitate the achievement of management objectives by serving as checks and balances against undesired actions. In preventing negative consequences from occurring, internal controls help achieve the positive aims of program managers."

The ACF needs to review its control procedures in each of the four phases of overpayment recovery: (1) timely processing of potential overpayments, (2) collecting from current and former recipients, (3) determining when it is not cost-effective to continue recovery efforts, and (4) reporting data on overpayment recovery activities in each State. Each of these areas are discussed separately below.

#### PROCESSING OF POTENTIAL OVERPAYMENTS

The ACF's program regulations are silent about the timely processing of potential overpayment cases to the point where the overpayment is confirmed. Although State and local agencies have identified a significant number of cases as potential AFDC overpayments, the cases are backlogged awaiting further review to determine if a valid overpayment exists and the actual amount of the overpayment. State and local agency officials indicated that a substantial number of these potential overpayments are eventually confirmed as valid overpayments. However, recovery actions on such cases are not initiated until the additional review is performed. Consequently, delays in processing these potential overpayments could result in untimely collections and lost opportunities for recovery.

The most common means of identifying potential AFDC overpayments are eligibility redeterminations, computer matches with State records of employee earnings and banking institutions, and complaints from the general public. Those cases identified as potential overpayments are assigned to case workers for further review to validate and determine the amount of overpayment. Once the overpayment is determined to be valid, it is then referred to the appropriate State agency internal unit or to an external agency for recovery action.

State and local agency responsibilities relative to the prompt collection of confirmed overpayments are clearly indicated in section 233.20 of Title 45 of the CFR. However, the regula-

tions do not provide specific guidelines relative to the timely processing of potential overpayment cases to the point where the overpayment is confirmed. Without specific requirements, we have found that State and local agency attention to processing potential overpayment cases has not been timely. Discussions with various State and local agency officials indicated that review of potential overpayment cases is not given a high priority and that other priorities will take precedence over the processing of potential AFDC overpayments.

The following backlogs of potential overpayments awaiting validation were disclosed at two State and local agencies included in our review:

- o The Connecticut State agency's overpayment tracking system, as of September 1989, included a total of 13,839 potential overpayment cases with a State agency estimated value of about \$12 million. This system was used by the State agency to record those potential overpayments that were assigned to case workers for further review to determine the validity of the overpayments. However, according to State agency officials, the backlog would take about 18 months of work by case workers to validate the estimated overpayments.
- o The Los Angeles County Department of Social Services has accumulated a large backlog of raw hits from computer matches to identify potential overpayments. The matches require research to determine whether an actual overpayment exists. The backlog of raw hits has been steadily increasing from 1987 when there were 36,000 matches pending review to 1990 when there were 133,000 matches pending further analysis to validate the overpayments.

Considering that initial processing of potential overpayments is the primary step in validating overpayments, we believe that the need to establish specific control procedures is essential.

In addition to potential overpayment cases that must be validated, there is a substantial backlog of overpayments which have not been identified for processing. We examined SSA-4972's submitted by States for the FY 1985 through FY 1989 and compared the amount of overpayments reported to data from the State Quality Control reports as verified by ACF. This data showed that about \$3.5 billion in potential overpayments may have been made, but had not yet been actually identified and reported by State agencies. Since that time, the backlog of potential overpayments has not been reduced. According to its own quality control data, ACF estimated that in 1990 State and local agencies

continued to make \$1 billion per year in AFDC overpayments. Once identified, these overpayments will further add to the backlog of cases that must be processed.

#### Recommendations and ACF's Comments

We recommend that the ACF establish specific uniform control procedures requiring State and local agencies to process and validate potential AFDC overpayments within specified time frames. Such procedures should identify time frames for processing potential overpayments to the point of validating whether an overpayment exists.

In response to our draft report, ACF indicated that they plan to issue final regulations on the overpayment recovery and quality control processes. The ACF has published a Notice of Proposed Rule Making (NPRM) which requires the mandatory recoupment from current recipients and shortens the time for initiating a recovery action. The ACF has also published an NPRM involving quality control errors which provides incentives to States for increased efforts in the recovery of overpayments.

#### COLLECTION OF OVERPAYMENTS

The results of our reviews at the various State and local agencies have indicated that more emphasis could be placed on the recovery of overpayments from both current and former recipients. Our reviews have shown that State and local agencies: (1) have improperly suspended recovery activities on current recipients pending the outcome of investigations, (2) need better controls in checking the status of current recipients as possible former overpayment cases, and (3) could match other State agencies' records to identify former recipients that have resources to pay back outstanding overpayments. We recommend that ACF establish standardized procedures for State and local agencies to follow in the process for recovering overpayments from both current and former recipients.

#### Collections From Current Recipients

With regards to State and local agency responsibilities for prompt recovery of AFDC overpayments, Title 45 CFR section 233.20(a)(13) require that the agency:

"...(E)...must take one of the following three actions by the end of the quarter following the quarter in which the overpayment is first identified: (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."

Our reviews disclosed that the Connecticut State agency and the New York City agency suspend all recovery activities on current cases pending the outcome of investigations and the case is returned to the State or local agency. However, we found that because of the large number of cases being referred, a backlog has been created at the legal/investigative units and potential recovery actions are delayed. For example, we noted that the situation in Connecticut has resulted in the following problem:

- o All cases with overpayments of \$500 or more are referred to the Connecticut State Police Fraud Investigative Unit to determine if recipient fraud exists. The State agency suspends all collection activities until the cases are returned for further action. At the time of our review, there were 6,752 cases at the State Police representing validated overpayments of \$13.5 million. We matched these cases with the current AFDC eligibility file and found that 2,252 of the cases with overpayments valued at \$3.9 million were related to currently active recipients. Although the State agency officials were under the impression that collection activities were supposed to be suspended during the State Police review, we were informed by officials of the State's Attorney General Office that collections could be made while the case is being investigated without compromising the prosecution of the cases. Thus, immediate recovery action could be initiated on these current cases.

Our review at Los Angeles County disclosed an additional problem with recoveries from current recipients as follows:

- o Los Angeles County had established procedures to identify and alert case workers of outstanding overpayments related to currently active recipients. However, we noted numerous breakdowns in the procedures which resulted in case workers failing to closely monitor the status of the overpayment recoveries. For example, we found instances where collections ceased when cases were transferred to other district offices or eligibility workers. This was due to the fact that the County did not have an adequate system to track the status of the overpayments at the various stages of the recovery process. We also found that reports on outstanding overpayments associated with current recipients were sometimes not received by case workers or included outdated or incorrect information. These breakdowns resulted in overpayments remaining uncollected. Based on our statistical projection of the sample results, we estimated that over 10,200 active cases with overpayments valued at \$8.5 million were not being recovered through grant reductions because of these problems.

## Collections From Former Recipients

State and local agencies are not utilizing all available methods for collecting outstanding AFDC overpayments from former recipients. We found that the State and local agencies generally maintain data on the uncollected overpayments related to former recipients. However, we found that this data was not being properly utilized for recovery activities.

With respect to the recovery of overpayments related to former recipients, Title 45 CFR section 233.20(a)(13)(vi) states that:

"...States must...maintain information regarding uncollected overpayments...to enable the State to recover those overpayments if the individual subsequently becomes a recipient."

The same citation further delineates actions that should be taken to recover overpayments from former recipients as follows:

"In locating former recipients who have outstanding overpayments the State should use appropriate data sources such as State unemployment...and other files relating to current or former recipients."

The following examples illustrate the conditions we found at the State and local agencies included in our review:

- o At Los Angeles County, we found that prior to June 1990, the County did not pursue collection of overpayments related to former recipients if the overpayment did not involve fraud. When the policy was changed we noted that the County did not retroactively apply it to outstanding overpayments as of June 1990. We found about \$2 million in overpayments identified prior to June 1990 that were still within the State's 3-year statute of limitations for civil recovery action. However, the County was not attempting to recover. We also found that the County experienced problems in implementing the new policy and as a result, about \$3.9 million in overpayments for former recipients identified during the period June 1990 through April 1991 were not referred to the County collection agency for recovery action. Finally, the review of Los Angeles County disclosed that about \$13.1 million in overpayments related to former recipients had been misclassified, as being associated with current recipients. Because of the misclassification, the cases had not been referred to the County collection agency to initiate recovery action for these overpayments and, therefore, no recovery action was taken on these cases.



- o In Connecticut, we found that overpayment information relative to former recipients was not utilized to determine if individuals re-applying for AFDC benefits had outstanding overpayments from previous AFDC grant periods. We identified about \$1.7 million in overpayments associated with reactivated recipients and no grant reductions were being made from their current awards.
- o We also found that the Connecticut State agency's internal auditors had conducted a one-time match of the overpayment files with State Department of Labor records to identify former recipients who were now employed. The internal auditor's review of a sample of these cases disclosed that between 17 and 21 percent of the sampled cases had earned income of over \$6,000 per year. This amount of yearly earnings is more than the average annual AFDC award for Connecticut recipients. Consequently, we concluded that such former recipients were earning enough money to begin making repayments to the State agency for the prior overpayments. Although we can not project the State agency's results, we did conclude that a routine computer match with State Department of Labor earnings would identify a significant amount of overpayments from former recipients with a potential for recovery.
- o Our review in New York City disclosed that the Human Resources Administration (HRA) initiates the collection process for overpayments from former recipients. However, if the recipient stops remitting payments we found that the HRA does not consistently follow up with the recipient to determine why payment stopped or make any other attempts to recover the outstanding balances. We were also informed that the HRA does not perform any computerized matches with State Department of Labor earnings records to identify potential sources of recovery of those overpayments related to former recipients. The HRA officials informed us that existing New York State statutes prohibit this type of match.
- o At the Florida State agency, we found that the State agency placed a low priority on the recovery of overpayments from former recipients. In this regard, we noted that the State agency rarely initiated civil action against those former recipients who do not make attempts at restitution for overpayments. In addition, the State agency did not consistently use the income verification system to identify those former recipients now employed and with the means for repaying the outstanding overpayment balance. Past experience at the State agency indicates that about 8 percent of validated outstanding overpayments are recovered. Considering that about \$20.2

million in outstanding overpayments related to former recipients existed as of September 1990, additional effort on the part of the State agency could possibly increase the amount of recoveries.

In summary, the results of our reviews at the various State and local agencies have indicated that more emphasis could be placed on the recovery of overpayments from both current and former recipients. As noted above, the amount of such overpayments is significant and, consequently, we believe that the need to improve recovery activities is essential. In this regard, we believe that a good monitoring system for the identification and recovery of outstanding overpayments should include a periodic computerized match of the outstanding overpayments with the State agency's eligibility file of currently active AFDC recipients. As noted during our reviews, there are a significant number of current recipients with outstanding overpayments, both from current awards and from prior eligibility periods, and such a match could identify these recipients and enhance the recovery process. In addition, we believe that the State and local agencies need to strengthen their eligibility determination process for those recipients who are reapplying for benefits to identify those individuals with outstanding overpayments from prior grant periods and reduce new AFDC grants, accordingly. Finally, the use of periodic computer matches between overpayment files for former recipients and State earnings, unemployment compensation, and other type of income records maintained by the State would, in our opinion, enhance the State agencies' identification of potential sources of recovery for outstanding overpayments.

In a memorandum dated February 10, 1992 addressing some of the problems identified in our reviews, the Assistant Secretary for Children and Families advised us that as part of a comprehensive review of the AFDC program to be performed in FY 1992, the procedures for identification and recovery of overpayments in 10 States will also be reviewed. Based on the analysis, the ACF will either issue a proposed rule requiring appropriate State action or an informational memorandum outlining "best practices" models employed by different States.

During the last decade several actions were taken to address the Federal Government's longstanding debt management problems. Among these was passage of the Deficit Reduction Act of 1984 which authorized collection of overpayments through Federal income tax refund intercept.

In November 1988, OMB issued Circular A-129 which includes guidance on collecting delinquent debt in accordance with provisions of the Deficit Reduction Act. Under the provisions of Circular A-129, Federal agencies are required to ensure

that the full range of available techniques are used to collect delinquent debts, including income tax refund offset. In achieving this objective, the circular encourages agencies to amend regulations that preclude full implementation of the guidelines and develop new legislation or propose changes to existing legislation as necessary to ensure consistency with the provisions of the Circular. We believe that income tax refund intercept may offer an appropriate means of improving AFDC overpayment recovery.

#### Recommendations and ACF's Comments

We agree that ACF's proposed onsite reviews will provide a good basis for implementing improvements in the overpayment recovery process. However, we recommend that the ACF also consider implementing the following requirements for State agencies to:

- (1) Establish a policy, in conjunction with the various State legal authorities, for collection of overpayments while cases are being reviewed for potential fraud.
- (2) Periodically match AFDC overpayment files with current AFDC eligibility records to identify those current recipients for whom outstanding overpayments exist. The State agency should pursue immediate recovery of the overpayments by reducing the current AFDC grant awards.
- (3) Establish procedures to review outstanding overpayment files when reactivating AFDC recipients to determine if they have any outstanding overpayments from previous eligibility periods. New AFDC awards should be reduced to recover these prior overpayments.
- (4) Establish procedures to periodically match overpayment files with State earnings records to identify any former recipients who are now employed and have a means of repaying outstanding balances.

We also recommend that ACF explore the possibilities of collecting overpayments through income tax refund intercept.

The ACF response to our draft report indicated that in addition to their plan to issue final regulations that will increase State agency recovery efforts, ACF will continue to emphasize State development of automated systems to facilitate the identification, collection, and tracking of overpayments.

#### COST-EFFECTIVENESS OF RECOVERY EFFORT

We found that five of the six State and local agencies included in our review had not established any policies and procedures to

determine when it was no longer cost-effective to continue overpayment recovery efforts. The Florida State agency had procedures to identify when overpayments should not be pursued. However, the policy was not always being followed. As a result, overpayments included in State agency files as active for recovery have been outstanding for long periods of time without any apparent collection activity.

We believe that this situation has occurred because ACF has not provided any guidelines on this matter and has left it to the discretion of the State agencies to determine when it is no longer cost-effective to continue AFDC overpayment recovery efforts. In this regard, Title 45 CFR section 233.20(a)(13)(vi) states:

"The State may elect not to attempt recovery of an overpayment from an individual no longer receiving aid...the State can determine when it is no longer cost-effective to continue overpayment recovery efforts, provided it has made reasonable effort to recover the overpayment from the individual..."

However, the same paragraph continues:

"...States must also maintain information regarding uncollected overpayments...to enable the State to recover those overpayments if the individual subsequently becomes a recipient..."

Our aging analysis of the various AFDC overpayment files available at the State and local agencies disclosed that overpayments have been outstanding for long periods of time with no collection activities being attempted. For example:

- o At Los Angeles County, we found that, as of September 1991, approximately \$69.2 million, or about 59 percent of all recorded overpayments for inactive cases, have had no collection activity for at least 5 years.
- o In Maine, our aging analysis of the overpayment files disclosed that 44 percent of the overpayment cases reported as of June 1991 have been outstanding for over 3 years.
- o At the Florida State agency, our review disclosed that there are procedures that allow for the termination of collection efforts if there is no collection activity for 3 years. However, we found that the policy was not always followed and, as of December 1990, there were \$7.4 million of outstanding AFDC overpayments that were over 3 years old and had no collection activity.

- o In Connecticut, our analysis of a portion of the outstanding overpayment files related to former recipients disclosed that, as of September 1989, about \$4.5 million has been outstanding for over 5 years. This represented 34 percent of the total overpayments (\$13.3 million) on these files.

We believe the fact that five of the six State and local agencies have not established policies relative to determining when it is no longer cost-effective to attempt recovery of overpayments requires more specific guidelines and direction from the ACF. As part of the overall management of the collection process, we believe that the State and local agencies should be required to review the receivables and determine where collection efforts can best be directed. We believe that a periodic aging analysis of the overpayment files will provide a means of identifying the extent of collection activities and those receivables that have the best chance of recovery as well as those not likely to be collected. Additionally, aging analyses would help to identify those cases which may be nearing the applicable statute of limitations for debt collection and should receive further collection effort before being written off.

#### Recommendation and ACF's Comments

We recommend that the ACF revise its current regulations with a policy relative to how long accounts receivables should be maintained on the file before being considered uncollectible. In doing this, ACF should consider the provisions of OMB Circular A-129 as they pertain to defining delinquent debt and stopping overpayment recovery efforts.

The ACF response to the draft report states that, as part of the corrective action plan to be initiated, ACF will develop a guide for State agency use in determining when it is no longer cost-effective to attempt recovery of overpayments.

#### REPORTING OF OVERPAYMENT RECOVERY ACTIVITIES

The ACF does not have a reporting mechanism to collect information needed to assess the effectiveness of State agency compliance with program requirements relative to the identification and recovery of AFDC overpayments. We believe that such information is essential for ACF to properly manage the overpayment recovery process. Considering that ACF has estimated from its quality control system that about \$1 billion in AFDC overpayments may have occurred each year from 1985 through 1990, we believe that it is essential for ACF to develop a reporting system that will facilitate management of this area.

Program regulations in Title 45 CFR section 233.20 require State agencies to maintain information on the total number and amount

of overpayments identified and their disposition for both current and former recipients. Prior to September 1988, this information was also required to be reported quarterly to ACF via SSA-4972, the Quarterly Report of Recoveries of Overpayments. However, the reporting requirement was discontinued in September 1988 when the ACF did not request renewal of SSA-4972 from OMB. According to ACF, the form was not renewed because it did not adequately distinguish recoverable overpayments from those that were unrecoverable. Since September 1988, ACF has only required State agencies to report the amount of cash recoveries which represent a small portion of the total potential collections.

We believe that ACF should develop a new reporting format for AFDC overpayments that will collect information on the characteristics of the overpayments. For example, such a report should at a minimum identify the number of potential overpayments awaiting validation, the number and dollar amount of actual overpayments being collected from both current and former recipients, and the elapsed period of time since initial identification. In addition, ACF could consider collecting data on the costs of collection activities and the effectiveness of recovery methods utilized by the State agency. This latter information would allow ACF to identify what methods are most cost-effective in the recovery process and provide a basis for recommending that other States utilize these methods.

Although the SSA-4972 is no longer required, we observed that the State and local agencies we reviewed were still compiling data on recoveries and submitting the SSA-4972 to ACF. However, we found that the data cannot be relied on because it is incomplete and inaccurate. The following illustrate some of the problems we noted:

- o Our review of the September 1991 quarterly report for Los Angeles County disclosed that an estimated \$5.6 million of AFDC overpayments were not reported. The review also disclosed that the 64,905 cases reported as having overpayments was not accurate because 25,919 of these cases had zero overpayment balances. These cases represented overpayments that had been repaid to the State agency but not removed from the State agency's records. Finally, it was noted that \$13.1 million in overpayments were classified as being related to current recipients but were actually for former recipients.
- o The Connecticut State agency's quarterly report for September 1989 showed collections of \$147,464 and outstanding overpayments of about \$2.4 million. We found the report to be inaccurate as actual collections for the period were about \$1.5 million and the outstanding overpayments were about \$29 million.

We believe that the situations noted above, illustrate that ACF needs to develop a new reporting requirement that places more emphasis on accuracy, accountability, and collecting information that has practical utility towards improving the management of collection activities. Data collection is an essential tool for managing the Government's operations, accordingly we believe it is essential for ACF to develop a new reporting format that will help ACF and the State agencies improve their management over the collection of AFDC overpayments.

#### Recommendations and ACF's Comments

We recommend that ACF develop new reporting requirements that will provide ACF and State agencies the information needed to improve their management of the identification, processing and collection of overpayments from both current and former recipients. The ACF should ensure that the new reporting requirement will provide information necessary to assess the effectiveness of State agency compliance with program requirements relative to the identification and recovery of AFDC overpayments. In addition to collecting data on the characteristics of the overpayment workload, such as the age and amount of debt, ACF should also consider the utility of collecting data on the costs of collection practices by type, program, or case, and the effectiveness of recovery tools. Periodic site visits will also be needed to assure the reliability of the data provided by States.

The ACF response to the draft report indicated that a comprehensive financial management reporting form that captures the data noted above in our recommendations will be developed. In addition, ACF plans on performing comprehensive onsite reviews of all State agency overpayment systems.

**APPENDIXES**



**SCHEDULE OF AUDITS PERFORMED**

<u>State/Local Agency</u>	<u>CIN</u>	<u>Audit Period Through</u>	<u>Date Report Issued</u>
Connecticut <sup>1</sup>	A-01-90-02505	9/30/89	12/11/90
Maine	A-01-91-02523	6/30/91	5/26/92
New York City	A-02-91-02006	9/30/90	3/16/92
Florida	A-04-91-00015	9/30/90	3/31/92
Illinois	A-05-91-00051	9/30/90	10/04/91
Los Angeles County	A-09-91-00153	9/30/91	3/27/92

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<sup>1</sup> Connecticut was the pilot State for our review. Based upon the results of this review, we refined our audit guide and expanded our review to the other five State and local agencies.



DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIE  
Office of the Assistant Secretary, Suite 600  
370 L'Enfant Promenade, S.W.  
Washington, D.C. 20447

Date: August 25, 1992

To: Bryan Mitchell  
Principal Deputy Inspector General  
Office of Inspector General

From: *for Robert M. Wilson*  
Jo Anne B. Barnhart  
Assistant Secretary  
for Children and Families

IG	_____
PDIG	_____
DIG-AS	_____ <input checked="" type="checkbox"/>
DIG-EI	_____
DIG-OI	_____
AIG-MP	_____
OGC/IG	_____ <input checked="" type="checkbox"/>
EX SEC	_____ <input checked="" type="checkbox"/>
DATE SENT	8/26

Subject: Audit of Controls for Each Phase of the Overpayment  
Recovery Process in the Aid to Families With Dependent  
Children Program (A-01-92-02506)

We concur with the recommendations outlined in the subject audit. Overall, the study found that ACF's policies and procedures as set forth in the Federal regulations are too general and do not provide States and local agencies with specific uniform procedures to use for each phase of the recovery process. Specifically, the field review conducted in six States showed that significant problems exist at the State and local levels in the monitoring, reporting, identifying, collecting, and write-off of overpayments. The report recommends that ACF review its control procedures in each of the four phases of the overpayment recovery process - - i.e., the timely processing of potential overpayments, collections from current and former recipients, the determination of when it is no longer cost-effective to pursue recovery, and the adequacy of data reporting on overpayment recovery activities in each State.

At this point, we have accomplished the following: (1) the publication of a Notice of Proposed Rule Making (NPRM) which requires mandatory recoupment from current recipients and shortens the time for initiating a recovery action; (2) the publication of an NPRM involving quality control errors which provides incentives to States for increased efforts in the recovery of overpayments; and (3) our continued emphasis on State development of automated systems to facilitate the identification, collection, and tracking of overpayments.

A corrective action plan which addresses the problems identified in your report has been initiated. Planned actions include the issuance of final regulations on the overpayment recovery and quality control processes, the development of a guide for State use in determining when it is no longer cost-effective to attempt recovery of overpayments, and the performance of comprehensive onsite reviews by our ACF Regional Office staff of all State overpayment recovery systems. We will also develop a comprehensive financial management reporting form that captures the data recommended in your report.

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AUG 26 1992