

**Memorandum**

Date JUL 1 2002
From Janet Rehnquist
Inspector General *Janet Rehnquist*
Subject Review of Collected Aid to Families with Dependent Children Recoveries in Connecticut
(CIN: A-01-01-02509)
To Wade F. Horn, Ph.D.
Assistant Secretary for Children and Families

As a part of self-initiated audits by the Office of Inspector General, we are alerting you to the issuance of our final report within 5 business days. The final report relates to Aid to Families with Dependent Children (AFDC) assistance recovered by Connecticut from recipients who subsequently received monetary or other asset windfalls such as lottery winnings and inheritances. A copy of the report is attached.

There are no Federal requirements on States to pursue recovery of AFDC assistance correctly paid to recipients. However, some States instituted a requirement that any recipient who subsequently acquired financial resources must use those resources to repay the amount of AFDC assistance received. States implementing such a requirement, as Connecticut did, are obligated to reimburse the Federal Government its proportionate share of recoveries. Prior to the repeal of the AFDC program, States reported these recoveries on Federal form 231 and offset them against future Federal financial participation claims. With implementation of the Temporary Assistance for Needy Families (TANF) program, this form is no longer used.

Our objective was to determine whether Connecticut has reimbursed the Federal share of AFDC benefits recovered from recipients who received monetary or other asset windfalls. Our review covered the period October 1997 through March 2001.

We found that Connecticut retained the Federal share amounting to an estimated \$9 million in AFDC assistance recovered from October 1, 1997 to March 31, 2001 even though:

- Federal laws and regulations continued to require the return of the Federal share of grant monies collected; and
- The State consistently repaid the Federal share of recoveries for 27 years prior to the TANF program.

The State, as a result of our review, reinstated the practice of returning the Federal share of collected AFDC recoveries for the quarter ending June 30, 2001.

Subsequent to implementing TANF, the Administration for Children and Families issued guidelines on how to handle AFDC overpayments. Because these guidelines were silent on recovery of AFDC benefits that were correctly paid, the State interpreted this to mean that the Federal share of those recoveries could be retained. We believe that Connecticut should have returned the Federal share of both AFDC overpayments and recoveries of correctly paid benefits.

In its written response to our report, Connecticut indicated that it has no further comments and is considering our recommendations concerning the course of action the State may take.

If you have any questions or comments on any aspect of this report, please contact me or have your staff call Donald L. Dille, Assistant Inspector General for Grants and Internal Activities Audit Division, at 202-619-1175. To facilitate identification, please refer to the Common Identification Number A-01-01-02509 in all correspondence relating to this report.



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JUL - 5 2002

CIN: A-01-01-02509

Ms. Patricia A. Wilson-Coker
Commissioner
Connecticut Department of Social Services
25 Sigourney Street
Hartford, Connecticut 06106

Dear Ms. Wilson-Coker:

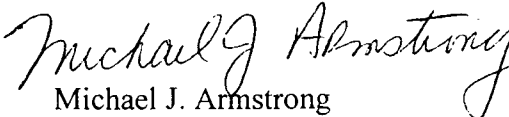
Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services (OAS) report entitled, "Review of Collected Aid to Families with Dependent Children Recoveries in Connecticut." A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determinations 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), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-01-01-02509 in all correspondence relating to this report.

Sincerely,


Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct reply to HHS Action Official:

Mr. Hugh F. Galligan
Regional Administrator
US Department of Health and Human Services
John F. Kennedy Federal Building, Room 2000
Boston, Massachusetts 02203

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF COLLECTED AID
TO FAMILIES WITH DEPENDENT
CHILDREN RECOVERIES
IN CONNECTICUT**



**JANET REHNQUIST
INSPECTOR GENERAL**

**JULY 2002
A-01-01-02509**

EXECUTIVE SUMMARY

BACKGROUND

Title IV-A of the Social Security Act (the Act) established the Aid to Families with Dependent Children (AFDC) Program to encourage the care of dependent children of low-income families in their homes. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) replaced the AFDC Program with the Temporary Assistance to Needy Families (TANF) Program. Some States, including Connecticut, have opted to recover amounts correctly paid to eligible individuals when they subsequently receive a monetary windfall or asset. In Connecticut, when individuals apply for welfare benefits, they must assign their rights to future assets to the State. This legal procedure give the State the right to recover from any future assets or monetary windfalls acquired by beneficiaries up to the amount of assistance they received.

OBJECTIVE

Our objective was to determine whether Connecticut has reimbursed the Federal Government with the Federal share of state recoveries of AFDC benefits that were correctly paid. Our review covered the period October 1997 through March 2001.

SUMMARY OF FINDINGS

We found that Connecticut retained the Federal share amounting to an estimated \$9 million (FFP-Federal Financial Participation) in AFDC recoveries of correctly paid assistance from October 1, 1997 to March 31, 2001 even though:

- Federal laws and regulations continued to require the return of the Federal share of collected grant monies;
- The State consistently repaid the Federal share of collected recoveries for 27 years prior to TANF; and
- The State, as the result of our review, reinstated the practice of returning the Federal share of collected AFDC recoveries for the quarter ending June 30, 2001.

Under the AFDC program, States had an obligation under §402(a)(22) of the Act to pursue and recover overpayments (incorrectly paid benefits) and an obligation under §403 of the Act to return to the Federal Government the appropriate Federal share. While there was no obligation on States to pursue recoveries of AFDC assistance correctly paid, States were free to pursue such recoveries under State law, but were still obligated under §403 of the Act to return to the Federal Government the appropriate Federal share of collected amounts. The Federal share of collected overpayments and such recoveries was reported on Federal Form 231 and offset against future FFP in the AFDC program. However, when TANF replaced AFDC, States no longer had a reporting process to repay

the Federal share of collected AFDC overpayments and such recoveries because the program was block granted.

Connecticut officials informed us that they have not returned the Federal share of collected AFDC recoveries of correctly paid assistance since they implemented TANF in October 1996. Subsequent to implementing TANF, the Administration for Children and Families (ACF) issued guidelines on how to handle AFDC overpayments. Because these guidelines were silent on AFDC recoveries, the State interpreted this to mean that recoveries were exempt and it was entitled to retain the Federal share of collected AFDC recoveries. We believe that Connecticut should have returned the Federal share of both AFDC overpayments and recoveries.

STATE AGENCY COMMENTS

Connecticut indicated that it has no further comments and is considering our recommendations concerning the course of action the State may take (See APPENDIX B).

RECOMMENDATIONS

We recommend that Connecticut:

1. Repay the Federal Government \$9 million (FFP) in collected AFDC recoveries of correctly paid assistance from October 1, 1997 through March 31, 2001; and
2. Continue the process of returning the Federal share of collected AFDC recoveries of correctly paid assistance that was reinstated in June 2001.

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INTRODUCTION

Background

Title IV-A of the Social Security Act (the Act) established the Aid to Families with Dependent Children (AFDC) Program to encourage the care of dependent children of low-income families in their homes. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) replaced the AFDC Program with the Temporary Assistance to Needy Families (TANF) Program. While States were required to implement TANF by July 1, 1997, many of them implemented TANF by October 1, 1996.

The Administration for Children and Families (ACF) provides funding for and has Federal administrative oversight of both programs. Under AFDC, States were reimbursed for at least half of the costs incurred for recipients meeting eligibility requirements from the Federal Government. The financing structure changed with TANF in that the States receive an annual fixed amount under a block grant. The fixed amount is based on historical AFDC expenditures. Unlike AFDC, States can carry forward unused TANF balances to subsequent fiscal years.

Under both Federal programs, payments may be made erroneously to individuals who are not eligible to receive benefits or are eligible for a lesser amount; but States are required to pursue and collect these AFDC and TANF overpayments. Some States, including Connecticut, have opted to recover amounts correctly paid to eligible individuals when they subsequently receive a monetary windfall or asset. Whether States collect overpayments made to ineligible individuals or recover amounts correctly paid to eligible individuals, they are required to return the appropriate Federal share to the Federal Government.

Objective and Scope of Audit

Our review was performed in accordance with generally accepted government auditing standards. Our objective was to determine whether Connecticut has reimbursed the Federal Government with the Federal share of State recoveries of AFDC benefits that were correctly paid but later recovered. Our review covered the period October 1997 through March 2001.

To accomplish our objective, we:

- Reviewed Federal laws, regulations, policies, and procedures pertaining to both AFDC and TANF;
- Reviewed State laws, policies, and procedures pertaining to both AFDC and TANF;
- Interviewed Federal and State program officials;

- Obtained an understanding of the process used by Connecticut for identifying and collecting AFDC overpayments and correctly paid AFDC recoveries; and
- Reviewed State AFDC computer generated reports for cash collections. We did not include a review of cash collections for amounts supplemented by the State or for TANF.

We used these automated reports to define our population of collected AFDC recoveries of correctly paid assistance and apply variable sample appraisal methodologies. From our population, we selected four statistical random samples consisting of (See Appendix A for statistical results):

- 100 collected AFDC recoveries from a population of 2,831 for the period October 1, 1997 through September 30, 1998;
- 100 collected AFDC recoveries from a population of 2,866 for the period October 1, 1998 through September 30, 1999;
- 100 collected AFDC recoveries from a population of 2,701 for the period October 1, 1999 through September 30, 2000; and
- 100 collected AFDC recoveries from a population of 1,122 for the period October 1, 2000 through March 31, 2001.

For each AFDC sample item, we:

- Verified the amount of collected cash; and
- Verified that collected cash had been properly allocated between AFDC, TANF and State Supplement (SS)¹ on a first-paid-first-received basis.

We did not extend our review to the period October 1996 through September 1997 because of record retention problems. Connecticut was actively collecting correctly paid AFDC during this period.

We conducted our fieldwork in Connecticut from September 2001 through February 2002. We issued our draft report on April 24, 2002, and received written comments from Connecticut on May 24, 2002 (See APPENDIX B).

¹ SS is a State funded disability program for needy aged, blind, or disabled individuals.

FINDINGS AND RECOMMENDATIONS

Under the AFDC program, States had an obligation under §402(a)(22) of the Act to pursue and recover overpayments (incorrectly paid benefits) and an obligation under §403 of the Act to return to the Federal Government the appropriate Federal share. While there was no obligation on States to pursue recoveries of AFDC assistance correctly paid, States were free to pursue such recoveries under State law, but were still obligated under §403 of the Act to return to the Federal Government the appropriate Federal share of collected amounts. The Federal share of collected overpayments and such recoveries was reported on Federal Form 231 and offset against future Federal Financial Participation (FFP) in the AFDC program. However, when TANF replaced AFDC, States no longer had a reporting process to repay the Federal share of collected AFDC overpayments and such recoveries because the program was block granted. As a result, Connecticut retained the Federal share amounting to an estimated \$9 million (FFP) in AFDC recoveries of correctly paid assistance from October 1, 1997 to March 31, 2001 even though:

- Federal laws and regulations continued to require the return of the Federal share of collected grant monies;
- The State consistently repaid the Federal share of collected recoveries for 27 years prior to TANF; and
- The State, as the result of our review, reinstated the practice of returning the Federal share of collected AFDC recoveries for the quarter ending June 30, 2001.

Connecticut's Process for Collecting Recoveries

In Connecticut, when individuals apply for welfare benefits, they must assign their rights to future assets to the State. This legal procedure gives the State the right to recover from any future assets or monetary windfalls acquired by beneficiaries up to the amount of assistance they received. Connecticut identifies potential recoveries through the:

- Probate Courts, which manually notify the State welfare collection agency of estates, settlements and inheritances. The welfare collection agency matches cited individuals against State welfare files to determine the amount of benefits received.
- Superior Court, which provides automated court records to the State welfare collection agency. The agency matches the court records against State welfare files to determine the amount of benefits received.

- The State Lottery, which routinely allows the State welfare collection agency to access its database to identify lottery winners that have received welfare benefits.

Once a potential match is identified, the State welfare collection agency will seize the cash or asset, attach a lien on the asset, and/or provide the heir with a payment plan. The State collection agency offsets collected funds against the welfare program that provided the benefits to the recipients (e.g., AFDC, TANF, SS). A problem arises when recipients received benefits from multiple welfare programs. Specifically, we found that Connecticut’s record keeping policy is to allocate collected funds in the following order:

- The full amount provided under SS; and
- Any remaining balance to TANF and AFDC based on the proportion of benefits provided to the individual.

However, Federal guidelines require that benefits be reimbursed in the order in which they were paid to beneficiaries. Using the information in the table, for example, an individual received \$2,000 in AFDC benefits during 1995, \$3,000 in TANF benefits during 1996, and \$2,500 in SS in 1998. In 2000, she inherited \$6,000. Under Federal guidelines, the State would be required to allocate the \$6,000 in the order in which the benefits were paid (e.g., \$2,000 to AFDC, \$3,000 to TANF and \$1,000 to SS).

Program	Year Received	Benefits Provided	Inheritance in 2000	
			Federal Allocation	State Allocation
AFDC	1995	\$2,000	\$2,000	\$1,400
TANF	1996	3,000	3,000	2,100
SS	1998	2,500	1,000	2,500
Total		\$7,500	\$6,000	\$6,000

However, under Connecticut’s record keeping policy, the \$2,500 would first be allocated to the SS. For the remaining balance of \$3,500 (\$6,000 less \$2,500), \$1,400 would be allocated to AFDC (40% of Federal benefits received or \$2,000/\$5,000) and \$2,100 would be allocated to TANF (60% of Federal benefits received).

Regardless of Connecticut’s policy for allocating collected funds to Federal and State programs, State officials informed us that they have not returned the Federal share of collected AFDC recoveries of correctly paid assistance since they implemented TANF in October 1996. Subsequent to implementing TANF, ACF issued guidelines on how to handle AFDC overpayments. Because these guidelines were silent on AFDC recoveries of correctly paid assistance, the State interpreted this to mean that such recoveries were exempt and it was entitled to retain the Federal share of collected AFDC recoveries. As stated in our conclusion, we believe that Connecticut should have returned the Federal share of both AFDC overpayments and recoveries of correctly paid assistance.

To determine how much Connecticut owes the Federal Government in AFDC recoveries, we used State automated cash collection records and related classification and sub-classification codes. Our initial analysis found that the State had coded in its cash collection records the Federal share of \$14.7 million (FFP – Federal Financial Participation) in collected AFDC recoveries from October 1997 through March 2001. Because of the order in which the State allocated collections to the three welfare programs (e.g. TANF, AFDC, SS, etc.), we used the following statistical samples to determine whether the Federal share amounting to \$14.7 million (FFP) was reasonable:

- 100 collected recoveries from a population of 2,831 for the period October 1, 1997 through September 30, 1998;
- 100 collected recoveries from a population of 2,866 for the period October 1, 1998 through September 30, 1999;
- 100 collected recoveries from a population of 2,701 for the period October 1, 1999 through September 30, 2000; and
- 100 collected recoveries from a population of 1,122 for the period October 1, 2000 through March 31, 2001.

As shown in Figure 1, our review identified allocation and coding errors that reduced the Federal share from \$14.7 million (FFP) to an estimated \$9 million (FFP) for the period October 1997 through March 2001. (See Appendix A for statistical results)

CONCLUSION

We believe that Connecticut is not entitled to retain the Federal share amounting to an estimated \$9 million (FFP) in collected AFDC recoveries. It had an obligation under §403 of the Act to return to the Federal Government the appropriate Federal share of collected recoveries.

Further, several Federal grant management regulations² require States to credit the Federal award for any collected recoveries or credits relating to allowable costs. Credits can be made through either a cost reduction or a cash refund. The move from AFDC to TANF did not negate a State’s obligation to return any funds due as a result of later refunds, corrections, or other transactions. ACF

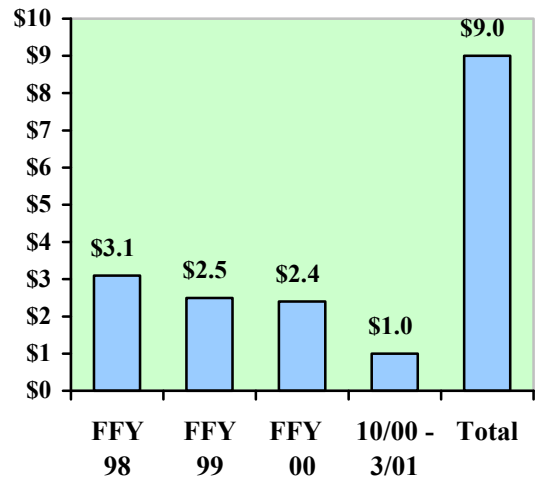


Figure 1 –Federal Share of AFDC Collected Recoveries (in millions)

² 45 C.F.R. §74.21, 45 C.F.R §74.27, OMB Circular A-87, Federal Register 26492 (5/17/95)

issued guidance in September 2000 informing States that Federal law still requires them to collect AFDC overpayments until the full amount has been collected and return the Federal share of amount collected to the Government. Specific guidance was not provided for those States that elected the option of recovering AFDC assistance correctly paid to recipients. This does not mean, however, that States had no obligation to account for and return the Federal share of recoveries. Rather, the pre-existing obligations to account for and refund the Federal share continued for all recoveries, but ACF addressed only the most prevalent ones.

STATE AGENCY COMMENTS

Connecticut indicated that it has no further comments and is considering our recommendations concerning the course of action the State may take (See APPENDIX B).

RECOMMENDATIONS

We recommend that Connecticut:

1. Repay the Federal Government \$9 million for the Federal share of collected AFDC recoveries from October 1, 1997 through March 31, 2001; and
2. Continue the process of returning the Federal share of collected AFDC recoveries that was reinstated in June 2001.

APPENDICES

Projection of Federal Share for AFDC Recoveries

We used computer-generated reports and applied variable sample appraisal methodologies to identify the amount of cash collections attributable to AFDC recoveries of correctly paid assistance. From these reports, we selected the following four statistical random samples covering the period October 1997 through March 2001.

- 100 collected recoveries correctly paid assistance from a population of 2,831 for the period October 1, 1997 through September 30, 1998;
- 100 collected recoveries correctly paid assistance from a population of 2,866 for the period October 1, 1998 through September 30, 1999;
- 100 collected recoveries correctly paid assistance from a population of 2,701 for the period October 1, 1999 through September 30, 2000; and
- 100 collected recoveries correctly paid assistance from a population of 1,122 for the period October 1, 2000 through March 31, 2001.

As illustrated below, we utilized standard scientific estimations to quantify the Federal share of collected AFDC recoveries.

SAMPLE PERIODS	Point Estimate	90 Percent Confidence Interval		
		Lower Limit	Upper Limit	Precision Percent
September 1, 1997 to October 30, 1998	\$4,503,836	\$3,166,040	\$5,841,631	29.70%
September 1, 1998 to October 30, 1999	\$3,398,284	\$2,479,016	\$4,317,552	27.05%
September 1, 1999 to October 30, 2000	\$3,392,240	\$2,392,303	\$4,392,178	29.48%
September 1, 2000 to March 31, 2001	\$1,505,801	\$1,002,618	\$2,008,984	33.42%
Total	\$12,800,161	\$9,039,976	\$16,560,345	

Based on the sum of the lower limits of the 90 percent confidence interval for our four statistical samples including 100 AFDC recovery line items, we estimate that the Federal share of correctly paid AFDC recoveries is at least \$9,039,976.



STATE OF CONNECTICUT

DEPARTMENT OF SOCIAL SERVICES

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Patricia A. Wilson-Coker, JD, MSW
COMMISSIONER

May 24, 2002

Mr. Michael J. Armstrong
Regional Inspector General For Audit Services
Office of Audit Services, Region I
John F. Kennedy Federal Building
Boston, MA 02203

RE: Common Identification Number A-01-01-02509

Dear Mr. Armstrong:

In response to your letter dated April 24, 2001, the State of Connecticut acknowledges receipt of the OIG draft finding on AFDC Recoveries for the time period of October 1, 1997 through March 31, 2001. We have reviewed the draft report and have no further comments. We are considering your recommendations regarding the course of action that the State of Connecticut may take, and will contact you shortly to further discuss this issue.

I look forward to our future discussions to resolve this dispute.

Sincerely,

Patricia Wilson-Coker, Commissioner
Connecticut Department of Social Services

- C: Michael Starkowski, Deputy Commissioner
- Rita Pacheco, Deputy Commissioner
- Stefanie Foster, OPM
- Greg Sullivan, OPM
- Richard Lynch, Attorney General's Office
- Lee Voghel Michael Gilbert
- Brenda Farrell Phyllis Hyman
- Laura Jordan Kevin Loveland
- James Wietrak Pat Hustus
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