

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FOLLOW-UP REVIEW OF THE AID
TO FAMILIES WITH DEPENDENT
CHILDREN OVERPAYMENT
RECOVERIES COLLECTED BY THE
NEW YORK CITY HUMAN
RESOURCES ADMINISTRATION**



Daniel R. Levinson
Inspector General

October 2007
A-02-06-02011

Office of Inspector General

<http://oig.hhs.gov>

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The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General
Office Of Audit Services

October 2, 2007

Region II
Jacob K. Javits Federal Building
26 Federal Plaza
New York, NY 10278

Report Number: A-02-06-02011

Mr. David A. Hansell
Commissioner
New York State Office of Temporary and Disability Assistance
40 North Pearl Street
Albany, New York 12243

Dear Mr. Hansell:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Follow-up Review of the Aid to Families With Dependent Children Overpayment Recoveries Collected by the New York City Human Resources Administration." We will forward a copy of this report to the HHS action official named on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please contact John Madigan, Audit Manager, at (518) 437-9390, extension 224, or through e-mail at John.Madigan@oig.hhs.gov. Please refer to report number A-02-06-02011 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "James P. Edert".

James P. Edert
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Clinton McGrane
Grants Officer
Department of Health and Human Services
Administration for Children & Families
26 Federal Plaza, Room 4114
New York, New York 10278

EXECUTIVE SUMMARY

BACKGROUND

In 1996, the Temporary Assistance for Needy Families (TANF) program replaced the Aid to Families with Dependent Children (AFDC) program. Although States had until July 1, 1997, to implement TANF, AFDC benefits were eliminated effective October 1, 1996. Occasionally, while the program was still in place, individuals or families received AFDC benefits to which they were not entitled. States were required to refund the Federal share of AFDC overpayment recoveries to the Federal Government, regardless of when the recoveries were collected.

This audit is a follow-up to a prior audit report (A-02-01-02000) entitled “Review of the Aid to Families With Dependent Children Overpayment Recoveries Collected by the New York City Human Resources Administration,” issued to the New York State’s Office of Temporary and Disability Assistance (the State agency), on May 30, 2002. The State agency agreed with the finding that it did not return to the Federal Government the Federal share of AFDC overpayment recoveries collected by the New York City Human Resources Administration (HRA) after December 1, 1996, and concurred with our recommendation to refund the estimated Federal share of AFDC overpayments totaling \$33,593,107 recovered by HRA during the period December 1, 1996, through September 30, 2001. However, the State agency did not agree with our recommendation that it take appropriate steps to refund the Federal share of AFDC overpayment recoveries collected by HRA subsequent to September 30, 2001.

OBJECTIVE

The objective of our follow-up review was to determine if the State agency refunded the Federal share of AFDC overpayment recoveries collected by HRA during the period December 1, 1996, through September 30, 2001, and took appropriate steps to ensure that subsequent overpayment recoveries collected during the period October 1, 2001, through September 30, 2006, were also refunded.

SUMMARY OF FINDINGS

Federal requirements provide that States refund the Federal share of AFDC overpayment recoveries to the Federal Government, regardless of when the recoveries were collected. The State agency refunded to the Federal Government the estimated Federal share of AFDC overpayments totaling \$33,593,107 recovered by HRA during the period December 1, 1996, through September 30, 2001, as recommended in our prior audit report. However, the State agency did not implement our recommendation to take appropriate steps to refund the Federal share of AFDC overpayment recoveries collected by HRA subsequent to September 30, 2001. As a result, the State agency did not refund the estimated Federal share of AFDC overpayments totaling \$896,711 recovered by HRA during the period October 1, 2001, through September 30, 2006. This occurred because the State agency did not develop procedures to identify AFDC overpayment recoveries to be refunded to the Federal Government.

RECOMMENDATIONS

We recommend that the State agency:

1. refund \$896,711 to the Federal Government, and
2. take appropriate steps to ensure that the Federal share of AFDC overpayment recoveries collected by HRA subsequent to September 30, 2006, are refunded to the Federal Government in a timely manner.

STATE AGENCY'S COMMENTS

In response to our draft report, the State agency did not dispute the estimate of \$896,711 of AFDC overpayment recoveries that were not refunded to the Federal Government. However, the State agency objected to the necessity for any refund calculation beyond September 30, 2006, since the results of the follow-up review confirmed a diminishing amount of AFDC overpayment recoveries. The State agency further indicated that administrative costs required to implement system changes would likely exceed the benefit derived from identifying an insignificant and diminishing amount of AFDC recoveries. The State agency's comments are included in their entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After reviewing applicable Federal and State laws, regulations, and guidelines, and the State's comments on our draft report, we continue to believe that our findings and recommendations are valid.

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INTRODUCTION

BACKGROUND

Aid to Families With Dependent Children Program

Title IV-A of the Social Security Act established the Aid to Families with Dependent Children (AFDC) program, in part, to encourage the care of dependent children of low-income families in their own homes. Under the AFDC program, individuals or families that met eligibility criteria were entitled to receive assistance without regard to time limit and the Federal Government provided an open-ended matching of State expenditures. In 1996, the Temporary Assistance for Needy Families (TANF) program replaced the AFDC program. Under TANF, the open-ended matching of State expenditures was replaced by a capped block grant. Although States had until July 1, 1997 to implement TANF, individual and family entitlements to AFDC benefits were eliminated effective October 1, 1996. Within the Department of Health and Human Services, the Administration for Children and Families (ACF) administers the AFDC and TANF programs.

New York State's Aid to Families With Dependent Children Program

In New York State, the Office of Temporary and Disability Assistance (the State agency) administered the AFDC program. The State agency used the Welfare Management System (WMS), a computerized payment and information reporting system, to record eligibility, process and pay AFDC assistance benefits, and identify overpayments and collections. On a quarterly basis, the State agency is required to refund the Federal share of all identified AFDC overpayment recoveries to the Federal Government. Day-to-day responsibilities for operating the AFDC program were delegated to local district agencies.

New York City's Aid to Families With Dependent Children Program

In New York City, the Human Resources Administration (HRA) was the local district agency responsible for daily administration of the AFDC program, including determining eligibility and calculating monthly assistance. In addition, HRA was responsible for maintaining eligibility and benefit payment information for all recipients on the State-operated WMS. Occasionally, individuals or families received AFDC benefits to which they were not entitled. When an overpayment was identified, HRA established an overpayment file on the WMS, which contained the case number, type of overpayment and balance owed.

For overpayments associated with cases when the recipient was still receiving financial assistance, HRA reduced future monthly benefits until the amount owed was recouped. For overpayments associated with cases when the recipient was no longer receiving financial assistance, HRA attempted to contact the recipient and collect a cash recovery. Recoveries, in the form of recoupments and cash collections, were posted to the overpayment file on WMS. On

a monthly basis, HRA used data in the WMS overpayment file to report recoveries to the State agency.

Federal Requirements Related to the Collection of Aid to Families With Dependent Children Program Overpayments

Federal regulations (45 CFR § 233.20 (a)(13)) require States to pursue recovery efforts for AFDC overpayments. In addition, on September 1, 2000, ACF issued program instructions (ACF-PI-2000-2) to clarify the proper treatment of AFDC overpayment recoveries. According to these instructions, for overpayments that occurred prior to October 1, 1996, States were required to refund to the Federal Government the Federal share of recoveries, regardless of the fiscal year in which the recoveries were collected. In contrast, for overpayments that occurred after October 1, 1996, States were allowed to retain the Federal share of recoveries for use under the TANF program.

Prior Office of Inspector General Audit Report

This audit is a follow-up to a prior audit report (A-02-01-02000) entitled “Review of the Aid to Families With Dependent Children Overpayment Recoveries Collected by the New York City Human Resources Administration,” issued to the State agency on May 30, 2002. The report found that the State agency had not returned to the Federal Government the Federal share of AFDC overpayment recoveries collected by HRA after December 1, 1996. We recommended that the State agency refund the estimated Federal share of AFDC overpayments totaling \$33,593,107 recovered by HRA during the period December 1, 1996, through September 30, 2001. We also recommended that the State agency take appropriate steps to refund the Federal share of AFDC overpayment recoveries collected by HRA subsequent to September 30, 2001. The State agency agreed to refund the \$33,593,107, but disagreed with our second recommendation because, according to State agency officials, pursuing diminishing recoveries would create an overly onerous administrative burden.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The objective of our follow-up review was to determine if the State agency refunded the Federal share of AFDC overpayment recoveries collected by HRA during the period December 1, 1996, through September 30, 2001, and took appropriate steps to ensure that subsequent overpayment recoveries collected during the period October 1, 2001, through September 30, 2006, were also refunded.

Scope

Our follow-up audit reviewed the State agency’s refund of the estimated Federal share of AFDC overpayments totaling \$33,593,107 recovered by HRA during the period December 1, 1996, through September 30, 2001. The review also covered the identification and refund of AFDC overpayment recoveries collected by HRA during the period October 1, 2001, through

September 30, 2006. We did not review the overall internal control structure of the State agency. Rather, we reviewed the State agency's procedures relevant to the objectives of the audit.

We performed our fieldwork at the State agency's offices located in Albany, New York.

Methodology

To accomplish our objective we:

- analyzed applicable Federal and State laws, regulations, and guidelines;
- held discussions with State agency officials to identify what actions had been taken on the two recommendations contained in our previous audit report;
- held discussions with State agency officials to ascertain policies and procedures for identifying and refunding AFDC overpayment recoveries;
- identified a universe of 244,179 overpayment recoveries potentially not refunded to the Federal Government;
- selected the same stratified random sample of 305 overpayment recoveries used during our prior audit, which covered the period October 1, 1996, through September 30, 2001;
- calculated for each sample item the Federal share of recoveries collected during the period October 1, 2001, through September 30, 2006; and
- used a variable appraisal program to estimate the Federal share of overpayment recoveries to be refunded to the Federal Government in the universe of 244,179 overpayment recoveries. The details of our sample design and methodology are found in Appendix A.

Our review was performed in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Federal requirements provide that States refund the Federal share of AFDC overpayment recoveries to the Federal Government, regardless of when the recoveries were collected. The State agency refunded to the Federal Government the estimated Federal share of AFDC overpayments totaling \$33,593,107 recovered by HRA during the period December 1, 1996, through September 30, 2001, as recommended in our prior audit report. However, the State agency did not implement our recommendation to take appropriate steps to refund the Federal share of AFDC overpayment recoveries collected by HRA subsequent to September 30, 2001. As a result, the State agency did not refund the estimated Federal share of AFDC overpayments totaling \$896,711 recovered by HRA during the period October 1, 2001, through September 30,

2006. This occurred because the State agency did not develop procedures to identify AFDC overpayment recoveries to be refunded to the Federal Government.

Follow-up on Prior Audit Recommendation #1

In our previous audit report, we recommended that the State agency refund \$33,593,107 to the Federal Government. This amount was the estimated Federal share of AFDC overpayments recovered by HRA during the period December 1, 1996, through September 30, 2001.

In comments dated February 12, 2002, the State agency agreed to refund the Federal share of these overpayment recoveries. The State agency subsequently refunded \$33,593,107 to the Federal Government.

Follow-up on Prior Audit Recommendation #2

In our previous audit report, we recommended that the State agency take appropriate steps to ensure that the Federal share of AFDC overpayment recoveries collected by HRA subsequent to September 30, 2001, were refunded to the Federal Government in a timely manner.

In comments dated February 12, 2002, State agency officials stated that identifying AFDC overpayment recoveries after September 30, 2001, would create an overly onerous administrative burden. The State agency officials further stated that, based on the diminishing recoveries shown in our sample results, there would be limited utility in pursuing the identification of overpayment collections that are more than 4 years old.

Following our prior audit, the State agency did not develop procedures to identify AFDC overpayment recoveries to be refunded to the Federal Government. Although HRA used data in the WMS overpayment file to report recoveries to the State agency, the WMS did not identify whether the recovery was for an AFDC overpayment (with a Federal share) or for a TANF overpayment (without a Federal share). State agency officials reiterated their position that modifying the WMS to pursue diminishing AFDC overpayment recoveries would create an overly onerous administrative burden.

However, Federal requirements provide that States refund the Federal share of AFDC overpayment recoveries to the Federal Government, regardless of when the recoveries were collected. Of the 305 overpayment recoveries in our sample, 29 were AFDC recoveries collected during the period October 1, 2001, through September 30, 2006. Recoveries were not made during our audit period for the remaining 276 sample items. Based on the sample results, we estimate that the State agency did not refund the Federal share of AFDC overpayments totaling \$896,711 recovered by HRA during the period October 1, 2001, through September 30, 2006. The details of our sample results and appraisal are shown in Appendix B.

RECOMMENDATIONS

We recommend that the State agency:

1. refund \$896,711 to the Federal Government, and
2. take appropriate steps to ensure that the Federal share of AFDC overpayment recoveries collected by HRA subsequent to September 30, 2006, are refunded to the Federal Government in a timely manner.

STATE AGENCY'S COMMENTS

In response to our draft report, the State agency did not dispute the estimate of \$896,711 of AFDC overpayment recoveries that were not refunded to the Federal Government. However, the State agency objected to the necessity for any refund calculation beyond September 30, 2006, since the results of the follow-up review confirmed a diminishing amount of AFDC overpayment recoveries. The State agency further indicated that administrative costs required to implement system changes would likely exceed the benefit derived from identifying an insignificant and diminishing amount of AFDC recoveries. The State agency's comments are included in their entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After reviewing applicable Federal and State laws, regulations, and guidelines, and the State's comments on our draft report, we continue to believe that our findings and recommendations are valid.

APPENDIXES

SAMPLE DESIGN AND METHODOLOGY

Audit Objective:

The objective of our follow-up review was to determine if the State agency refunded the Federal share of AFDC overpayment recoveries collected by HRA during the period December 1, 1996, through September 30, 2001, and took appropriate steps to ensure that overpayment recoveries collected during the period October 1, 2001, through September 30, 2006, were also refunded.

Population:

The population consisted of AFDC overpayments that occurred during the period January 1, 1990, through September 30, 1996, for which HRA made a recovery during the period December 1, 1996, through September 30, 2001.

Sampling Frame:

The sampling frame was a Microsoft Access file containing 244,179 overpayments, totaling \$241,784,842, that occurred during the period January 1, 1990, through September 30, 1996, for which HRA made a recovery during the period December 1, 1996, through September 30, 2001. The sampling frame was the same as the target population.

Sample Unit:

The sample unit was an individual overpayment recovery.

Sample Design:

We used a stratified random sample to evaluate the population of AFDC overpayment recoveries. To accomplish this, we separated the sampling frame into four strata, as follows:

- stratum 1: \$.01 to \$499.99 -- 163,030 items.
- stratum 2: \$500 to \$1,599.99 -- 59,698 items.
- stratum 3: \$1,600 to \$7,499.99 -- 21,386 items.
- stratum 4: \$7,500 and greater -- 65 items.

Sample Size:

We selected a sample of 305 items as follows:

- 80 items from the first stratum.
- 80 items from the second stratum.

- 80 items from the third stratum.
- 65 items from the fourth stratum.

Source of Random Numbers:

The random numbers were previously generated using the Office of Inspector General, Office of Audit Services statistical sampling software, RAT-STATS, dated October 1998. The random number generator was used for the random sample.

Method of Selecting Sample Items:

We previously created a list of 305 sample items using the following methodology:

The overpayment recoveries in the sampling frame were numbered sequentially. One set of 80 random numbers was selected for each of the first three strata. The random numbers were correlated to the sequential numbers assigned to each overpayment recovery in the sampling frame. Each of the 65 items numbered sequentially in stratum 4 was selected.

Characteristics To Be Measured:

An error, as defined in our review, was the Federal share of AFDC overpayments recovered during the period October 1, 2001, through September 30, 2006.

Treatment of Missing Sample Items:

If supporting information from the Welfare Management System (WMS) could not be found, the sample item was considered to be an error.

Estimation Methodology:

We used the variables appraisal program in RAT-STATS, version 5 to appraise the sample results. We used the lower limit at the 90 percent confidence interval to estimate overpayment recoveries to be repaid to the Federal Government.

Appendix B

SAMPLE RESULTS AND APPRAISAL

The results of our review of the 305 overpayment recoveries were as follows:

Stratum Number	Stratum Range	Population Size (# of recoveries)	Sample Size (# of Recoveries)	Sample Errors (# of Recoveries)	Sample Errors (Federal Share Dollars)
1	\$.01 to \$499.99	163,030	80	2	\$185
2	\$500 to \$1,599.99	59,698	80	6	1,554
3	\$1,600 to \$7,499.99	21,386	80	12	3,603
4	\$7,500 and greater	65	65	9	7,407
Total		244,179	305	29	\$12,749

Projection of Sample Results (Precision at the 90 Percent Confidence Level)

Midpoint: \$2,130,212
Lower Limit: \$896,711
Upper Limit: \$3,363,714



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David A. Hansell
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September 12, 2007

Mr. James P. Edert
 Regional Inspector General for Audit Services
 Department of Health and Human Services
 Region II
 Jacob K. Javits Federal Building
 26 Federal Plaza
 New York, NY 10278

Re: Report Number A-02-06-02011

Dear Mr. Edert:

This is in response to your letter of August 16, 2007 and draft report entitled, "Follow-up Review of the Aid to Families with Dependent Children Overpayment Recoveries Collected by the New York City Human Resources Administration". We agree with the methodology and performance of the review and do not dispute the estimate of \$896,711 in Federal share of AFDC overpayments recoveries for the period October 1, 2001 through September 30, 2006 that was not refunded to the Federal Government.

We do continue to object to the necessity for any refund calculation beyond September 30, 2006, especially since the results of this follow-up review confirm the diminishing amount of AFDC overpayment recoveries. As noted in the draft report, the estimated Federal Share of AFDC overpayments recovered by HRA during the 58-month period of December 1, 1996 through September 30, 2001 totaled \$33,593,107 while the follow-up review estimated \$896,711 in Federal Share of AFDC overpayments recovered for the 60-month period of October 1, 2001 through September 30, 2006. The administrative costs to implement system changes to capture this data would likely exceed the benefit derived from identifying an insignificant amount of AFDC recoveries. Therefore we ask that this recommendation be eliminated from the final report.

Thank you for the opportunity to comment.

Sincerely,

David A. Hansell
 Commissioner

"providing temporary assistance for permanent change"