

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AID TO FAMILIES WITH DEPENDENT  
CHILDREN OVERPAYMENT  
RECOVERIES**

**COMMONWEALTH OF VIRGINIA  
DEPARTMENT OF SOCIAL SERVICES**



**JANET REHNQUIST**  
Inspector General

**MARCH 2003**  
A-03-01-00251

# ***Office of Inspector General***

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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  
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Report Number A-03-01-00251

MAR 25 2003

Maurice A. Jones, Commissioner  
Virginia Department of Social Services  
730 Broad Street  
Richmond, Virginia 23219-1849

Dear Mr. Jones:

This final report presents the results of our *Review of Aid to Families with Dependant Children (AFDC) Overpayment Recoveries by the Commonwealth of Virginia Department of Social Services (DSS)*. This was a limited scope review conducted in a number of States as part of a nationwide review of AFDC overpayment recoveries. The objective of our review was to determine if DSS remitted the federal share of AFDC overpayment collections in accordance with federal requirements after the program was repealed.

During the period October 1, 1996 through September 30, 2002, (federal fiscal years (FFY) 1997-2002) DSS recovered \$3,431,869 in AFDC overpayments and was required to refund federal financial participation (FFP) of \$1,762,951. We confirmed that DSS refunded \$541,457 in accordance with federal requirements and did not remit \$769,092 to the Department of Health and Human Services, Administration for Children and Families (ACF). We found that four additional refunds totaling \$452,402 that the DSS attempted to make were never recorded by ACF because the refund form was inadvertently included by DSS as part of a statistical package and was not processed by ACF.

Based on the results of our review, we recommend DSS:

- ☛ Refund the un-remitted federal share of \$769,092 to ACF.
- ☛ Notify ACF of the attempted refunds totaling \$452,402 that were never recorded and resubmit, if necessary, amended documentation as directed by ACF.
- ☛ Continue to refund quarterly collected AFDC overpayments as required by federal regulations.

By letter dated March 18, 2003, DSS responded to a draft of this report. The DSS agreed with the amount of collected overpayments and respective refunds due the Federal

government. The DSS also agreed with the amount that was not refunded but did not agree with the amount that had been previously refunded by DSS. The DSS provided the OIG with additional documentation to support the refunds. We reviewed the documentation and confirmed with ACF an additional refund that was made by DSS. We also determined that four attempted refunds by DSS were never recorded by ACF because of an inadvertent error.

We have revised the credited refund amount in the final report to reflect one additional refund that was recorded by ACF but not included in our draft report.

We have summarized the DSS response along with our comments after the Conclusions and Recommendations section of the report. We have also included the DSS response (without Exhibits) as an Appendix to the report. The entire DSS response will be provided to ACF to assist them in audit resolution.

## INTRODUCTION

### BACKGROUND

In 1996, the Personal Responsibility and Work Opportunity Act (Public Law 104-193) repealed the AFDC program and replaced it with the Temporary Assistance for Needy Families (TANF) program. At the federal level ACF administers the TANF program. In Virginia, the AFDC and TANF programs are state agency supervised and administered by 121 local agencies that maintain documentation on recipient payments and overpayment collections.

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

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

The ACF issued a program instruction (PI), transmittal number: TANF-ACF-PI-2000-2 dated September 1, 2000. This PI states that:

*“For recoveries of former AFDC program overpayments made before October 1, 1996, States are required to repay to the Federal government the Federal share of these recoveries. These rules apply regardless of the fiscal year in which the recoveries are collected and received by the State. The Federal share of these recovered overpayments must be calculated by multiplying the total amount recovered by the Federal Medicaid Assistance Percentage (FMAP) rate in effect for the State during fiscal year 1996. States should not use FMAP rate in effect during the year in which the overpayment occurred or the FMAP rate in effect during the year in which the recovery is made.”*

The PI at paragraph 1C and 1D continues:

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

The DSS, as the state agency, recovers (recoups) AFDC overpayments from current recipients through a reduction in the recipients' monthly assistance payment. Recoveries from former recipients are collected through voluntary and involuntary payment methods under the state laws and regulations.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

Our review was conducted in accordance with generally accepted government auditing standards. Our review of internal controls was limited to validating Virginia's methodology for collecting AFDC overpayments. The objective of our review was to determine if DSS remitted the federal share of AFDC overpayment collections to the Federal government in accordance with federal requirements, after the program was repealed.

To achieve our objective, we examined a DSS compilation of AFDC overpayments reported as collected by DSS for FFYs 1997-2002. The information was available on computerized listings of overpayment recoveries. Since DSS was not able to determine the date of the overpayments from reviewing the computer data and since sampling would create unnecessary burden on the state agency, the DSS agreed that all collections of overpayments made prior to and including September 30, 1997 would be considered AFDC collections. We accepted the amount as compiled by DSS. However, we could not verify that the amount of overpayments was correct because DSS officials could not provide the location of documentation supporting these overpayments at the time of our review.

We reviewed regulations from 45 CFR Section 233.20, program instructions issued by ACF, state agency policies regarding collection of AFDC overpayments, quarterly summary reports, and copies of letters and reports used to remit payments to ACF. Our fieldwork was performed at DSS offices in Richmond, Virginia periodically from September through November 2002.

## **RESULTS OF REVIEW**

Our review confirmed that DSS has policies and procedures to collect AFDC overpayments that are generally in accordance with federal regulations. During FFYs 1997-2002, DSS recovered AFDC overpayments totaling \$3,431,869 and was required to refund \$1,762,951 in FFP. Although the overpayment amount was supported by computer data, DSS officials were unable to identify which of the 121 local agencies maintained the supporting documentation for collected overpayments and were unable to link the listed recoveries to supporting documentation. We, therefore, were unable to determine if additional overpayments existed or if the overpayment amount was correct.

The DSS maintained it refunded \$993,859 of the required \$1,762,951 federal share to ACF. With assistance of ACF officials we confirmed that DSS refunded \$541,457, but we could not verify refunds of \$452,402. The \$452,402 consisted of four overpayment

refunds made on the “Aid to Families with Dependent Children Program Financial Report, Quarterly Report of Expenditures and Estimates”, (ACF-231) dated from December 31, 1997 through December 31, 1998. The DSS officials stated that these refunds were subsequently deducted by ACF from their funding. However, ACF officials had no record of receiving these ACF 231s and could not verify that these refunds were, in fact, deducted or withheld from DSS funding. We were able to subsequently determine that, while DSS did attempt to make these refunds, they were never recorded by ACF because the refund form was inadvertently included by DSS as part of a statistical package and was not processed by ACF. The remaining \$769,092 in FFP for collected overpayments was not refunded by DSS.

The DSS officials believed that the un-refunded FFP amount of \$769,092 was caused by a lack of clear guidance from ACF on refunding the Federal share of AFDC overpayments.

## **CONCLUSIONS AND RECOMMENDATIONS**

During FFYs 1997-2002, DSS recovered AFDC overpayments totaling \$3,431,869 and were required to refund the federal share of \$1,762,951. We determined that DSS refunded \$541,457 as required by federal regulations and did not remit \$769,092 to ACF. We found that four additional refunds totaling \$452,402 that the DSS attempted to make were never recorded by ACF because the refund form was included as part of a statistical package and was not processed by ACF.

Based on the results of our review, we recommend DSS:

1. Refund the un-remitted federal share of \$769,092 to ACF.
2. Notify ACF of the attempted refunds totaling \$452,402 that were never recorded and resubmit, if necessary, amended documentation as directed by ACF.
3. Continue to refund quarterly collected AFDC overpayments as required by federal regulations.

## **DSS RESPONSE AND OIG COMMENT**

By letter dated March 18, 2003, DSS responded to a draft of this report. The DSS agreed with the amount of collected overpayments and respective refunds due the Federal government. The DSS also agreed with the amount that was not refunded but did not agree with the amount that had been previously refunded by DSS. The DSS provided the OIG with additional documentation to support the refunds. We reviewed the documentation with ACF officials and confirmed an additional refund that was made by



DSS. We also determined that four attempted refunds by DSS were never recorded by ACF because of an inadvertent error.

We have revised the refund amount in the final report to reflect one additional refund that was recorded by ACF but not included in our draft report and we will provide ACF with additional documentation furnished by DSS in its response.

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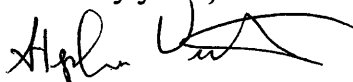
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Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, HHS/OIG Office of Audit Services reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5).

To facilitate identification, please refer to Report Number A-03-01-00251 in all correspondence relating to this report.

Sincerely yours,



Stephen Virbitsky  
Regional Inspector General  
for Audit Services

Direct Reply to HHS Action Official:

Grants Officer  
Administration for Children and Families, Region III  
U.S. Department of Health and Human Services  
Suite 864, The Public Ledger Building  
150 S. Independence Mall West  
Philadelphia, PA 19106-3499



# COMMONWEALTH of VIRGINIA

## DEPARTMENT OF SOCIAL SERVICES

March 18, 2003

Stephen Virbitsky  
Regional Inspector General For Audit Services  
Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services  
150 S. Independence Mall West, Suite 316  
Philadelphia, Pennsylvania 19106-3499

**Re: Draft Report of Review of Aid to Families with Dependent Children (AFDC) Overpayment Recoveries by the Commonwealth of Virginia Department of Social Services Report Number: A-03-01-00251**

Dear Mr. Virbitsky:

During FFYs 1997-2002, Virginia Department of Social Services (VDSS) recovered AFDC overpayments totaling \$3,431,869 and was required to refund the federal share of \$1,762,951. The federal share was calculated using the FFY96 FMAP rate of 51.37 percent. You determined that VDSS refunded a total of \$271,686 for the December 1996 and March 1997 quarters, but did not remit \$769,092 to ACF. You were unable to verify whether five additional refunds totaling \$722,173 were made as maintained by VDSS because documentation at the federal level was not available to confirm the refunds.

Based on the results of your initial review, you recommended VDSS:

1. Refund the unremitted federal share of \$769,092 to ACF.
2. Provide evidence of the additional refunds to ACF, or refund the additional federal share totaling \$722,173.
3. Continue to refund quarterly collected AFDC overpayments as required by federal regulations.

In a meeting held February 25, 2003 with your representative, Mark Lobs, VDSS was informed that in addition to the \$271,686 previously acknowledge as received by ACF,

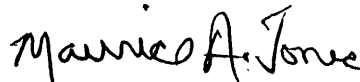
Stephen Virbitsky  
March 18, 2003  
Page Two

an additional \$269,771 had been discovered as also having been returned by VDSS (Exhibit A). This would bring the total funds returned by VDSS to \$541,457 with a remaining balance of \$1,221,494. Based on documentation submitted to ACF we maintain the following:

1. The unremitted federal share is \$769,092 (Exhibit B).
2. VDSS submitted ACF-231 financial reports for four additional quarters in the amount of \$452,402. VDSS believed based on guidance issued by ACF that these amounts would be refunded as required through grant award reductions (Exhibits C and D). While the ACF-231 was submitted in conjunction with the SSA-4792 statistical report, it was submitted by VDSS as required.
3. The total amount remitted to the federal government was \$993,859 (\$541,457 plus \$452,402).
4. Virginia will continue to pursue recoveries as required by 45 CFR, Section 233.20 (a)(13)(i)(E), and remit the federal share of those recoveries in accordance with TANF-ACF-PI-2000-2 dated September 1, 2000.

The VDSS requests a meeting to discuss payback arrangements for the unremitted \$769,092 that is mutually beneficial to both parties, but does not compromise the state's ability to continue to pursue fraud recovery efforts. Virginia Law established the Fraud Free Program and requires overpayment recoveries be used to fund fraud activities in the state. Any unremitted federal share of recoveries would be repaid through a reduction from this program's operating budget and could significantly decrease program staffing and the state's ability to contain and/or prevent fraud activity. The VDSS would like the opportunity to discuss the possibility of reinvesting the amounts owed to ACF in a targeted TANF fraud collection effort, rather than simply remitting a check. Our goal is to comply with all federal requirements and to work with ACF to bring this issue to closure. It is our hope that we can reach an agreeable solution for a difficult circumstance. Please contact David Mitchell, Deputy Commissioner for Administration and Finance at (804) 692-1307 for further discussion.

Sincerely,



Maurice A. Jones  
Commissioner

MAJ:dam  
C: David Lett  
Enclosures (4)

# ACKNOWLEDGMENTS

This report was prepared under the direction of Stephen Virbitsky (RIGAS). Other principal Office of Audit Services staff who contributed include:

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