



July 16, 2002

Common Identification Number: A-06-02-00028

Mr. Kurt Knickrehm
Director
Arkansas Department of Human Services
P.O. Box 1437, Slot 5201
Little Rock, Arkansas 72203-1437

Dear Mr. Knickrehm:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled "Review of Arkansas Department of Human Services' Systems and Procedures for Recovering and Refunding Overpayments Made Under the Aid to Families with Dependent Children Program." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. 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.) As such, within 10 business days after the final report is issued, it will be posted on the World Wide Web at <http://oig.hhs.gov>.

To facilitate identification, please refer to Common Identification Number A-06-02-00028 in all correspondence relating to this report.

Sincerely yours,

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosure – as stated

Direct Reply to HHS Action Official:

Mr. Leon R. McCowan
Regional Hub Director
Administration for Children and Families
U.S. Department of Health and Human Services
1301 Young Street, Room 914
Dallas, TX 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ARKANSAS DEPARTMENT
OF HUMAN SERVICES' SYSTEMS AND
PROCEDURES FOR RECOVERING AND
REFUNDING OVERPAYMENTS MADE
UNDER THE AID TO FAMILIES WITH
DEPENDENT CHILDREN PROGRAM**



**JANET REHNQUIST
INSPECTOR GENERAL**

**JULY 2002
A-06-02-00028**

Office of Inspector General

<http://oig.hhs.gov/>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

Office of Evaluation and Inspections

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

Office of Investigations

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.



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Mr. Kurt Knickrehm
Director
Arkansas Department of Human Services
P.O. Box 1437, Slot 5201
Little Rock, Arkansas 72203-1437

Dear Mr. Knickrehm:

This report provides you with the results of our review of Arkansas Department of Human Services' (ADHS) systems and procedures for recovering and refunding overpayments made under the Aid to Families with Dependent Children (AFDC) program. The objectives of the review were to determine whether ADHS has systems and procedures to: (1) properly identify, collect and report AFDC overpayment recoveries, and (2) refund the correct amount of AFDC overpayment recoveries to the Federal Government.

The ADHS has systems to identify, collect and report overpayment recoveries. However, these systems did not separately identify recoveries of AFDC overpayments. As a result, ADHS did not have a process in place to refund the Federal share of the AFDC overpayment collections to the Federal Government.

An ADHS analysis determined that from July 1, 1997 through January 31, 2002 a total of \$1.4 million (\$1.0 million Federal Share) in AFDC overpayments had been recovered. Of that amount, \$1.2 million was from cash restitutions and \$0.2 million was from recoupments (reduction of benefits). We tested the ADHS data used to determine the AFDC overpayment recoveries and found it to be supported. The ADHS is in the process of refunding \$1.0 million to the Federal Government, according to an ADHS official.

As a result, we recommended that ADHS: (1) refund \$1.0 million to the Administration for Children and Families (ACF) in accordance with Federal requirements, and (2) refund the Federal share of subsequent AFDC recoveries to ACF in the form of a check at least quarterly.

In its response to our draft report, ADHS concurred with the recommendations in the draft report. The ADHS stated it has established some internal procedures for processing and submitting AFDC overpayment collections and that it will be refunding the recommended \$1.0 million in overpayments within 30 days and any subsequent

overpayment recoveries on a quarterly basis beginning in September 2002. See Appendix for a complete copy of the response.

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 homes. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act replaced the AFDC program with the Temporary Assistance for Needy Families (TANF) program. The ACF provides funding for and administers both programs.

Federal regulations for AFDC require states to collect overpayments until the full amount has been received. Although the AFDC program was replaced by TANF, a number of AFDC overpayments remain outstanding and State agencies are still obligated to pursue and recover any uncollected amounts. The regulations also require that State agencies maintain information on the individual and total number and amount of overpayments identified and their disposition for current and former recipients.

For recoveries of AFDC program overpayments made before October 1, 1996, Federal guidance issued in September 2000, requires States to repay the Federal share of collected AFDC overpayments by December 31, 2000 via check based on the Federal Medical Assistance Percentage (FMAP) rate in effect for the State during fiscal year 1996.

States that had not been properly tracking recovery of AFDC overpayments made prior to October 1, 1996 are to perform an analysis of their accounts receivable systems to identify all recoveries made by recoupment and cash collections and pay the Federal share of the recovered amounts to ACF via check by December 31, 2000. After a State becomes current with remitting past due AFDC overpayment recoveries, it is required to remit the Federal share of future AFDC recoveries to ACF via check no less frequently than quarterly.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the review were to determine whether ADHS has systems and procedures to: (1) properly identify, collect and report AFDC overpayment recoveries, and (2) refund the correct amount of AFDC overpayment recoveries to the Federal Government.

To accomplish our objectives, we:

- reviewed the policies and procedures established by ADHS to identify and recover overpayments;

- reviewed overpayment recovery transactions to determine whether ADHS' calculation of the total amount collected for overpayments made before October 1, 1996 was supported;
- interviewed ADHS officials to determine if AFDC overpayment recoveries were being refunded to the Federal Government.

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

Our review of ADHS's internal controls was limited to obtaining an understanding of the policies and procedures applicable to the identification, collection and reporting of overpayments.

We performed our fieldwork at the ADHS in Little Rock, Arkansas in March 2002.

RESULTS OF REVIEW

The ADHS has not refunded \$1.0 million in AFDC overpayment recoveries in accordance with Federal requirements. The ADHS did not modify its existing accounts receivable system to separately identify AFDC overpayments and recoveries when the AFDC program ended effective September 30, 1996 and the TANF program began.

Federal Requirements

Federal regulations for AFDC require States to collect overpayments until the full amount has been received. For recoveries of AFDC overpayments made prior to 10/1/96, Federal guidance requires states to analyze their accounts receivable systems to identify all recoveries made either by recoupment or cash collections and repay the Federal share of collected AFDC overpayments by December 31, 2000 via check based on the FMAP rate in effect for the State during fiscal year 1996. After a State becomes current with remitting past due AFDC overpayment recoveries, it is required to remit the Federal share of future AFDC recoveries to ACF via check no less frequently than quarterly.

ADHS Accounts Receivable System

We sampled and reviewed selected transactions to determine whether ADHS' calculation of the total amount collected for overpayments made before October 1, 1996 was supported. These transactions included overpayment recoveries that occurred after the AFDC program ended.

The AFDC overpayments recovered after the AFDC program ended were improperly used to reduce TANF program expenditures instead of being refunded in accordance with Federal requirements. The accounts receivable system identifies the amount of overpayments, the period the overpayments occurred and the method to be used to

overpayments, the period the overpayments occurred and the method to be used to recover the overpayments. The system records the recovery of overpayments by cash restitutions and recoupments (reductions of benefits). However the system does not identify whether the overpayment or recovery relates to the AFDC or TANF program. As a result, overpayment recoveries identified in the accounts receivable system relating to these programs were used to offset expenditures to the TANF program.

ADHS Analysis

At our request, the ADHS completed an analysis of AFDC overpayments made prior to October 1, 1996 and determined that \$1.4 million of the overpayments were recovered during the period July 1, 1997 through January 31, 2002. Of this total, the Federal share is \$1.0 million. We tested the ADHS data used to determine the AFDC overpayment recoveries and found it to be supported.

RECOMMENDATIONS

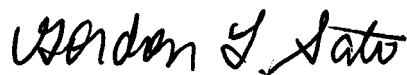
We recommend that ADHS:

- (1) refund \$1.0 million to ACF via check in accordance with Federal requirements;
- (2) refund the Federal share of subsequent AFDC recoveries to ACF in the form of a check at least quarterly.

AUDITEE COMMENTS

In its response to our draft report, ADHS concurred with the recommendations in the draft report. The ADHS stated it has established some internal procedures for processing and submitting AFDC overpayment collections and that it will be refunding the recommended \$1.0 million in overpayments within 30 days and any subsequent overpayment recoveries on a quarterly basis beginning in September 2002. See Appendix for a complete copy of the response.

Sincerely,



Gordon L. Sato
Regional Inspector General
for Audit Services



**Arkansas Department of Human Services
Division of County Operations**

Donaghey Plaza South
P.O. Box 1437
Little Rock, Arkansas 72203-1437
TDD (501) 682-8275

July 3, 2002

Mr. Gordon L. Sato
Regional Inspector General
for Audit Services
Office of Audit Services
1100 Commerce, Room 6B6
Dallas, TX 75242

RE: A-06-02-00028

Dear Mr. Sato:

The Arkansas Department of Human Services (ADHS) is in receipt of your correspondence of May 13, 2002 providing a draft report entitled "Review of Arkansas Department of Human Services' Systems and Procedures for Recovering and Refunding Overpayments Made Under the Aid to Families with Dependent Children Program." The draft report requests the ADHS refund \$1.0 million in AFDC overpayment recoveries and submit subsequent AFDC recoveries quarterly.

Response:

ADHS concurs with the recommendations cited in the draft report. A review of the AFDC overpayments confirms a refund of \$1.0 million is owed to the Administration for Children and Families. This check will be sent within the next thirty days.

ADHS has established internal procedures for processing and submitting TANF/AFDC overpayment collections. Subsequent refunds of the Federal share of AFDC recoveries will be sent quarterly beginning in September 2002.

Please let me know if you have additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Joni Jones".

Joni Jones
Director

Cc: Susan Wallace, Division of Finance