DEC 7 2006

Report Number: A-01-06-02504

Ms. Barbara Van Burgel
Director
Office of Integrated Access and Support
Department of Health & Human Services
11 State House Station Whitten Road
Augusta, Maine 04333

Dear Ms. Van Burgel:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General (OIG) final report entitled “Review of Aid to Families With Dependent Children Overpayments in Maine for the Period April 1, 2001, Through March 31, 2005.” A copy of this report will be forwarded to the action official named below 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 the 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 reports issued to the Department’s grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Should you have any questions or comments about this report, please do not hesitate to call me, or contact George Nedder, Audit Manager, at (617) 565-3463 or through e-mail at gnedder@oig.hhs.gov. Please refer to report number A-01-06-02504.

Sincerely yours,

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated
Direct Reply to HHS Action Official:

Hugh Galligan
Regional Administrator
Administration of Children and Families – Region I
U. S. Department of Health and Human Services
JFK Federal Building - Room 2000
Boston, Massachusetts 02203
Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF AID TO FAMILIES WITH DEPENDENT CHILDREN OVERPAYMENTS IN MAINE FOR THE PERIOD APRIL 1, 2001, THROUGH MARCH 31, 2005

Daniel R. Levinson
Inspector General

December 2006
A-01-06-02504
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 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

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The 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.

**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. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.
NOTICES

THIS REPORT IS AVAILABLE TO THE PUBLIC
at http://oig.hhs.gov

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

OAS FINDINGS AND OPINIONS

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.
EXECUTIVE SUMMARY

BACKGROUND

Title IV-A of the Social Security Act established the Aid to Families With Dependent Children (AFDC) program to help low-income families care for their dependent children. In 1996, the AFDC program was replaced with the Temporary Assistance for Needy Families (TANF) program. The Administration for Children and Families (ACF) funded and administered AFDC and now funds and administers TANF. Overpayments occurred under AFDC when recipients received amounts to which they were not entitled.

Although TANF has replaced AFDC, Federal regulations require States to pursue and collect AFDC overpayments so long as outstanding overpayments remain. States are also required to return the Federal share of the recovered overpayments to ACF. Federal guidance issued in March 1999 and again in September 2000 requires States to repay the Federal share of collected AFDC overpayments.

OBJECTIVE

Our objective was to determine whether Maine reimbursed ACF in a timely manner for the Federal share of overpayments collected from former AFDC recipients, in accordance with Federal requirements.

SUMMARY OF FINDING

Maine did not reimburse ACF in a timely manner for the Federal share of overpayments collected from former AFDC recipients, in accordance with Federal requirements. Specifically, we determined that during our audit period Maine had collected $786,037 in overpayments from former AFDC recipients. Although Maine had procedures for identifying and reimbursing the Federal share of overpayments made to former AFDC recipients, it did not always follow these procedures. In addition, its computer system was unable to identify the amount of AFDC overpayments collected from beneficiaries who received overpayments under both the AFDC program and the TANF program. As a result, Maine did not credit the Federal Government $497,719 for the Federal share of these overpayments.

RECOMMENDATIONS

We recommend that Maine:

- reimburse ACF $497,719 for its share of collected AFDC overpayments,
- follow procedures for identifying and reimbursing the Federal share of overpayments collected from former AFDC recipients, and
• implement procedures to ensure that its new computer system accurately segregates AFDC overpayment collections from TANF overpayment collections.

AUDITEE’S COMMENTS

In its comments on our draft report, Maine agreed with our finding and recommendations and stated that it would reimburse ACF $497,719 for AFDC overpayments collected from April 1, 2001, through March 31, 2005. Maine will also refund an additional $171,803 for the Federal share of AFDC overpayments that it has recovered since the end of our audit period.

Maine’s comments are included in their entirety in the appendix.
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INTRODUCTION

BACKGROUND

The 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 to help low-income families care for their dependent children. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced the AFDC program with the Temporary Assistance for Needy Families (TANF) program. States were required to implement TANF by July 1, 1997.

The Administration for Children and Families (ACF) funded and administered AFDC and now funds and administers TANF. The Federal Government reimbursed States for at least half of the costs incurred for AFDC recipients who met eligibility requirements.

Federal Reimbursement for Overpayments

Overpayments occur when recipients receive amounts to which they are not entitled. Federal guidance issued in March 1999 and in September 2000 requires States to return the Federal share of collected AFDC overpayments to ACF. In contrast, States are not required to repay the Federal share of overpayment recoveries from TANF, which is funded through a block grant. Although TANF has replaced AFDC, Federal regulations require States to pursue and collect overpayments made to former AFDC recipients so long as outstanding overpayments remain.

Before TANF replaced AFDC, States reported the Federal share of collected overpayments on Federal form ACF-231 and offset these amounts against future Federal financial participation in the AFDC program. However, States no longer have that reporting process to repay the Federal share of collected AFDC overpayments. Instead, the AFDC recoveries are often made by reducing TANF benefits paid to recipients or by collecting cash payments.

Overlapping overpayments occur when recipients who received overpayments under AFDC continue to receive overpayments under TANF. When States collect these overlapping overpayments, they must determine which to credit to AFDC and which to credit to TANF.

Prior Audit of New England States Overpayments

In 2001, we conducted an audit to determine how each New England State identified and returned the Federal share of collected AFDC overpayments. As a result of our review, the six New England States agreed to repay a total of $13 million in collected AFDC overpayments. In August 2001, as part of this agreement, Maine reimbursed ACF $762,138, the Federal share of its AFDC overpayment collections.
OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Maine reimbursed ACF in a timely manner for the Federal share of overpayments collected from former AFDC recipients, in accordance with Federal requirements.

Scope

We analyzed the 9,181 transactions totaling $979,255 in AFDC and TANF overpayments that Maine collected from April 1, 2001, through March 31, 2005. We limited our review of internal controls to obtaining an understanding of the process that Maine used to identify and collect AFDC overpayments.

We performed our fieldwork from December 2005 through July 2006 at the Region I ACF office in Boston, Massachusetts, and at the State office in Augusta, Maine.

Methodology

To accomplish our objective, we:

- reviewed Federal and State laws, regulations, policies, and procedures pertaining to both AFDC and TANF;
- interviewed Federal and State program officials;
- tested Maine’s internal controls for monitoring the collections process by reviewing both the computerized collections system and the procedures used to implement this system;
- reviewed the amount that Maine identified as the Federal share of AFDC overpayment collections;
- tested all categories of overpayment transactions (e.g., checks received, recoupments, tax offsets) to determine whether the amount that the State had identified as the Federal share of reimbursements was reasonable;
- used computer-generated reports provided by the State to analyze the 9,181 AFDC and TANF overpayment transactions and identified 8,357 potential AFDC collections;
- segregated the 8,357 potential AFDC collections into 7,435 AFDC overpayments and 922 overlapping transactions that the State had not segregated into AFDC and TANF overpayments; and
• manually extracted data from all 922 overlapping transactions on the amount owed and the beginning and ending dates of service and determined that 807 of these transactions were AFDC overpayments.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATIONS

Maine did not reimburse ACF in a timely manner for the Federal share of overpayments collected from former AFDC recipients, in accordance with Federal requirements. Specifically, we determined that during our audit period Maine had collected $786,037 in overpayments from former AFDC recipients. Although Maine had procedures for identifying and reimbursing the Federal share of overpayments made to former AFDC recipients, it did not always follow these procedures. In addition, its computer system was unable to identify the amount of AFDC overpayments collected from beneficiaries who received overpayments under both the AFDC program and the TANF program. As a result, Maine did not credit the Federal Government $497,719 for the Federal share of these overpayments.

FEDERAL REQUIREMENTS

Title 45 of the Code of Federal Regulations, section 233.20, requires States to take all reasonable steps necessary to promptly correct any overpayments.

Specifically, ACF program instruction, transmittal number TANF-ACF-PI-2000-2 dated September 1, 2000, states, “For recoveries of former AFDC program overpayments made before October 1, 1996, States are required to repay the Federal Government the Federal share of these recoveries . . . . Checks should be submitted to ACF no less frequently than quarterly.”

These instructions also specify that, when a current or former recipient is making repayments for overpayments that occurred both before October 1, 1996, under the former AFDC program, and after October 1, 1996, either under the AFDC or TANF program, the oldest arrearage (i.e., AFDC) must be credited first.

OVERPAYMENTS NOT REIMBURSED

Maine did not reimburse ACF for the Federal share of overpayments that it collected from former AFDC recipients from April 1, 2001, through March 31, 2005. We analyzed records provided by the State to identify 8,357 AFDC overpayments that Maine had collected from former recipients during this period. Our review of these collections identified:

• 7,435 overpayment collections from recipients who had received AFDC overpayments before October 1, 1996. The total amount collected from these former AFDC recipients was $688,252 ($435,801 Federal share).
• 807 overpayment collections from recipients who had received overpayments from both the AFDC program and the TANF program. The AFDC portion collected from these former AFDC and TANF recipients was $97,785 ($61,918 Federal share).

As a result, we determined that Maine had collected $786,037 ($688,252 + $97,785) in AFDC overpayments during our audit period and that Maine owed ACF $497,719 ($435,801 + $61,918) for the Federal share of these overpayments.

CAUSES OF STATE'S FAILURE TO REIMBURSE FEDERAL SHARE

Although Maine had procedures for identifying and reimbursing the Federal share of overpayments made to former AFDC recipients, it did not always follow these procedures. In addition, its computer system was unable to identify the amount of AFDC overpayments collected from beneficiaries who received overpayments under both the AFDC program and the TANF program. Maine officials attribute the delay in returning the Federal share of these overpayment collections to numerous patches in its integrated computer system that prevented the State from identifying the amount of AFDC overpayments owed the Federal Government.

RECOMMENDATIONS

We recommend that Maine:

• reimburse ACF $497,719 for its share of collected AFDC overpayments,

• follow procedures for identifying and reimbursing the Federal share of overpayments collected from former AFDC recipients, and

• implement procedures to ensure that its new computer system accurately segregates AFDC overpayment collections from TANF overpayment collections.

AUDITEE'S COMMENTS

In its comments on our draft report, Maine agreed with our finding and recommendations and stated that it would reimburse ACF $497,719 for AFDC overpayments collected from April 1, 2001, through March 31, 2005. Maine will also refund an additional $171,803 for the Federal share of AFDC overpayments that it has recovered since the end of our audit period.

Maine’s comments are included in their entirety in the appendix.
APPENDIX
November 30, 2006

George Nedder, Audit Manager
Office of Inspector General/Audit Services
Region 1
John F. Kennedy Federal Building
Boston, MA 02203

Dear Mr. Nedder:

Thank you for the opportunity to respond to the U. S. Department of Health and Human Service, Office of Inspector General (OIG) draft report entitled “Review of Aid to Families with Dependent Children Overpayments in Maine for the Period April 1, 2001 Through March 31, 2005.”

Maine completely agrees with OIG’s calculation of the amount of money it must reimburse the U. S. Department of Health and Human Services, Office of Children and Families for its portion of Maine’s collections of AFDC overpayments.

Maine appreciates the working relationship it has with OIG’s staff. Additionally, Maine appreciates OIG’s support in resolving the amount owed for the audit period and for its agreement to wait for the audit period’s reimbursement and the routine quarterly reimbursements until the 2001-2005 audit was finalized.

Maine agrees it owes the following reimbursement amounts:

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1, 2001 through March 31, 2005</td>
<td>$497,719</td>
</tr>
<tr>
<td>April 1, 2005 through Sept. 30, 2006</td>
<td>171,803</td>
</tr>
<tr>
<td>Total</td>
<td>$669,522</td>
</tr>
</tbody>
</table>

Please let me know if you would like this reimbursement sent to ACF now or when OIG issues its final audit report. Maine is prepared to send the reimbursement according to OIG instructions.

If you have questions, please ask them of Rose Masure by calling (207) 287-3104.
Sincerely,

Barbara J. Van Burgel
Director, Office of Integrated Access and Support

Cc: Michael J. Armstrong, Regional Inspector General for Audit Services
    Thomas Keyes, Deputy Director, Office of Integrated Access and Support
    Rose Masure, Division Director, Programs and Policy
    Scott Fitts, Director, Fraud, Investigation & Recovery Unit
    Dean Henderson, TANF Program Manager
    Cassandra Perkins, Program Fiscal Coordinator
    Kirsten Figueroa, Deputy Commissioner