



SEP 25 2008

TO: Daniel C. Schneider
Acting Assistant Secretary for Children and Families

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of Improper Temporary Assistance for Needy Families Basic Assistance Payments in Vermont for April 1, 2006, Through March 31, 2007 (A-01-07-02504)

Attached is an advance copy of our final report on improper Temporary Assistance for Needy Families (TANF) basic assistance payments in Vermont for April 1, 2006, through March 31, 2007. We will issue this report to the Vermont Department for Children and Families (the State agency) within 5 business days. The Administration for Children and Families (ACF) and the Office of Management and Budget requested this review.

The TANF program, which the Federal and State Governments jointly fund and administer, is a block grant program that provides eligible families with work opportunities and other assistance, including basic assistance payments for such ongoing basic needs as food, clothing, shelter, and utilities. Federal and State laws, regulations, and other requirements establish TANF eligibility, payment, and documentation requirements.

Our objectives were to determine whether the State agency (1) made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations and (2) accurately reported basic assistance expenditures to ACF.

For the period April 1, 2006, through March 31, 2007, the State agency made some TANF basic assistance payments that did not meet Federal and State requirements and did not adequately document all eligibility and payment determinations. The State agency accurately reported basic assistance expenditures to ACF.

We did not identify any errors in 135 of the 150 payments in our statistical sample. However, the remaining 15 payments were improper. For 13 of these payments, the recipient families were ineligible for TANF basic assistance or the payments were calculated improperly. For two

payments, the case files did not contain all required documentation supporting eligibility and payment determinations.

Based on our sample results, we estimated that the overall TANF improper payment rate was 5.85 percent of the Federal dollars expended and 10 percent of the number of basic assistance payments made for the 1-year audit period. Specifically, we estimated that the State agency paid \$956,086 (Federal share) for 5,181 improper payments.

We recommend that the State agency:

- use the results of this review to help ensure compliance with Federal and State TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring its district office employees to verify eligibility information and maintain appropriate documentation in all case files,
- determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible, and
- recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

In its comments on our draft report, the State agency agreed with the need for continued improvement and provided information on steps that it planned to take to implement the recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at Lori.Pilcher@oig.hhs.gov or Michael J. Armstrong, Regional Inspector General for Audit Services, Region I, at (617) 565-2689 or through e-mail at Michael.Armstrong@oig.hhs.gov. Please refer to report number A-01-07-02504.

Attachment



SEP 30 2008

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-07-02504

Mr. Stephan R. Dale
Commissioner
Vermont Department for Children and Families
103 South Main Street
Waterbury, Vermont 05671-5920

Dear Mr. Dale:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Improper Temporary Assistance for Needy Families Basic Assistance Payments in Vermont for April 1, 2006, Through March 31, 2007." We will forward a copy of this report to the HHS action official noted 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, this report will be posted on the Internet at <http://oig.hhs.gov>.

If 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 George.Nedder@oig.hhs.gov. Please refer to report number A-01-07-02504 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. John Parnagian
Acting Regional Administrator
Administration for Children and Families
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 IMPROPER
TEMPORARY ASSISTANCE FOR
NEEDY FAMILIES BASIC
ASSISTANCE PAYMENTS IN
VERMONT FOR APRIL 1, 2006,
THROUGH MARCH 31, 2007**



Daniel R. Levinson
Inspector General

September 2008
A-01-07-02504

Office of Inspector General

<http://oig.hhs.gov>

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General 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).

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

The Temporary Assistance for Needy Families (TANF) program, a block grant program, provides eligible families with work opportunities and other assistance, including basic assistance payments for such ongoing basic needs as food, clothing, shelter, and utilities. The Federal and State Governments jointly fund and administer the TANF program. The Administration for Children and Families (ACF), Office of Family Assistance, administers the program at the Federal level.

Federal and State laws, regulations, and other requirements establish TANF eligibility, payment, and documentation requirements. To be eligible for TANF, a needy family must, among other requirements, include a minor child or pregnant woman, not exceed established time limits for receiving assistance, engage in work activities, not exceed income thresholds established by the State, meet citizenship and residency requirements, submit a written application for benefits, and furnish the Social Security number of each family member. The State must maintain records on the provision of assistance, including facts to support eligibility and payment determinations.

In Vermont, the Department for Children and Families, Agency of Human Services (the State agency), administers the TANF program. The State agency's district offices determine the eligibility of applicants and the payment amounts for basic assistance. For the period April 1, 2006, through March 31, 2007, the State agency made 51,811 monthly basic assistance payments totaling \$26,212,754 (\$16,330,546 Federal share) to TANF recipients.

ACF and the Office of Management and Budget (OMB) requested this review.

OBJECTIVES

Our objectives were to determine whether the State agency (1) made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations and (2) accurately reported basic assistance expenditures to ACF.

SUMMARY OF FINDINGS

For the period April 1, 2006, through March 31, 2007, the State agency made some TANF basic assistance payments that did not meet Federal and State requirements and did not adequately document all eligibility and payment determinations. The State agency accurately reported basic assistance expenditures to ACF.

We did not identify any errors in 135 of the 150 payments in our statistical sample. However, the remaining 15 payments were improper:

- For 13 payments, the recipient families were ineligible for TANF basic assistance or the payments were calculated improperly.

- For two payments, the case files did not contain all required documentation supporting eligibility and payment determinations.

Based on our sample results, we estimated that the overall TANF improper payment rate was 5.85 percent of the Federal dollars expended and 10 percent of the number of basic assistance payments made for the 1-year audit period. Specifically, we estimated that the State agency paid \$956,086 (Federal share) for 5,181 improper payments, including \$949,523 for 4,836 overpayments and \$6,563 for 345 underpayments. The following table summarizes our statistical estimates.

Statistical Estimates of Improper Payments

Error Category	Improper Payment Rate		Improper Payments	
	Federal Dollars	No. of Payments	Federal Dollars	No. of Payments
Eligibility and payment calculation errors	5.33%	8.67%	\$870,770	4,490
Documentation errors	0.52%	1.33%	85,315	691
Overall	5.85%	10.00%	\$956,086*	5,181

*Does not add to total because of rounding.

RECOMMENDATIONS

We recommend that the State agency:

- use the results of this review to help ensure compliance with Federal and State TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring its district office employees to verify eligibility information and maintain appropriate documentation in all case files,
- determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible, and
- recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

STATE AGENCY COMMENTS

In its comments on our draft report, the State agency concurred with the need for continued improvement and provided information on steps that it planned to take to implement the recommendations. The State agency also expressed its concerns about developing a national TANF payment error rate and about posting our individual State reports on the Internet before the eight-State review process is complete. The State agency's comments are included in their entirety as Appendix E.

OFFICE OF INSPECTOR GENERAL RESPONSE

The Improper Payments Information Act of 2002 requires Federal agencies to estimate the annual amount of improper payments in their programs and to report that estimate to Congress. ACF and OMB requested this review of the TANF program for fiscal year 2008 performance and accountability reporting.

With respect to posting reports on the Internet, the Consolidated Appropriations Act of 2008 (Public Law 110-161), section 746, requires that each Office of Inspector General post on its Web site any public report or audit issued within 1 day of its release.

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INTRODUCTION

BACKGROUND

The Administration for Children and Families (ACF) and the Office of Management and Budget (OMB) requested this review of the Temporary Assistance for Needy Families (TANF) program for fiscal year 2008 performance and accountability reporting.

Improper Payments Information Act of 2002

The Improper Payments Information Act of 2002 (Public Law 107-300) requires Federal agencies to estimate and report to Congress on the annual amount of improper payments in their programs, the causes of the improper payments, and the corrective actions taken. Section 2(d)(2) of this Act (31 U.S.C. § 3321) states that an improper payment:

. . . (A) means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and (B) includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.

To clarify this definition, OMB Circular A-123, Appendix C, part I.A, states that “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error.”

Temporary Assistance for Needy Families Program

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) established the TANF program to help families progress from welfare to self-sufficiency. The Federal and State Governments jointly fund and administer the program. At the Federal level, the ACF Office of Family Assistance administers the program. Within broad national guidelines established by Federal statutes, regulations, and other requirements, States have significant flexibility in designing their programs and determining eligibility requirements.

The Federal Government provides TANF funds in the form of block grants, which are specified amounts directly allocated to States. To be eligible for a TANF block grant, a State must submit a State plan to ACF within the 27-month period prior to the Federal fiscal year in which the funds are to be provided. The State plan is an outline of how each State will operate its TANF program, including program administration, criteria for determining eligibility and delivering benefits, and assurances against fraud and abuse. ACF reviews the State plan for completeness but does not issue an approval. ACF has stated that a determination that a plan is complete does not constitute its endorsement of State policies.¹

¹See 64 Federal Register 17720, 17847 (April 12, 1999).

Pursuant to section 401 of the Social Security Act (the Act), the TANF program provides assistance and work opportunities to needy families. As a general rule, States must use the funds for eligible families with a minor child or pregnant woman and for one of the four purposes of the TANF program, including providing assistance to needy families.² Federal regulations (45 CFR § 260.31(a)(1)) define assistance as cash, payments, vouchers, and other forms of benefits designed to meet a family’s ongoing basic needs, including, but not limited to, food, clothing, shelter, and utilities. Such assistance is referred to as “basic assistance.”

States may use various funding options to provide benefits and services under their TANF programs (e.g., commingled Federal and State funds or segregated State funds). The funding option chosen determines what specific requirements apply and whether a particular use of funds is appropriate. Commingled Federal and State funds are subject to Federal laws and requirements.

Vermont’s Temporary Assistance for Needy Families Program

In Vermont, the Department for Children and Families, Agency of Human Services (the State agency), administers the TANF program (called the Reach Up program). During the audit period, the State agency used the computerized ACCESS system to store and process TANF case information, determine the eligibility of applicants, and calculate and track benefit amounts. The State agency used the Vision system to process and pay TANF basic assistance benefits.

The State agency has opted to commingle Federal and State funds in its TANF program. During the audit period, the State agency, on average, funded 62.3 percent of its basic assistance expenditures from the Federal TANF block grant, and the State agency paid the remaining 37.7 percent.

The State agency requires individuals to submit written applications for TANF basic assistance. The State agency’s district offices review the applications and determine whether individuals meet TANF eligibility requirements. For each applicant determined eligible, the district office uses the ACCESS system to determine the amount of assistance to be paid to the family. As part of the application process, the district office notifies the applicant of his or her responsibility to notify the district office of any changes that might affect eligibility or payment status. Every 6 months thereafter, the district office must verify any updated information and redetermine the individual’s eligibility.

Federal and State Requirements Related to Temporary Assistance for Needy Families Basic Assistance

The State agency must comply with certain Federal requirements in determining and redetermining eligibility and payment amounts. Federal regulations (45 CFR §§ 205.51–205.60 and parts 260–264) set forth basic TANF eligibility requirements that States must impose on families receiving assistance, including time limits and work requirements for adults.

²The other purposes of TANF are to (1) end the dependence of needy parents by promoting job preparation, work, and marriage; (2) prevent and reduce out-of-wedlock pregnancies; and (3) encourage the formation and maintenance of two-parent families (section 401 of the Act).

Appendix A of this report contains the specific Federal requirements related to TANF basic assistance.

In addition, Vermont Statutes Annotated, Title 33, Chapter 11; Vermont guidance; and the Vermont State plan establish TANF basic assistance requirements. Vermont Statutes Annotated, Title 33, section 1103(c), provide that the Commissioner, Vermont Department for Children and Families, must adopt rules for determining eligibility for Vermont's TANF program. These rules are contained in Vermont's "State Policy Manual" (the State manual). The State plan incorporates Federal requirements and establishes all other eligibility requirements, such as income and resource levels and standards of need,³ as set forth in State law and guidance. Appendix B of this report contains the specific State requirements related to TANF basic assistance.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether the State agency (1) made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations and (2) accurately reported basic assistance expenditures to ACF.

Scope

Our audit period covered April 1, 2006, through March 31, 2007. We did not review the overall internal control structure of the Vermont TANF program. Rather, we reviewed the State agency's procedures relevant to the objectives of the audit.

We performed fieldwork from August 2007 to January 2008 at the State agency in Waterbury, Vermont, and at the Vermont Department of Labor in Montpelier, Vermont.

Methodology

To accomplish our objectives, we:

- reviewed Federal and State laws, regulations, and other requirements related to TANF basic assistance eligibility and payment amounts;
- held discussions with ACF regional officials and with State officials to obtain an understanding of policies, procedures, and guidance for determining TANF basic assistance eligibility and payment amounts;
- obtained a list of TANF basic assistance payments for the period April 1, 2006, through March 31, 2007, from the State agency's ACCESS system;

³The State sets the standard of need based on the number of household members (referred to as "assistance group members" in Vermont). The State uses the standard to determine eligibility for TANF basic assistance.

- combined all payments to or on behalf of each recipient family in a month and obtained a universe of 51,811 monthly payments totaling \$26,212,754 (\$16,330,546 Federal share);
- validated the universe of payments, including reported expenditures;
- calculated the average Federal share of Vermont's TANF basic assistance payments for the audit period by dividing the Federal dollars listed on line 5A (basic assistance payments) of Vermont's quarterly reports to ACF by the total dollars listed on line 5A; and
- selected a simple random sample of 150 payments from the universe of 51,811 monthly payments, as detailed in Appendix C.

For each of the 150 sample items, we determined whether the corresponding case file (electronic or paper) contained sufficient information for the district office to have made a TANF basic assistance eligibility determination on the date of the initial determination or redetermination. We also attempted to obtain sufficient independent information to determine whether the recipient family was eligible for TANF basic assistance and received the proper payment amount on the payment date selected. Specifically, we determined whether:

- the case file contained a completed application from a representative of the recipient family;
- the case file contained a Social Security number for each member of the recipient family and, if so, whether the Social Security Administration (SSA) had issued the number to the family member;
- the recipient family resided in Vermont by checking driver's licenses, rental agreements, utility bills, or Federal, State, or local government correspondence;
- each family member's identity, including name and age, was adequately documented in the case file (e.g., birth certificates, adoption papers, court decrees, and passports);
- each family member's citizenship status was adequately documented in the case file (e.g., birth certificates, hospital records, birth data maintained by the State Vital Statistics Unit, and U.S. Citizenship and Immigration Services documentation);
- the recipient family's income was at or below the income threshold required to be eligible for TANF basic assistance on the payment date selected by reviewing information in the case file and wage and unemployment compensation information from the Vermont Department of Labor, the SSA Beneficiary Data Exchange, and the Supplemental Security Income State Data Exchange;
- no member of the recipient family was a fugitive felon or parole violator by checking the Federal Bureau of Investigation's National Crime Information Center files;

- the recipient family complied with child support requirements by reviewing information from the case file and the State agency's Office of Child Support;
- assistance was not provided to any adult member, minor head of household, or minor spouse in the recipient family beyond allowable time limits by reviewing information from the State agency's ACCESS system; and
- the parent or caretaker in the recipient family met work requirements by reviewing the case file.

We estimated, for the total universe of 51,811 TANF monthly basic assistance payments, the total Federal dollar value of payments with eligibility or calculation errors and with documentation errors (overpayments, underpayments, and combined over/underpayments). We also estimated, for the total universe, the total number of these improper payments.

In addition, we determined the improper payment rate in dollars by dividing the estimated improper Federal dollars by the total Federal dollars in the universe. We also determined the improper payment rate for the number of payments in error by dividing the estimated number of improper payments by the total number of payments in the universe.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

The State agency made some TANF basic assistance payments that did not meet Federal and State requirements and did not adequately document all eligibility and payment determinations. The State agency accurately reported basic assistance expenditures to ACF.

Of the 150 payments in our statistical sample, 15 payments totaling \$2,768 (Federal share) were improper because the recipient families were ineligible for TANF basic assistance, the payments were calculated improperly, or the case files did not contain all required documentation supporting eligibility and payment determinations. The 15 improper payments consisted of 14 overpayments totaling \$2,749 and 1 underpayment totaling \$19. We did not identify any errors in the remaining 135 payments.

Based on our sample results, we estimated that the overall TANF improper payment rate was 5.85 percent of the Federal dollars expended and 10 percent of the number of basic assistance payments made for the 1-year audit period. Specifically, we estimated that the State agency paid \$956,086 (Federal share) for 5,181 improper payments, including \$949,523 for 4,836 overpayments and \$6,563 for 345 underpayments. (See page 9 for additional statistical estimates.)

IMPROPER PAYMENTS

Table 1 summarizes the errors noted in the 15 improper payments in our sample.

Table 1: Summary of Improper Payments

Type of Error	Improper Federal Payments	No. of Improper Payments
Eligibility and Payment Calculation Errors		
Recipient families were ineligible:		
Income threshold exceeded on payment dates	\$644	2
Social Security number not furnished	333	1
Household composition requirements not met	<u>221</u>	<u>1</u>
Subtotal	\$1,198	4
Payments were calculated improperly:		
Incorrect household income	\$1,177	6
Incorrect shelter expenses	125	1
Incorrect fuel and utility standard amounts	<u>21</u>	<u>2</u>
Subtotal	<u>\$1,323</u>	<u>9</u>
Subtotal	\$2,521	13
Documentation Errors		
Documentation was not sufficient to support eligibility and payment determinations	<u>247</u>	<u>2</u>
Total	\$2,768	15

We have provided details on each of these payment errors to the State agency.

Eligibility and Payment Calculation Errors

Recipient Families Were Ineligible

Pursuant to 45 CFR § 263.2(b)(3), income and resource thresholds are established by the State and must be included in the State plan. Generally, income thresholds vary based on the number of family members in the household. Federal regulations (45 CFR §§ 205.51 and 205.55) establish requirements for income and eligibility verification. These regulations, which govern the Income and Eligibility Verification System, require a State to request information from other agencies to verify individuals' eligibility for assistance under the State plan and the correct amount of assistance payments for applicants and recipients. The State manual, section 2220, requires that applicants and recipients inform the State agency of any changes in circumstances that might affect eligibility or payment amounts within 10 calendar days of the date that the change becomes known to the recipient family.

Federal regulations (45 CFR §§ 205.52(a)(1) and (2)) require, as a condition of eligibility, that each individual requesting TANF basic assistance furnish his or her Social Security number to the State. If the individual cannot recall or was not issued a Social Security number, the individual is required to apply to SSA for a number through procedures adopted by the State or local agency. If such procedures are not in effect, the individual must apply directly for such number, submit verification of such application, and provide the number upon its receipt.

Section 408(a)(1) of the Act requires that a State not use any part of the TANF grant to provide assistance to a family unless the family includes a minor child who resides with the family or includes a pregnant woman. The State manual, section 2301, requires that a recipient family include one or more eligible dependent children. This section states that eligibility relating to a child's age has been established under law (Vermont Statutes Annotated, Title 33, section 1101, as amended). The law specifies that an 18-year-old child is eligible if he or she is a full-time student in a secondary school or an equivalent level of vocational/technical training and is expected to complete high school or an equivalent program before reaching age 19.

Of the 150 sampled payments, 4 payments totaling \$1,198 (Federal share) were made to or on behalf of recipient families who did not meet Federal and State eligibility requirements:

- For two overpayments totaling \$644 (Federal share), the recipient families' household incomes exceeded the TANF basic assistance income threshold on the payment dates.
- For one overpayment totaling \$333 (Federal share), the recipient family had not furnished the Social Security number of the only minor child in the family or provided documentation of an application for the Social Security number.
- For one overpayment totaling \$221 (Federal share), the recipient family did not include an eligible child or a pregnant woman.

Payments Were Calculated Improperly

Pursuant to 45 CFR § 263.2(b)(3), income and resource thresholds are established by the State and must be included in the State plan. Generally, income thresholds vary based on the number of family members in the household. Federal regulations (45 CFR §§ 205.51 and 205.55) establish requirements for income and eligibility verification. These regulations, which govern the Income and Eligibility Verification System, require a State to request information from other agencies to verify individuals' eligibility for assistance under the State plan and the correct amount of assistance payments for applicants and recipients. The State manual, section 2250, states that income includes, but is not limited to, earnings from employment and unearned income from sources such as unemployment benefits. All income except that specifically excluded must be evaluated to establish the net income available to meet needs.

The State manual, section 2211, requires verification of selected items, including shelter costs, to establish initial and continuing eligibility for TANF assistance. The State agency verifies shelter costs through a form that the landlord completes and signs. A completed shelter expense form is necessary to establish an appropriate housing allowance for an applicant.

The State manual, section 2245.3, contains requirements for applying housing allowances as unearned income for recipient families residing in subsidized housing who must pay for their own fuel and/or utilities. These costs are often subsidized through heating assistance programs, and the subsidies are factored into the State agency's basic assistance housing allowances. To compensate for the potential inequity, the standard amount to be counted as unearned income for families who must pay for fuel or fuel and utilities is \$70, and the standard amount for families who must pay for utilities only is \$30. These standard allowances do not apply to families residing in nonsubsidized housing.

Of the 150 sampled payments, 9 payments totaling \$1,323 (Federal share) were made to or on behalf of recipient families who were eligible for basic assistance but for whom payments were calculated improperly:

- Six overpayments totaling \$1,177 (Federal share) were calculated using incorrect income amounts.
- One overpayment totaling \$125 (Federal share) was calculated using incorrect shelter expenses.
- Two payments totaling \$21 (Federal share) were calculated using incorrect fuel and utility standard amounts. The two payments consisted of one overpayment of \$2 and one underpayment of \$19.

Documentation Errors

State agencies are required to maintain records regarding applications and eligibility determinations for the provision of financial assistance. Included in such records should be facts supporting initial and continuing eligibility determinations (45 CFR § 205.60(a)). OMB Circular A-123, Appendix C, part I.A, states that when a Federal agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must be considered an error.

The State manual, section 2208, requires that an individual complete and sign an application form furnished by the State agency to receive TANF aid or benefits or to have eligibility for such aid or benefits considered. For an application to be considered complete, it must indicate whether any member of the family has been convicted of a felony involving possession, use, or distribution of a controlled substance for an act committed after August 22, 1996.

The State manual, section 2211.3, requires verification of selected items, including shelter costs incurred. The policy defines verification as a written entry in the case record of third-party or documentary confirmation of facts stated by an applicant when the State agency is processing an initial application or eligibility redetermination.

The case files for two sampled payments totaling \$247 (Federal share) did not contain adequate documentation to support eligibility and payment determinations. For these overpayments, the

missing documentation included an application covering the payment month and/or facts supporting shelter expenses.

CONCLUSION

Some of the sampled payments did not meet Federal and State eligibility, payment, or documentation requirements. For these payments, (1) recipient families did not fully disclose information at the time of application or eligibility redetermination and did not notify the State agency’s district offices of changes in financial situation or other changes affecting eligibility, (2) the district offices did not verify all information provided to support applications, or (3) the district offices did not maintain appropriate documentation to support eligibility and payment determinations.

Based on our sample results, we estimated that the TANF improper payment rate was 5.85 percent of the Federal dollars expended and 10 percent of the number of basic assistance payments made for the 1-year audit period. Specifically, we estimated that the State agency paid \$956,086 (Federal share) for 5,181 improper payments, including \$949,523 for 4,836 overpayments and \$6,563 for 345 underpayments. Table 2 summarizes our statistical estimates. (See Appendix D for details on our sample results and estimates.)

Table 2: Statistical Estimates of Improper Payments

Error Category	Improper Payment Rate		Improper Payments	
	Federal Dollars	No. of Payments	Federal Dollars	No. of Payments
Eligibility and payment calculation errors	5.33%	8.67%	\$870,770	4,490
Documentation errors	0.52%	1.33%	85,315	691
Overall	5.85%	10.00%	\$956,086*	5,181

*Does not add to total because of rounding.

We are not recommending recovery of the overpayments identified in this report primarily because ACF decided to assess penalties⁴ in the TANF program rather than take disallowances in response to audit findings.

RECOMMENDATIONS

We recommend that the State agency:

- use the results of this review to help ensure compliance with Federal and State TANF requirements by (1) reemphasizing to recipients the need to provide accurate and timely information and (2) requiring its district office employees to verify eligibility information and maintain appropriate documentation in all case files,

⁴Penalties are set forth in section 409 of the Act.

- determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible, and
- recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

STATE AGENCY COMMENTS

In its comments on our draft report, the State agency concurred with the need for continued improvement and provided information on steps that it planned to take to implement the recommendations. The State agency said that it had provided documentation to rebut one of our error determinations.

The State agency also expressed its concerns about developing a national TANF payment error rate because of the wide variations in programs across the Nation. The State agency requested that we refrain from posting our individual State reports on the Internet until the entire eight-State review process is complete and all reports are final.

The State agency's comments are included in their entirety as Appendix E.

OFFICE OF INSPECTOR GENERAL RESPONSE

We reviewed the documentation that the State agency provided and found no basis for revising our error determination.

The Improper Payments Information Act of 2002 requires Federal agencies to estimate the annual amount of improper payments in their programs and to report that estimate to Congress. As stated on page 1 of this report, ACF and OMB requested this review of the TANF program for fiscal year 2008 performance and accountability reporting.

With respect to posting reports on the Internet, the Consolidated Appropriations Act of 2008 (Public Law 110-161), section 746, requires that each Office of Inspector General post on its Web site any public report or audit issued within 1 day of its release.

APPENDIXES

**FEDERAL REQUIREMENTS RELATED TO TEMPORARY ASSISTANCE
FOR NEEDY FAMILIES BASIC ASSISTANCE**

- Section 401 of the Social Security Act (the Act) states that one purpose of the Temporary Assistance for Needy Families (TANF) program is to provide assistance to needy families.
- The Federal Register, Vol. 64, No. 69, page 17825 (April 12, 1999) defines a needy family as one that is financially deprived, i.e., lacking adequate income and resources.
- Regulations (45 CFR § 260.31(a)(1)) define assistance as cash, payments, vouchers, and other forms of benefits designed to meet a family's ongoing basic needs (i.e., food, clothing, shelter, utilities, household goods, personal care items, and general incidental expenses), as well as supportive services, such as transportation and childcare provided to families whose household heads are not employed.
- Regulations (45 CFR § 263.2(b)) state that cash assistance benefits may be provided only to or on behalf of eligible families.
- Section 408(a)(1) of the Act requires that a State not use any part of the grant to provide assistance to a family unless the family includes a minor child who resides with the family or includes a pregnant woman.
- Section 408(a)(4) of the Act requires that a State not use any part of the TANF grant to provide assistance to an individual who has not attained 18 years of age, is not married, has a minor child at least 12 weeks of age in his or her care, and has not successfully completed a high school education or its equivalent.
- Section 408(a)(7) of the Act and 45 CFR § 264.1(a)(1) provide that a State may not use Federal TANF funds to provide assistance to a family that includes an adult who has received Federal assistance for more than 60 cumulative months. However, 45 CFR § 264.1(c) allows States the option to extend assistance beyond the 5-year limit for up to 20 percent of the average monthly number of families receiving assistance during the fiscal year on the basis of hardship, as defined by the State, or battery of a family member.
- Regulations (45 CFR § 261.10(a)(1)) require that a parent or caretaker receiving assistance engage in work activities when the State has determined that the individual is ready to do so or when the individual has received assistance for a total of 24 months, whichever is earlier.
- Regulations (45 CFR §§ 205.52(a)(1) and (2)) require, as a condition of eligibility, that each applicant for or recipient of aid furnish his or her Social Security number to the State or local agency. If the individual cannot recall or was not issued a Social Security

number, the individual is required to apply to the Social Security Administration (SSA) for a number through procedures adopted by the State or local agency. If such procedures are not in effect, the individual must apply directly for such a number, submit verification of such application, and provide the number upon its receipt.

- Regulations (45 CFR § 205.52(g)) require the State agency to submit all unverified Social Security numbers to SSA for verification.¹
- Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193, as codified, in part, at 8 U.S.C. §§ 1601–1646) requires a TANF recipient to be a citizen or national of the United States or a qualified alien. Legal resident aliens and other qualified aliens who entered the United States on or after August 22, 1996, are ineligible for assistance for the first 5 years after entry.
- Regulations (45 CFR § 263.2(b)(3)) state that TANF basic assistance income and resource thresholds are established by the State and must be included in the State plan. The income and resource thresholds, which are subject to adjustments, vary based on the number of members in the household.
- Regulations (45 CFR §§ 205.51 and 205.55) establish requirements for income and eligibility verification. These regulations governing the Income and Eligibility Verification System require States to request information from other Federal and State agencies to verify individuals' eligibility for assistance under the State plan and the correct amount of assistance payments for applicants and recipients.
- Regulations (45 CFR § 264.30(a)) require the State agency to refer to the child support enforcement agency all appropriate individuals in the family of a child for whom paternity has not been established or for whom a child support order needs to be established, modified, or enforced. Referred individuals must cooperate in establishing paternity and in establishing, modifying, or enforcing a support order with respect to the child.
- Section 408(a)(2) of the Act provides that if an individual does not cooperate with the State in establishing paternity or in establishing, modifying, or enforcing a support order, the State must reduce assistance by at least 25 percent or may deny the family any assistance.
- Section 408 of the Act prohibits assistance for individuals who (1) fail to assign support rights to the State, (2) fail to attend high school or an equivalent training program when the individual is a teenage parent, (3) fail to reside in an adult-supervised setting when the household head is a teenager, (4) are fugitive felons or parole violators, or (5) are minor

¹The State agency may accept as verified a Social Security number provided directly to the State agency by SSA or by another Federal or federally assisted benefit program that has received the number from SSA or has submitted it to SSA for verification.

children absent from the home or parents who fail to notify the State agency of the absence.

- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193, as codified, in part, at 8 U.S.C. §§ 1601–1646), section 115(a)(1), prohibits assistance for individuals who have been convicted of a drug-related felony.
- Regulations (45 CFR § 205.60(a)) require State agencies to maintain records regarding applications and eligibility determinations for the provision of assistance. Included in such records should be facts supporting initial and continuing eligibility determinations.
- Regulations (45 CFR part 265) establish that States must report TANF financial data on a quarterly basis to ACF. Pursuant to 45 CFR §§ 265.7(a) and 265.4(a), each State's quarterly reports must be complete, accurate, and filed within 45 days of the end of the quarter. A complete and accurate report means that (1) the reported data accurately reflect information available to the State in case records, financial records, and automated data systems; (2) the data are free from computational errors and are internally consistent; and (3) the reported data include all applicable elements (45 CFR § 265.7(d)).

**STATE REQUIREMENTS RELATED TO TEMPORARY ASSISTANCE
FOR NEEDY FAMILIES BASIC ASSISTANCE**

- The Vermont “State Policy Manual” (the State manual), section 2200.1, changed the name of the Aid to Needy Families with Children (ANFC) program to Reach Up, formerly the name of ANFC’s welfare-to-work program.
- Vermont Statutes Annotated, Title 33, section 1103, establish the eligibility and benefit levels of the Reach Up program and require that the Commissioner, Vermont Department for Children and Families, adopt rules for determining eligibility.
- The State manual, section 2242, requires that a Reach Up assistance group include one or more eligible dependent children.
- The State manual, section 2242.73, specifies that aliens granted lawful temporary or permanent resident status under the Immigration and Control Act of 1986 are disqualified from eligibility for ANFC benefits for the first 5 years after their temporary resident status is granted.
- The State manual, section 2208, requires that an individual complete and sign an application form furnished by the Department for Children and Families, Agency of Human Services (the State agency), to receive aid or benefits or to have eligibility for such aid or benefits considered. For an application to be considered complete, it must indicate whether any member of the family has been convicted of a felony involving possession, use, or distribution of a controlled substance for an act committed after August 22, 1996.
- Pursuant to the State manual, sections 2218 and 2218.1, Reach Up benefits continue, as authorized, until they are changed or terminated because of a change in circumstances; the expiration of an eligibility period; the failure of a participant to provide sufficient information to allow an eligibility review; or the failure of an adult subject to sanctions to comply with requirements of the Reach Up service components, which include case management services, support services, and referrals to assist families in becoming self-sufficient.
- The State manual, section 2220.1, requires that a full review of the continuing eligibility of all assistance groups be completed within 6 months of the initial eligibility determination or the last full eligibility review.
- The State manual, section 2234.1, requires that underpayments of assistance resulting from State agency errors be promptly corrected retroactively. The retroactive corrected payment must (1) be computed from the time when the information was available to the State agency, (2) be authorized only for 12 months from the month in which the underpayment is discovered irrespective of current receipt of or eligibility for benefits, and (3) not be considered as income or as a resource in the month paid or in the following month.

- The State manual, section 2234.2, states that overpayments of assistance, whether resulting from administrative or client error or from payments made pending a fair hearing that is subsequently determined in favor of the State agency, are subject to recoupment. The State agency may recover an overpayment by having the recipient repay the overpaid amount or by reducing payments to the assistance group.
- Pursuant to the State manual, section 2363, all participating adults must fulfill their work requirement, unless deferred, when they are ready for work.
- The State manual, section 2182, states that under Federal law, families in which at least one member has received 60 or more months of Federal TANF assistance as an adult are ineligible for assistance.
- The State manual, section 2250, defines income as any cash payment or equivalent “in kind” that is actually available to the recipient. Sources of income include earnings from employment or self-employment and unearned income from sources such as unemployment benefits. All income except that specifically excluded must be evaluated to establish the net income available to meet needs.
- The State manual, section 2211.3, requires verification of selected items, including shelter costs incurred. The policy defines verification as a written entry in the case record of third-party or documentary confirmation of facts stated by an applicant when the State agency is processing an initial application or eligibility redetermination for Reach Up financial assistance.
- The State manual, section 2245.3, contains eligibility standards for housing allowances. A housing allowance standard amount, which, in most cases, represents a portion of the fuel and/or utility subsidy used by the U.S. Department of Housing and Urban Development in the calculation of rent for TANF families in subsidized housing, is considered unearned income under TANF. The standard amount for families who must pay for fuel or fuel and utilities is \$70. The standard amount for families who must pay for utilities only is \$30.
- Pursuant to the State manual, section 2220, the State agency is responsible for notifying the applicant of the requirement to report any changes in circumstances within 10 calendar days of the date that the change becomes known to the assistance group. Applicants must report changes that might affect eligibility or the amount of benefits (e.g., changes in income or resources, changes in the size or membership of the assistance group, new address, or termination of school attendance). Applicants and recipients must notify the district office of such changes.
- The State manual, section 2273.4, states that the Office of Child Support is responsible for pursuit of support from legally liable parents. When eligibility for Reach Up has been granted to a family in which a parent is absent from the home for any reason other than death, the noncustodial parent must be referred to the Office of Child Support by completing specific forms.

- The State manual, section 2332, states that a parent or other caretaker of a child included in the Reach Up assistance group is required to cooperate fully in establishing parentage and pursuing support from the noncustodial parent unless good cause for refusal to cooperate is claimed and the decision is pending or granted. Failure to cooperate, as determined by the Office of Child Support, will result in a 25-percent reduction in the amount of the family's Reach Up grant.
- The State manual, section 2301, states that eligibility based on a child's age has been established under law (Vermont Statutes Annotated, Title 33, section 1101, as amended). Individuals under age 18 qualify as children. In addition, 18-year-olds are eligible if they are full-time students in a secondary school or an equivalent level of vocational/technical training and are expected to complete high school or the equivalent program before reaching age 19. Children who are eligible for TANF on the day before they reach age 18 or 19 remain eligible for TANF for the full calendar month during which their 18th or 19th birthday occurs.
- Pursuant to the State manual, section 2303, the State agency must notify applicants that it uses Social Security numbers to administer the Reach Up program. The State agency must advise applicants how to apply for Social Security numbers and may not delay, deny, or discontinue assistance while the issuance and verification of such numbers is pending. Any member of the assistance group who refuses to furnish, verify, or apply for a Social Security number is ineligible for assistance.

SAMPLE DESIGN AND METHODOLOGY

SAMPLE OBJECTIVE

Our objective was to determine whether the State agency made TANF basic assistance payments to or on behalf of recipient families in accordance with Federal and State requirements and adequately documented eligibility and payment determinations.

AUDIT UNIVERSE

The universe consisted of all TANF basic assistance payments made for the 12-month audit period that ended March 31, 2007.

SAMPLING FRAME

The sampling frame was a computer file containing 51,811 monthly basic assistance payments to or on behalf of TANF recipients in Vermont for the 12-month period that ended March 31, 2007. The total TANF reimbursement for the 51,811 payments was \$26,212,754 (\$16,330,546 Federal share).

SAMPLE UNIT

The sample unit was a monthly TANF basic assistance payment to or on behalf of a recipient family for the audit period. The payment included all basic assistance payments made to or on behalf of the family for the month.

SAMPLE DESIGN

We used a simple random sample.

SAMPLE SIZE

We selected a sample size of 150 monthly TANF basic assistance payments.

SOURCE OF RANDOM NUMBERS

The source of the random numbers was the Office of Inspector General, Office of Audit Services, statistical sampling software, RAT-STATS 2007, version 1. We used the random number generator for our simple random sample.

METHOD FOR SELECTING SAMPLE ITEMS

We sequentially numbered the payments in our sampling frame and selected the sequential numbers that correlated to the random numbers. We then created a list of 150 sampled items.

CHARACTERISTICS TO BE MEASURED

We based our determination of whether each sampled payment was improper on Federal and State laws, regulations, and other requirements. Specifically, if at least one of the following characteristics was met, we considered the payment under review improper:

- The recipient family did not meet one or more eligibility requirements.
- The recipient family was eligible for assistance but received an improper payment amount (overpayment or underpayment).
- The case file did not contain sufficient documentation to support eligibility and payment determinations as required by Federal and State regulations.

ESTIMATION METHODOLOGY

We used RAT-STATS to calculate our estimates. We estimated the total Federal dollar value of TANF basic assistance payments with eligibility or payment calculation errors and with documentation errors (overpayments, underpayments, and combined over/underpayments). We also estimated the total number of these improper payments.

In addition, we determined the improper payment rate for the dollars expended by dividing the estimated improper Federal dollars by the total Federal dollars in the universe. We also determined the improper payment rate for the number of payments in error by dividing the estimated number of improper payments by the total number of payments in the universe.

SAMPLE RESULTS AND ESTIMATES

OVERALL SAMPLE RESULTS AND ESTIMATES

Sample Details

Value of Universe (Federal Share)	No. of Payments in Universe	Value of Sampled Payments (Federal Share)	Sample Size
\$16,330,546	51,811	\$48,349	150

Overall Sample Results

	Value of Improper Payments (Federal Share)	No. of Improper Payments
Overpayments	\$2,749	14
Underpayments	19	1
Overall	\$2,768	15

Overall Estimates

Limits Calculated for a 90-Percent Confidence Interval

	Overall		Overpayments		Underpayments	
	<u>Estimated Value of Improper Payments</u>	<u>Estimated No. of Improper Payments</u>	<u>Estimated Value of Improper Payments</u>	<u>Estimated No. of Improper Payments</u>	<u>Estimated Value of Improper Payments</u>	<u>Estimated No. of Improper Payments</u>
Point estimate	\$956,086	5,181	\$949,523	4,836	\$6,563	345
Lower limit	460,094	3,249	453,420	2,972	- 4,284	18
Upper limit	1,452,077	7,757	1,445,626	7,356	17,409	1,616

Calculation of Overall Improper Payment Rate

Dollar value of payments	$\frac{\text{Estimated improper Federal dollars}}{\text{Total Federal dollars in universe}} = \frac{\$956,086}{\$16,330,546} = 5.85\%$
Number of payments	$\frac{\text{Estimated No. of improper payments}}{\text{Total No. of payments in universe}} = \frac{5,181}{51,811} = 10.00\%$

**SAMPLE RESULTS AND ESTIMATES FOR ELIGIBILITY
AND PAYMENT CALCULATION ERRORS**

Sample Results—Eligibility and Payment Calculation Errors

	Value of Improper Payments (Federal Share)	No. of Improper Payments
Overpayments	\$2,502	12
Underpayments	19	1
Overall	\$2,521	13

Estimates—Eligibility and Payment Calculation Errors
Limits Calculated for a 90-Percent Confidence Interval

	Overall		Overpayments		Underpayments	
	Estimated Value of Improper Payments	Estimated No. of Improper Payments	Estimated Value of Improper Payments	Estimated No. of Improper Payments	Estimated Value of Improper Payments	Estimated No. of Improper Payments
Point estimate	\$870,770	4,490	\$864,207	4,145	\$6,563	345
Lower limit	384,423	2,698	377,767	2,428	- 4,284	18
Upper limit	1,357,118	6,952	1,350,648	6,545	17,409	1,616

Calculation of Improper Payment Rate—Eligibility and Payment Calculation Errors

Dollar value of payments	$\frac{\text{Estimated improper Federal dollars}}{\text{Total Federal dollars in universe}}$	$\frac{\$870,770}{\$16,330,546} = 5.33\%$
Number of payments	$\frac{\text{Estimated No. of improper payments}}{\text{Total No. of payments in universe}}$	$\frac{4,490}{51,811} = 8.67\%$

SAMPLE RESULTS AND ESTIMATES FOR DOCUMENTATION ERRORS

Sample Results—Documentation Errors

Value of Improper Payments (Federal Share)	No. of Improper Payments
\$247	2

Estimates—Documentation Errors

Limits Calculated for a 90-Percent Confidence Interval

	Estimated Value of Improper Payments	Estimated No. of Improper Payments
Point estimate	\$85,315	691
Lower limit	- 25,127	124
Upper limit	195,757	2,141

Calculation of Improper Payment Rate—Documentation Errors

Dollar value of payments	$\frac{\text{Estimated improper Federal dollars}}{\text{Total Federal dollars in universe}}$	$\frac{\$85,315}{\$16,330,546} = 0.52\%$
Number of payments	$\frac{\text{Estimated No. of improper payments}}{\text{Total No. of payments in universe}}$	$\frac{691}{51,811} = 1.33\%$



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July 15, 2008

Mr. Michael J. Armstrong
Regional Inspector General for Audit Services
Office of Audit Services – Region I
JFK Federal Building
Boston, MA 02203

Re: Report Number: A-01-07-02504

Dear Mr. Armstrong,

Thank you for your letter of June 19, 2008 and the draft report entitled "Temporary Assistance for Needy Families Basic Assistance Payments in Vermont State for April 1, 2006 Through March 31, 2007." This letter will serve as the State of Vermont's formal response to the U.S. Department of Health and Human Services, Office of Inspector General draft report number A-01-07-02504.

Before the specific recommendations contained within the report are addressed; I will reiterate the concerns expressed by Vermont and the other 7 states involved in the audit process to establish a national payment error rate for the TANF program. These concerns have been jointly articulated in correspondence from The American Public Human Services Association, the National Association of State TANF Administrators, and the National Association for Program Information and Performance Management to HHS, OIG, and the Office of Management and Budget (OMB). In addition, representatives of the 8 affected states have met twice with federal officials to discuss these concerns.

Vermont maintains its disagreement with the concept and validity of developing a national payment error rate for a flexible block grant program such as TANF. We believe that because of the wide variations in TANF programs across the nation; such a comparison is meaningless and invalid.

We also respectfully request that the OIG refrain from either publishing and/or posting information on a specific state review to the Internet until the entire 8 state review process is complete and all reports are final. Posting the state's results without the larger national error rate as context will be confusing and misleading to the public.

Regarding Vermont's specific findings, it is my understanding that there remains one case, Case Number 64, which is still a matter of contention. We believe that we have provided documentation to rebut the claim of an error, but have not heard a definitive response as of this writing.

Vermont agrees with OIG's conclusions on procedures and controls and understands the statistical estimates of improper payments that were calculated. We are therefore actively working to improve quality and prevent future errors in these areas.

We noted your draft cites the following three general recommendations:

- Re-emphasize to recipients the need to provide accurate and timely information and require district office employees to verify eligibility information and maintain appropriate documentation in all case files.
- Determine the current eligibility of all recipients identified in this review as improperly enrolled in the TANF program and ensure that further assistance is denied for those who remain ineligible.
- Recalculate assistance budgets for all recipients identified in this review as having received improperly calculated payments.

Our workers at The Department for Children and Families (DCF) strive to make accurate and timely eligibility decisions based on necessary information and documentation. With regard to the above recommendations, we concur with the need for continued improvement and will stress this with employees and the citizens that we serve.

We will share the results with the front-line staff so that they will be alerted to problem areas. They will also be instructed to review the cases found to be improper to ensure that enrollment criteria has been met and that assistance is provided only to those that meet this criteria. With respect to the assistance budgets that OIG cited as being in error, the appropriate staff shall be instructed to review and make recalculations where necessary.

We value the importance of accurate eligibility determinations for all of our benefit programs, both for the sake of recipients and the people paying for the service. We recognize the importance of close attention to these issues and consistent quality assurance measures.

I want to thank you for the fine work done by your staff. They conducted their work with professionalism and were willing to work with us around resolving areas of disagreement. The team members were courteous and worked hard to understand Vermont's Reach Up Program.

Thank you for the opportunity to respond to this report.

Sincerely yours,



Stephen R. Dale, Commissioner
Department for Children and Families

Cc: George A. Nedder, OIG Audit Manager
Joseph J. Patrissi, Deputy Commissioner Economic Services Division