



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

JUN 26 2002

REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

CIN: A-04-01-00009

Ms. Natasha K. Metcalf, Commissioner
Tennessee Department of Human Services
400 Deaderick Street
Citizens Plaza
Nashville, Tennessee 37248

Dear Ms. Metcalf:

Enclosed are two copies of a United States Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, ***Audit of Overpayment Recoveries Pertaining to the Aid to Families With Dependent Children Program Administered by the State of Tennessee***. A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

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

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, 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 Code of Federal Regulations Part 5).

To facilitate identification, please refer to Common Identification Number (CIN) A-04-01-00009 in all correspondence relating to this report.

Sincerely yours,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures - as stated

Page 2 - Natasha K. Metcalf

Direct Reply to HHS Action Official:

Regional Grants Officer
Division of State Programs
Administration for Children and Families, Region IV
U.S. Department of Health and Human Services
61 Forsyth Street, S.W., Suite 4M60
Atlanta, Georgia 30303-8909

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF OVERPAYMENT
RECOVERIES PERTAINING TO THE AID
TO FAMILIES WITH DEPENDENT
CHILDREN PROGRAM ADMINISTERED
BY THE STATE OF TENNESSEE**



JANET REHNQUIST
Inspector General

JUNE 2002
A-04-01-00009

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 information contained therein 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. Final determination on these matters will be made by authorized officials of the HHS divisions.





REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

June 26, 2002

CIN: A-04-01-00009

Ms. Natasha K. Metcalf, Commissioner
Tennessee Department of Human Services
400 Deaderick Street
Citizens Plaza
Nashville, Tennessee 37248

Dear Ms. Metcalf:

This final report provides the results of our audit of overpayment recoveries pertaining to the Aid to Families with Dependent Children program administered by the State of Tennessee.

EXECUTIVE SUMMARY

OBJECTIVE

The objective of this audit was to determine whether the State of Tennessee (State) had established systems and procedures to properly monitor, report, identify, collect and write-off overpayments related to the Aid to Families with Dependent Children (AFDC) program; and to evaluate the adequacy of the systems and procedures in place to assure that overpayments were processed accurately, timely, and in compliance with Federal regulations.

SUMMARY OF FINDINGS

The State established systems and procedures to monitor, report, identify, and collect overpayments related to the AFDC program. The systems and procedures in place generally appeared adequate to assure that overpayments were processed accurately, timely, and in compliance with Federal regulations. Cash collections of AFDC overpayments were properly returned to the Department of Health and Human Services' (HHS) Administration for Children and Families (ACF). However, for the period October 1996 through October 2001, the State did not return AFDC overpayment recoveries collected through benefit reduction (recoupments) to ACF.

For the period July 1997 through October 2001, the State identified \$1,429,030 [\$938,015 Federal Financial Participation (FFP)] of AFDC overpayment recoveries collected through benefit reduction that had not been returned to ACF. For the period October 1996 through June

1997, the State had not set up their computer system to capture and store information that split AFDC and Temporary Assistance to Needy Families (TANF) recoupments. As a result, the AFDC recoupment information for the period October 1996 through June 1997 was lost because the original files were copied over each night with new information. After June 1997, the State did capture the needed information when it became aware that ACF was going to require the State to capture this information by program.

According to the ACF Transmittal No. TANF-ACF-PI-2000-2, if an AFDC overpayment occurred prior to October 1, 1996 and was recovered at any time either through recoupment from a current TANF grant or through cash repayment, the Federal share must be returned to ACF. The State did not return the AFDC recoupments to ACF because they were offsetting these amounts against TANF. State officials believed this was the correct manner in which to handle recoupments.

RECOMMENDATIONS

We recommend that the State:

- refund to ACF \$938,015 (FFP) which represents the Federal share of AFDC overpayments collected through benefit reduction from July 1997 to October 2001;
- identify AFDC recoupments for the period October 1996 through June 1997 and refund this amount to ACF; and
- identify, in the future, the amounts of AFDC overpayments collected through benefit reduction and include these amounts in the recoveries sent to ACF quarterly.

In written comments to the draft report, State officials generally agreed with our findings and recommendations. The State's comments are summarized after the Recommendations section of this report and are included in their entirety as an Appendix.

BACKGROUND

The AFDC program was a Federal and State funded income maintenance program. The program was established to encourage the care of dependent children of low-income families in their own homes. Beginning in 1996, States were eligible to participate in the new program entitled TANF. The State implemented this new program on October 1, 1996. The Department of Human Services (DHS) is the single State agency responsible for the administration of the former AFDC and new TANF programs.

Under the former AFDC program, an individual recipient might, on occasion, receive a monthly Maintenance Assistance Payment in excess of the amount to which he or she was entitled. The State agency responsible for administering the AFDC and TANF programs was then obligated to

recover the overpayment from the recipient by means of a reduction in future payments to the recipient or by collecting a cash settlement. Federal regulations at 45 Code of Federal Regulations 233.20, require States to continue efforts until the full amount of overpayment has been recovered, or until the State has exhausted recovery attempts and can determine collection efforts are no longer cost effective. Although the AFDC program was repealed and replaced with TANF, the requirement to recover AFDC overpayments remained in effect. The ACF issued a Program Instruction, TANF-ACF-PI-2000-2, dated September 1, 2000, that required States to refund to ACF these AFDC overpayments recovered.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The objective of the audit was to determine whether the State had established systems and procedures to properly monitor, report, identify, collect and write-off overpayments related to the AFDC program; and to evaluate the adequacy of the systems and procedures in place to assure that overpayments were processed accurately, timely, and in compliance with Federal regulations.

Scope

Our audit covered the period July 1996 through October 2001. Our review of the State's internal controls was limited to obtaining an understanding of the policies and procedures relevant to our audit objectives.

Methodology

To accomplish the objective, we contacted the State and determined the policies and procedures in effect to:

- identify AFDC overpayments;
- account for and monitor the collection activities of overpayments related to former and current AFDC recipients; and
- identify which accounts were considered uncollectible and the policy for writing the overpayment off.

We also contacted the Tennessee Division of State Audit to determine what work they had performed in this area.

In addition, we reviewed reports submitted by the State to ACF, along with the supporting documentation for those reports. We also reviewed the file of overpayment recoveries collected

through benefit reductions prepared by the State and computed the Federal share that had not been returned to ACF.

Our audit was performed in accordance with generally accepted government auditing standards. Our review was performed at the State offices in Nashville, Tennessee and at our Raleigh, North Carolina Field Office during the period June 2001 through October 2001 and resumed for the month of March 2002.

State officials declined an exit conference to discuss the draft report's findings and recommendations. However, on May 22, 2002, State officials provided us with written comments to the draft report. Based on the State's comments and additional documentation State officials provided, we reduced the dollar amount shown in the draft report as recommended for recovery.

FINDINGS AND RECOMMENDATIONS

The State established systems and procedures to monitor, report, identify, and collect overpayments related to the AFDC program. The systems and procedures in place generally appeared to assure that overpayments were processed accurately, timely, and in compliance with Federal regulations. Cash collections of AFDC overpayments were properly returned to ACF. However, for the period October 1996 through October 2001, the State did not return to ACF, AFDC overpayment recoveries collected through benefit reduction.

For the period July 1997 through October 2001, the State identified \$1,429,030 (\$938,015 FFP) of AFDC overpayment recoveries collected through benefit reduction which had not been returned to ACF. For the period October 1996 through June 1997, the State had not set up their computer system to capture and store information that split AFDC and TANF recoupments. The AFDC recoupment information for the period October 1996 through June 1997 was lost because the original files were copied over each night with new information. As a result, the State did not provide us with any information regarding AFDC recoupments for this period. After June 1997, the State did capture the needed information when it became aware that ACF was going to require the State to capture this information by program.

According to the ACF Transmittal No. TANF-ACF-PI-2000-2, if an AFDC overpayment occurred prior to October 1, 1996 and was recovered at any time either through recoupment from a current TANF grant or through cash repayment, the Federal share must be returned to ACF. The funds were to be returned to ACF via check. The recovered funds were not to be identified on the Federal report to ACF (ACF-196 TANF report).

The State was using their 840 Report, *Report of Monthly Revenue Transactions*, as the source documentation for computing the amount of AFDC overpayment collections returned to ACF. This report contained cash collection amounts only. Instead of returning the amount of AFDC overpayments collected through benefit reduction, the State used these collections to offset the

amount of TANF grant. The State believed that this was the proper manner in which to handle AFDC recoupments. However, the ACF transmittal specifically prohibits offsetting AFDC recoveries against the TANF grant and requires that these amounts be remitted to ACF via check.

The State wrote a computer program to identify the amount of AFDC overpayments that were collected through benefit reduction from July 1997 to October 2001. These overpayment recoupments totaled \$1,429,030. According to the ACF transmittal, States must use the applicable FMAP rate for Fiscal Year (FY) 1996 to compute the Federal Share of such recoveries. The State's FMAP rate for FY 1996 was 65.64 percent. Therefore, the Federal share of AFDC recoupments totaled \$938,015 ($\$1,429,030 \times .6564$).

RECOMMENDATIONS

We recommend that the State:

- refund to ACF \$938,015 (FFP) which represents the Federal share of AFDC overpayments collected through benefit reduction from July 1997 to October 2001;
- identify AFDC recoupments for the period October 1996 through June 1997 and refund this amount to ACF; and
- identify, in the future, the amounts of AFDC overpayments collected through benefit reduction and include these amounts in the recoveries sent to ACF quarterly.

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State Comments

In written comments to the draft report, State officials agreed with our recommendation to refund the Federal share of AFDC overpayments collected through benefit reduction from July 1997 to October 2001. State officials said that a refund to ACF was not necessary for the period October 1996 through June 1997 because the State had filed ACF-231 reports for this period. Regarding future collections, State officials said they would include in the next quarterly check to ACF, the AFDC overpayments it collected through benefit reduction.

OIG Response

According to the ACF Transmittal TANF-ACF-PI-2000-2, States could continue to report AFDC overpayment recoveries via the submission of ACF-231 Quarterly Expenditure Reports after October 1, 1996. For States that followed these procedures, negative AFDC program grant awards were issued to effect the "repayment" of the Federal share of the overpayments recovered. We determined that the State filed ACF-231 reports for the period October 1996 through June

1997; however, these reports included only cash collections. Thus, the negative grant awards that were issued included only cash collections. Accordingly, the State should identify and refund to ACF any AFDC overpayments collected through benefit reduction for the period October 1996 through June 1997.

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

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), the Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, 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 Code of Federal Regulations Part 5).

To facilitate identification, please refer to the above Common Identification Number (CIN) A-04-01-00009 in any correspondence related to this report.

Sincerely yours,



Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Direct Reply to HHS Action Official:

Regional Grants Officer
Division of State Programs
Administration for Children and Families, Region IV
U.S. Department of Health and Human Services
61 Forsyth Street, S.W., Suite 4M60
Atlanta, Georgia 30303-8909



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**DON SUNDQUIST
GOVERNOR**

**NATASHA K. METCALF
COMMISSIONER**

May 20, 2002

Mr. Charles J. Curtis
Office of Inspector General, Region IV
61 Forsyth Street, S.W., Room 3T41
Atlanta, GA 30303-8909

Dear Mr. Curtis:

Transmitted herewith is our response to the findings and recommendations of your audit of Aid To Families With Dependent Children (AFDC) Overpayment Recoveries. The audit findings specifically dealt with our compliance with Transmittal No. TANF-ACF-PI-2000-2. The Transmittal was issued in September 2000, and was effective for recoupments made after September 30, 1996. The impact of the Transmittal on the State of Tennessee is that the state will refund AFDC overpayments recouped through benefit reduction with State funds. Previous AFDC policy allowed benefit reductions to be offset against expenditures reported to the Federal government, which did not have an impact on State funds.

We concur with the findings and the following are our comments for each recommendation:

1. Based on our records, the amount to be refunded to ACF that represents the Federal share of AFDC overpayments collected through benefit reduction for the period July 1997 to October 2001 should be \$938,015 (see attached worksheet).

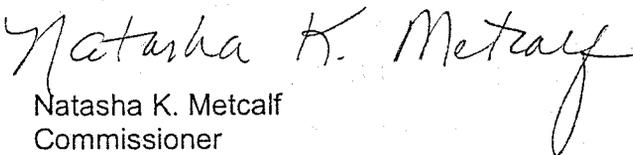
The HHS auditors total overpayments collected of \$1,458,510 included benefit reductions of \$326 for June 23 - 30, 1997, that were already reported on the ACF-231 for the quarter ending June 30, 1997. In addition, the file that was used to calculate the refund amount included duplicate benefit reductions in the amount of \$29,154 for November 1998. Therefore, the total amount of overpayment recoveries through benefit

reductions for the period July 1997 through October 2001 should be \$1,429,030, of which \$938,015 is the Federal share that will be refunded to ACF.

2. The department filed ACF-231 reports for the period October 1, 1996, through June 30, 1997. Therefore, no refund is necessary for this period.
3. We have identified the amounts of AFDC overpayments collected through benefit reduction for the period October 2, 2001, through March 31, 2002. The Federal share of the recoveries will be included in the next quarterly check submitted to ACF.

If you have any questions or need further information, please let us know.

Sincerely,



Natasha K. Metcalf
Commissioner

NKM/oagt

cc: Greg Turner, Finance Director
Rick Brown, Director of Fiscal Services
Ortaeine Acidera, Director of Program Integrity

Department of Human Services
AFDC Overpayments - Benefit Reductions
For the Period July 1997 - October 1, 2001

	DHS	HHS Auditor
Jun 23-30 1997	\$ -	\$ 326.00 [1]
Jul-Sep 1997	113,117.00	113,117.00
Oct-Dec 1997	103,671.00	103,671.00
Jan-Mar 1998	105,314.02	105,314.02
Apr-Jun 1998	109,684.38	109,684.38
Jul-Sep 1998	102,677.64	102,677.64
Oct-Dec 1998	127,935.10	127,935.10 [2]
Jan-Mar 1999	94,354.63	94,354.63
Apr-Jun 1999	86,361.35	86,361.35
Jul-Sep 1999	82,614.90	82,614.90
Oct-Dec 1999	74,781.90	74,781.90
Jan-Mar 2000	70,654.50	70,654.50
Apr-Jun 2000	66,598.66	66,598.66
Jul-Sep 2000	64,228.77	64,228.77
Oct -Dec 2000	62,627.68	62,627.68
Jan-Mar 2001	59,761.80	59,761.80
Apr-Jun 2001	57,758.02	57,758.02
Jul-Sep 2001	57,850.33	57,850.33
Oct. 1, 2001	18,192.07	18,192.07
	<u>1,458,183.75</u>	<u>\$1,458,509.75</u> [3]
Adjustments:		
[1] Reported on ACF-231	0.00	(326.00)
[2] Duplicate benefit reduction	(29,154.08)	(29,154.08)
TOTAL	<u>1,429,029.67</u>	<u>1,429,029.67</u>
FMAP%	<u>65.64%</u>	<u>65.64%</u>
Federal Share to be Remitted	<u>\$ 938,015.08</u>	<u>\$ 938,015.08</u>

[1] This amount was reported on the ACF-231 for the quarter ending June 30, 1997.

[2] Amount shown as duplicate benefit reduction for November 1998.

[3] Total amount of benefit reductions per HHS auditors.