REVIEW OF OVERPAYMENT COLLECTIONS BY AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) BY NEBRASKA DEPARTMENT OF HEALTH AND HUMAN SERVICES SYSTEM (HHSS)
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Mr. Michael B. Harris, Administrator  
HHSS - Services  
Nebraska Health and Human Services System  
P.O. Box 95044  
Lincoln, NE 68509-5044

Dear Mr. Harris:

This report provides you with the results of our review of Overpayment Collections made under the former Aid to Families with Dependent Children (AFDC) Program. The AFDC program administration for the State of Nebraska was provided by the Health and Human Services System (HHSS). The objective of our review was to determine whether the HHSS has continued to properly identify, collect, and remit the Federal share of AFDC overpayment collections to the Federal government after the program was repealed.

The HHSS made only one payment for the Federal share of AFDC overpayment collections made between October 1, 1996 and December 31, 2001. That payment totaled $21,654 and covered only the Federal share of cash collections made in October and November 1996. The Federal share of benefit reductions applied by the State for that period was not remitted. No payments were made to the U.S. Department of Health and Human Services, Administration for Children and Families (ACF) for the Federal share of overpayment collections since a new program, Temporary Assistance for Needy Families (TANF), was implemented on December 1, 1996. Instead, AFDC overpayment collections were incorrectly applied to the new program.

We estimated the Federal share of AFDC overpayments that the HHSS may have collected between October 1, 1996 and December 31, 2001 to be about $2 million. The average Federal share of AFDC overpayments collected by States surrounding Nebraska (Missouri, Iowa, South Dakota, Wyoming, Colorado, and Kansas) was about $2.6 million for the same period.

We are recommending that the HHSS should comply with TANF program instructions issued by the ACF to perform an analysis of their accounts receivable systems in order to determine the actual Federal share of AFDC overpayments collected as cash and benefit reductions for the period October 1, 1996 through December 31, 2001. When the amount is determined, it should be remitted to the ACF. We are also recommending that the
HHSS resume making quarterly payments for the Federal share of AFDC overpayments collected as cash and benefit reductions as required.

The HHSS did not contest our finding that they did not report or remit AFDC overpayment collections as required by Federal statute and AFC program instructions. However, they did not agree with our determination of the amount owed to the Federal government and our interpretation of program instructions. The HHSS’s response is included in its entirety as Appendix C.

INTRODUCTION

BACKGROUND

The AFDC program was a Federal and State funded income support program. It was administered by the State on behalf of needy families with dependent children. Beginning in 1996, States were eligible to participate in a new program entitled TANF. This new program was implemented by the State of Nebraska on December 1, 1996.

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 program 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 CFR 233.20 require States to continue efforts until the full amount of overpayment has been recovered. Although the AFDC program was repealed and replaced with TANF, the requirement to recover AFDC overpayments remains in effect.

The ACF issued a Program Instruction (PI), Transmittal Number: TANF-ACF-PI-2000-2 dated September 1, 2000. This PI stated that:

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

Our review was conducted in accordance with generally accepted government auditing standards, except our review objectives did not require evaluation of the internal control structure. The objective of our review was to determine whether the HHSS has continued to properly identify, collect, and remit the Federal share of AFDC overpayment collections to the Federal government after the program was repealed.

To achieve our objective, we reviewed applicable sections of TANF Program Instructions issued by the ACF and Federal regulations at 45 CFR 233.20. We researched the Cash Management Improvement Act - 31 CFR 205 to determine Federal requirements regarding interest on collections that were not remitted on a timely basis. We also reviewed regulations at 45 CFR Part 30.13 regarding interest on overdue and delinquent debts. We interviewed personnel responsible for operations, support, and integrity of AFDC overpayments.

We requested supporting documentation for overpayment collections made between October 1, 1996 and September 30, 2000. We received partial documentation for only eight of the sixteen quarters requested. Supporting documentation provided by the HHSS was insufficient and incomplete. We were unable to distinguish between amounts representing AFDC overpayments and TANF collections except for the quarter ended December 31, 1996. According to HHSS officials, they no longer identified overpayment collections with the original date of payment after January 1, 1997.

We requested documentation dating back to 1995 in an effort to estimate the Federal share of overpayment collections made by the HHSS using historical figures. The information we obtained did not include benefit reduction recoveries and was therefore not indicative of the actual experience for the State. We requested additional documentation, but were informed that it was not on file. Additionally, HHSS informed us that State policy requires documents be destroyed after four years. On February 1, 2002, we made another request for documents that would allow us to utilize historical figures to estimate both cash collections and benefit reductions for AFDC. The HHSS declined to provide the documentation and informed us that they did not have sufficient staff to meet our request.

We based our estimate on the cash collection and benefit reduction amounts reported on the Form SSA 4972 prepared by the HHSS for the quarter ended December 31, 1996. This was the only documentation provided to us for the period of our review that included an amount for benefit reductions. That report covered two months, October and November 1996. Cash collections reported that quarter were historically the lowest of any quarter we examined. We applied the 1996 FMAP rate of 59.49 percent to the amounts reported for cash collections and benefit reductions to determine a quarterly estimate. Since Federal regulations and TANF program instructions applicable to the collection of AFDC overpayments are still in effect, we applied those estimates to each
quarter for the period October 1, 1996 through December 31, 2001. An allowance was made for the remittance made by the HHSS for the Federal share of cash overpayment collections made during October and November 1996.

We determined the average Federal share of AFDC overpayments collected by States surrounding Nebraska (Missouri, Iowa, South Dakota, Wyoming, Colorado, and Kansas) based on similar audits performed at those States. We calculated the average overpayment collection per quarter for the six states and multiplied that average by 21 quarters (October 1, 1996 through December 31, 2001 = 21 quarters).

Our fieldwork was performed at the offices of the HHSS in Lincoln, Nebraska during June 2001. Additional fieldwork was performed at HHSS offices during June and July 2002.

**FINDINGS AND RECOMMENDATIONS**

The HHSS made no payments to the ACF for the Federal share of overpayment collections since the new TANF program was implemented on December 1, 1996. Instead, AFDC overpayment collections were applied to that new program. One payment totaling $21,654 was made for the Federal share of cash overpayment collections made during October and November 1996. The Federal share of benefit reductions applied by the State for that period was not remitted.

We estimated the Federal share of AFDC overpayments that the HHSS may have collected between October 1, 1996 and December 31, 2001 to be about $2 million. The average Federal share of AFDC overpayments collected by States surrounding Nebraska (Missouri, Iowa, South Dakota, Wyoming, Colorado, and Kansas) was about $2.6 million for the same period.

We are recommending that the HHSS should comply with TANF program instructions issued by the ACF to perform an analysis of their accounts receivable systems in order to determine the actual Federal share of AFDC overpayments collected as cash and benefit reductions for the period October 1, 1996 through December 31, 2001. When the amount is determined, it should be remitted to the ACF. We are also recommending that the HHSS resume making quarterly payments for the Federal share of AFDC overpayments collected as cash and benefit reductions as required.

**OVERPAYMENT COLLECTIONS NOT REMITTED**

The HHSS made no payments to the U.S. Department of Health and Human Services, ACF for the Federal share of overpayment collections since a new program, TANF, was implemented on December 1, 1996. Instead, AFDC overpayment collections were incorrectly applied to the new program. One payment totaling $21,654 was made for the
Federal share of cash overpayment collections made during October and November 1996. The Federal share of benefit reductions applied by the State for that period was not remitted.

The HHSS has made no effort to determine and remit the Federal share of AFDC overpayments collected after December 1, 1996, despite Federal regulations and program instructions requiring them to do so. Program instructions issued by the ACF on March 9, 1999 (TANF-ACF-PI-99-2) clearly instructed the States regarding their obligation to continue collecting and remitting AFDC overpayments that occurred on or before September 30, 1996.

“Although the AFDC Program was repealed and replaced with the TANF Program, a number of AFDC overpayments remain outstanding, and the requirement to pursue and recover the remaining uncollected AFDC overpayments remains in place.

In any quarter in which one or more of these overpayments are recovered, the Federal share must be returned to this agency with check made payable to the U.S. Department of Health and Human Services...”

On September 1, 2000, the ACF once again issued a program instruction informing the States of their obligation to document, collect, and remit the Federal share of AFDC overpayments by December 31, 2000.

TANF-ACF-PI-2000-2 requires:

“States should maintain complete documentation to support the amount of AFDC overpayments received, the period to which the overpayments relate, and the computation of the Federal share to be returned to ACF. This documentation should not be submitted with remitted checks but must be available for ACF Regional Office review, upon request.

States that have not been properly tracking recovery of AFDC overpayments that occurred prior to October 1, 1996 must perform an analysis of their accounts receivable systems to identify all such recoveries received both via recoupment of AFDC or TANF benefits and via cash collections. Upon completion of such analysis, the Federal share of the accumulated amounts recovered should be remitted to ACF via check. Both of these processes should be completed no later than December 31, 2000.

Once States have become current with ACF with regard to past due remittances, checks should be submitted to ACF no less frequently than quarterly.”

We requested records from the State in order to ascertain the amount of AFDC overpayments collected between October 1, 1996 and September 30, 2000. According to HHSS officials, their records do not identify or associate the date of the original
overpayment to collections recouped. Despite ACF instructions to determine the Federal share of AFDC overpayment collections and remit, the HHSS has made no effort to comply.

We estimated the amount of the Federal Share of AFDC overpayments for the period October 1, 1996 through December 31, 2001 to be about $2 million. The average Federal share of AFDC overpayments collected by States surrounding Nebraska (Missouri, Iowa, South Dakota, Wyoming, Colorado, and Kansas) was about $2.6 million for the same period.

Our estimate is based on recoveries reported by the HHSS for the quarter ended December 31, 1996 and then applied to each quarter through December 2001. The Federal share was determined using the 1996 Federal Medical Assistance Percentage rate (59.49 percent) required by the ACF. An allowance was made for the final remittance made by HHSS for the Federal share of cash collections remitted for October and November 1996.

**Recommendations**

We are recommending that the HHSS should comply with TANF program instructions issued by the ACF to perform an analysis of their accounts receivable systems in order to determine the actual Federal share of AFDC overpayments collected as cash and benefit reductions for the period October 1, 1996 through December 31, 2001. When the amount is determined, it should be remitted to the ACF. We are also recommending that the HHSS resume making quarterly payments for the Federal share of AFDC overpayments collected as cash and benefit reductions as required.

**Auditee Response**

The HHSS agreed with our findings and recommendations except they reported $54,717 as the total net Federal share owed for the period October 1996 through February 2002. The total recoveries for that period totaled $128,535 and was determined by using a “computer program to identify and analyze client overpayments recorded as occurring September 1996 or earlier and having recoveries from October 1996 through February 2002.” The 1996 FMAP rate of 59.49 percent was applied to that amount to determine the Federal share totaling $76,365. The $54,717 HHSS reported as owed for the period is the difference between the Federal share and $21,654 in cash collections reported on the ACF-231 for October and November 1996.

They assert that they followed the first instructions issued by the ACF and that those instructions allowed them to credit overpayment recoveries to the TANF program. They assumed that repeal of the AFDC program meant that they could apply all collections to the TANF program.
In addition, the HHSS requested that their failure to report and remit be considered and evaluated “…on reasonable interpretation of statutory requirements or any previous guidance provided by ACF.”

The HHSS’s response is included in its entirety as Appendix C.

**OIG Comments**

After receiving HHSS’s response to our draft report, we performed additional audit fieldwork to verify and analyze the information that HHSS set forth in their response. That additional fieldwork was conducted at the HHSS offices in Lincoln, Nebraska during June and July 2002. We incorporated the results of our follow-up work into our comments presented below.

We are pleased that the HHSS does not contest our finding that they did not report or remit AFDC overpayment collections as required by Federal statute and AFC program instructions. However, we must take exception to statements they made regarding the net amount owed to the Federal government and their interpretation of program instructions.

The HHSS claimed that the total amount of overpayment recoveries, including both cash repayments and benefit reductions, was $128,535 for the entire period October 1996 through February 2002. However, they reported collections and offsets totaling $164,255 for that period in their final quarterly ACF 231 report. Our follow-up review examined their supporting documentation and reports. We concluded that HHSS records were unreliable, incomplete and insufficient to produce an accurate accounting for collections made after November 1996.

None of the records we examined could generate the same amounts or totals and subsidiary records did not reconcile to the reports generated from them. According to HHSS officials, they could not separate AFDC overpayment collections from other program’s collections because they quit differentiating between them and because they changed to a new computer system. Most data was lost or simply not converted to the new system. Collections are now accounted for under a new system that was not properly converted from the old system’s files. Therefore, their claim that they used a computer program to identify all overpayment collections through February 2002 is quite misleading. Nearly all AFDC overpayment information was not converted or loaded into that system.

The HHSS asserted that TANF-ACF-PI-99-2 allowed them to apply AFDC overpayment collections to the TANF grant. That PI, dated March 9, 1999, clearly instructed the States to remit the Federal share of overpayment collections for payments made on or before September 30, 1996. The Federal share was to be calculated using the 1996
FMAP rate and remitted by check on a quarterly basis. The instructions did allow for the application of collections applied to TANF for overpayments that occurred on or after October 1, 1996.

This revision and the original PI were both rescinded and replaced by TANF-ACF-PI-2000-2 dated September 1, 2000. This PI required the HHSS to take the following action:

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

These instructions were ignored. The HHSS contends that this PI had no “retroactive application” since there was a statement that:

“Recoveries made prior to the date of this transmittal will be evaluated on reasonable interpretation of statutory requirements or any previous guidance provided by ACF.”

This program instruction clearly was retroactive because it rescinded and replaced the prior instructions. In addition, the PI requires the above action “…to ensure that the Federal share of all AFDC overpayment recoveries has been or is returned to ACF.”

The lack of effort by the HHSS to track and collect AFDC overpayment collections does not demonstrate any “reasonable” interpretation of statutory requirements or guidance issued by ACF. Therefore, in the absence of any reasonable alternative, we stand by our recommendations.

*****

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified on the following page. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on 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, Office of Inspector General, Office of Audit Services reports are made available to the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5). As such, within ten business days after the final report is issued, it will be posted on the world wide web at http://oig.hhs.gov/.

Sincerely yours,

[Signature]
James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Ms. Linda Lewis
Regional Administrator, Region VII
601 East 12th Street, Room 276
Kansas City, Missouri 64106
### Appendix A

Schedule of Estimated Federal Share Of AFDC Overpayment Collections State of Nebraska Lincoln, Nebraska For the Period October 1, 1996 Through December 31, 2001

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**TOTALS** | $435,720 | $1,594,509 | $2,030,229 |

1 Estimate based on reported collections for Oct-Dec 1996
Cash estimate: $36,621 X 59.49% (’96 FMAP rate) = $21,786
Benefit reduction estimate: $127,634 X 59.49% = $75,929

2 No estimate made for cash collections due to actual payment received totaling $21,654 for Oct/Nov 1996.
Appendix B

REVIEW OF
AFDC OVERPAYMENT COLLECTIONS
BY THE STATE OF NEBRASKA

AUDIT REPORT CIN: A-07-02-03013
KANSAS CITY, MISSOURI

INDIVIDUALS HAVING ACCESS TO SOURCE
INFORMATION REGARDING THIS AUDIT REPORT

Name, Title

Gregory Tambke, Audit Manager
Randy Parker, Senior Auditor
Lloyd Schmeecle, Senior Auditor
Michael Helmick, Auditor
Brent Owens, Auditor
John Klatt, Independent Reviewer

Class of Persons Having Access to this Report

Office Administrative Personnel
Gregory Tambke, Audit Manager  
HHS/OIG/OAS  
2425 Hyde Park Road  
Jefferson City, Missouri 65109  

CIN: A-07-02-03013  

Dear Mr. Tambke:  

This letter is in response to the March letter from James P. Aasmundstad regarding Overpayment Collections in the former Aid to Families with Dependent Children (AFDC) Program in Nebraska. I apologize for the delay in our response.  

We agree with the finding that we did not report or remit the federal share of AFDC overpayment recoveries that were received after December 1, 1996. We used a computer program to identify and analyze client overpayments recorded as occurring September 1996 or earlier and having recoveries from October 1996 through February 2002. The total amount of recoveries identified from these cases is $128,535. It includes both grant reduction and cash repayment recoveries recorded in the NFOCUS record. At the 1996 FMAP of 59.49% the federal share of this amount would be $76,365. This amount less the $21,654 reported for recoveries in October and November 1996 (Nebraska's ACF-231 for 12/31/96) would leave a net of $54,717. Our records on this are available from George Kahlandt, the HHS Administrator for Public Assistance and Food Programs Unit if you would like to review them.  

As recommended, we are examining our current accounts receivable records and processes to establish new procedures to assure that any other pre-TANF AFDC overpayments recovered through cash payment or grant reduction are identified and the proper federal share is remitted to ACF. We should have a new procedure in place within 60 days.
When the section of the quarterly financial report (ACF-231) on the federal share of recovered AFDC overpayments no longer appeared in the new report for TANF (see 12-31-96 quarterly report and 12/31/98 ACF 195 attached) we changed our recording and reporting of this information. If you are aware of, or have suggestions for, a form or format for recording and reporting this information we would appreciate any assistance you can offer.

Although we have followed the direction in the first transmittal from ACF to allow us to credit overpayment recoveries to the TANF grant, we have not differentiated between the recoveries of overpayments which occurred before September 30, 1996 and those that occurred after October 1, 1996. We changed our recording and reporting processes based on our assumption that the repeal of the AFDC program had removed these requirements and we began crediting the full amount of any recovered overpayments to the TANF grant as was allowed in the March 9, 1999 ACF transmittal on overpayments and in the May 1, 2000 ACF transmittal. Our reorganization from 5 to 3 human service agencies in 1996 and subsequent changes in functions, roles and personnel may have also contributed to a breakdown in communication between program, administration and financial services functions.

We understand and appreciate the need for responsible management of and the proper transmission of federal funds. We do ask for some consideration for the difficulty in attempting to retroactively implement a March 1999 transmittal back to September 1996, and to further analyze and implement the May 2000 and September 2000 transmittals back to September 1996. We are a small state in relative terms but the impact is significant. We request that our failure to report and remit on prior recoveries will be evaluated, as noted in the September 2000 ACF transmittal, “on reasonable interpretation of statutory requirements or any previous guidance provided by ACF.”

Thank you for taking the time to come to Nebraska to evaluate our operations. We apologize for any difficulty you may have experienced on your last visit. We hope you can return as we would appreciate your assistance and advice. If you have questions concerning our letter, please contact George Kahlandt at 402-471-9267.
Thank you for your consideration.

Sincerely,

[Signature]

Ron Ross, Director
Nebraska Department of Health and Human Services

CC: George Kahlandt, Public Assistance and Food Programs
    Willard Bouwens, Financial Services
    Mary Boschult, Administration