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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES DIVISION

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Mr. Richard L. Fogel
Mr. Bernstein Ed
Mr. Densmore
Mr.
Mr. May
Congressional
Report Control Desk
Code 105147
Reports + Ltr

Mr. John A. Svahn
Commissioner of Social Security
Department of Health and Human Services

Dear Mr. Svahn:

Subject: AFDC Recipients Who Are Terminated for Not Submitting A Monthly Eligibility Report May Be Receiving Undetected Overpayments (GAO/HRD-83-70)

Title XXIII of the Omnibus Budget Reconciliation Act (OBRA) of 1981 (Public Law 97-35, August 13, 1981) contained provisions aimed at retargeting scarce financial resources by limiting Aid to Families with Dependent Children (AFDC) program eligibility and benefits to the truly needy and at achieving cost savings through more efficient program administration. Among the title XXIII provisions is the requirement for retrospective budgeting and monthly reporting in the AFDC program. Section 2315 provides that the amount of aid paid in a month be based on the actual income and circumstances in the first or second preceding month, and that all AFDC recipients submit monthly eligibility reports to the administering State agency.1/ Also, Section 2318 requires States to promptly take action to correct overpayments or underpayments of aid.

We found that States utilizing 2-month retrospective budgeting systems, in conjunction with monthly reporting, are susceptible to making undetected overpayments when recipients do not report changes in family circumstances affecting their eligibility, and are discontinued from the rolls for not submitting or submitting an improper monthly report. The overpayment occurs during the period between when the person becomes ineligible and the termination of benefits due to non-reporting. This period can be at least as long as one month. In addition to the

1/ This provision also gives the Secretary of HHS authority to grant a State an exemption from monthly reporting of certain categories of a State's AFDC recipients for whom reporting monthly would result in unwarranted expenditures for administration.

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overpaid AFDC cash grant, these individuals may be receiving Medicaid benefits to which they are not entitled.2/

Presently 43 States are either using or planning to use 2-month retrospective budgeting systems. These States accounted for about 85 percent of the $12.8 billion paid to AFDC recipients during fiscal year 1982. We were unable to determine how many AFDC recipients were terminated in these States for not submitting a monthly report, because States are not required to gather and report that information to the Social Security Administration. We believe, however, that the problem is systematic and resulting overpayments could be substantial if corrective action is not initiated. For example, we estimate that just in California, of the 325,000 recipients terminated during calender year 1982, about 59,000 were terminated for this reason.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective in the review was to assess the effectiveness of the new monthly reporting and retrospective budgeting requirements as they relate to the timely and proper termination of ineligible AFDC recipients from the rolls.

Our scope included examining the legislative history and provisions of title XXIII and the implementing Federal regulations and State and local administrative directives. Also, we spoke with Federal program officials in the Office of Family Assistance (OFA) headquarters and Region IX (San Francisco) and with State and County officials. We did most of our work in California because it has the largest AFDC caseload and was the first State to implement retrospective budgeting and monthly eligibility reporting. Limited work in New York and Michigan (which have the second and third largest caseloads), Idaho, Kansas, Oregon (which had monthly reporting before OBRA), and Virginia and Massachusetts (which implemented monthly reporting soon after OBRA) gave us a sense of the variety and caseload coverage of State reporting systems.

We analyzed the application of the monthly reporting and retrospective budgeting requirements as measures to assure continued eligibility and proper benefit payments. To test our hypothesis that payments are being made to ineligible recipients and not being detected as overpayments, we reviewed all 76 cases discontinued in the California county of San Mateo for monthly reporting noncompliance in May 1982, and reviewed earnings information maintained by California's Employment Security Agency.

2/ Eligibility for AFDC automatically qualifies recipients for Medicaid, the medical assistance program for poor people.

To determine when unreported changes in family circumstances might have occurred, we mailed questionnaires to all recipients discontinued in May 1982 for failure to report in that county. We reviewed their case files at the county welfare agency. For those recipients who did not respond to the questionnaire, or whose response required clarification, we tried to contact them by telephone. Altogether, questionnaire responses and telephone interviews provided information on 69 percent of the discontinued recipients. We reviewed 95 percent of the case files (the other five percent could not be located).

SYSTEM WEAKNESSES THAT CONTRIBUTE TO OVERPAYMENTS

In analyzing the law and regulations, we found that there is no incentive for an ineligible recipient to submit a monthly report. In fact, the process currently provides a strong disincentive in that, by not reporting a disqualifying event,there is an opportunity to receive an extra, unwarranted benefit payment, which probably will not be identified as an overpayment.

To be eligible for AFDC during a given month, the family unit must meet certain conditions of income, resources, age of children, etc. Accordingly, recipients are required to report changes that affect eligibility promptly; however, when they do not comply with this requirement, the monthly reporting system is designed to subsequently identify the eligibility-altering change.

It is important to note that 43 of the 50 States either already have or are in the process of implementing the AFDC monthly reporting requirement combined with a 2-month retrospective budgeting process. Two months allows the administering agency time to properly adjust benefit levels, but the reporting sequence does not provide timely information on basic program eligibility. For example, if the recipient reports in May his circumstances for the month of April, the agency can adjust the June benefit payment for the recipient. The report, however, is not required in time for the agency to assure itself that the recipient's basic eligibility continued in May. Thus, the May payment could be received by an ineligible recipient, resulting in an overpayment. Furthermore, when the monthly report for April is not submitted, the agency will not know that the May payment was an overpayment. As a consequence, the agency will not attempt to recover the overpayment.

Our analysis of the process was confirmed in the test results of the survey we did in California's San Mateo County. Of 76 cases terminated for nonreporting in the month of May 1982, at least 34 (45 percent) were potential overpayment cases because of changes in circumstances in April that could have made the beneficiaries ineligible for the May grant (which averaged $307).3/ Included in these cases were recipients with unreported earnings, income tax refunds, and such changes as a child becoming ineligible or an absent parent returning to the family unit.

Program officials in five other States, which have 2-month retrospective budgeting systems, acknowledged the likelihood of similar situations occurring in their AFDC programs.

In contrast, Oregon, which uses a 1-month retrospective budgeting system, is not susceptible to this type of undetected overpayment because the benefit payment is not issued to the AFDC recipient until the monthly report is received.

Three Current Mechanisms Do Not Routinely Identify Undetected Overpayments

There is no formal mechanism currently in place to identify overpayments in a routine and timely manner when recipients are discontinued from the rolls for not complying with monthly reporting requirements. In reviewing the AFDC program in California, we found there are three mechanisms in operation which have the potential to identify some of these overpayments. These mechanisms are (1) quality control review, (2) earnings clearance, and (3) AFDC intake. According to HHS, the quality control review examines a statistically valid random sample of active AFDC cases during two 6-month periods each year to determine if ineligible recipients were paid and if eligible recipients were overpaid or underpaid. The earnings clearance process periodically compares AFDC case information with data available at the Unemployment Insurance agency on wages paid to public and private employees. The AFDC intake process reviews applications for aid and determines basic eligibility and initial grant amount.

These mechanisms, however, generally do not identify many of the overpayments received by recipients that are discontinued from the AFDC rolls for not submitting a monthly report. The quality control reviews of active cases had less than a 1 in 500 chance of detecting an overpayment due to nonreporting because the case sample is small. Quality control reviews of negative case actions are intended to assure that applicants or recipients are not denied assistance for which they are eligible. However, these reviews for the most part would not identify the overpayments because they focus on the reason(s) for terminating assistance which, based on available data, is properly identified as monthly reporting noncompliance. The earnings clearance process is not effective in timely detecting overpayments because of the

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3/ In 18 additional cases (24 percent), available information was not conclusive as to the nature of the change and/or exactly when it occurred.

length of time between earnings, employer reporting, and matching with the AFDC rolls. The effectiveness of this mechanism is also limited because (1) employers report earnings by quarter and do not identify the specific month(s) in which earnings were received, and (2) all earnings are not required to be reported to the Unemployment Insurance agency. And, when recipients terminated for nonreporting reapply for benefits, there is no requirement for the AFDC intake worker to establish why the recipient was previously discontinued.

PROGRAM OFFICIALS' COMMENTS

On April 19,1983, we met with officials from OFA headquarters. In discussing overpayment detection with them, these officials said they were not aware of any current mechanisms that could detect overpayments routinely and in a timely manner when recipients are terminated for monthly reporting noncompliance. We suggested that they assess the problem to determine the magnitude of such overpayments going undetected and, if warranted by substantial overpayments occurring, develop a cost effective solution to avert or minimize its continuation. The OFA officials agreed to consider alternative methods of determining the extent of the overpayment problem.

CONCLUSIONS AND RECOMMENDATIONS

Substantial amounts of welfare resources may be going to individuals who are no longer eligible for such benefits, and these overpayments are going undetected because the recipients have been discontinued from the rolls for monthly reporting noncompliance, not the actual change in circumstances that made them ineligbile.

Although data is not currently available to quantify the amount of overpayments which go undetected, the nonreporting problem discussed in this report is systemic in nature and affects, or could affect, AFDC program costs in at least 43 States. Therefore, we believe there is a need for quantification of this overpayment problem and, if warranted, development of a cost effective mechanism to help avoid or minimize these undetected overpayments.

Accordingly, we recommend that you:

-- Assess the magnitude of AFDC overpayments going undetected when recipients are terminated for monthly reporting noncompliance, and if warranted by the results of the assessment develop a cost effective solution to avoid or minimize the overpayments.

We appreciate the cooperation extended to us during our review, and would like to be kept informed of any action planned or taken regarding this subject.

We are sending copies of this letter to the Chairmen of the Senate Committee on Finance, and the House Committee on Ways and Means, the Secretary of Health and Human Services and the Director, Office of Management and Budget.

Sincerely yours,

Daniel W. Blades
Group Director