



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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HUMAN RESOURCES  
DIVISION

APRIL 5, 1979

B-164031(4)

The Honorable Joseph A. Califano, Jr.  
The Secretary of Health, Education,  
and Welfare



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*Account*

Dear Mr. Secretary:

We recently completed a review of the requirements and practices for refunding or crediting the Federal Government's portion of checks that were issued to Aid to Families with Dependent Children (AFDC) recipients but never cashed. Our review was made principally in Massachusetts and New York. According to the latest data available from the Social Security Administration (SSA), Federal AFDC expenditures in fiscal year 1977 amounted to over \$5 billion. However, information on the amount of refunds due and repaid to the Federal Government from uncashed checks was not available.

The return of Federal AFDC funds for checks that were never cashed was generally left to the States' discretion. Although we did not determine why the checks were not cashed, information obtained on 11 of the 50 States showed that these States allowed AFDC checks to be negotiated 30 days to 2 years after they were issued, at which time the checks are usually canceled. In addition, once States acted to void the checks, there was no mechanism to insure that the Federal Government received credit for its portion of these funds. In Massachusetts, \$4 million due to the Federal Government for AFDC checks issued from fiscal year 1968 through fiscal year 1977 had not been credited. While New York generally makes these credits, one of the counties we visited had not made a \$5,000 credit for checks issued but not cashed since 1974.

The Department of Health, Education, and Welfare (HEW) Audit Agency found in 1976 and 1977 that the Federal Government had not been given credit for \$6.3 million in AFDC funds due it from Illinois and Puerto Rico. However, neither HEW's former Social and Rehabilitation Service (previously responsible for the AFDC program) nor SSA has taken necessary actions to insure that the Federal Government is properly credited moneys owed it from uncashed checks.

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The President's 1980 budget proposes a change in the procedure for transferring Federal funds to the States for public assistance programs, including AFDC. Presently, States are authorized to draw Federal funds on or before the day they pay their bills. For the AFDC program, this is generally when the States issue checks to recipients. Between the time the checks are issued and cashed by recipients, many States invest the Federal funds and earn interest. Under the proposal, States would be authorized to draw Federal funds only when a recipient actually cashes the check and it is presented to the State's commercial bank for payment. Implementation is expected to be completed in 10 States in 1980 and in all States by fiscal year 1982.

When adopted and implemented, the procedure would also eliminate the problem of the Federal Government not receiving credit for its share of funds in uncashed AFDC checks. Until that time, however, we see a need for uniform requirements for States to credit the Federal Government for its portion of uncashed AFDC checks, and a mechanism for insuring that these credits are timely and accurate. In addition, action should be taken to identify and recover the total amounts due the Federal Government.

#### SCOPE OF REVIEW

Our review was made at SSA headquarters and at the SSA regional office in New York City. In addition, we visited with New York State's Department of Social Services and three local AFDC program administrators (in New York City, Rensselaer, and Schenectady). We also did work at the Massachusetts' Department of Public Welfare and contacted the SSA regional office in Massachusetts. Our fieldwork was done between September 1978 and February 1979. Our results are based primarily on interviews with agency officials and examinations of agency files. In addition, SSA provided requested information from nine other States 1/ regarding procedures for handling uncashed checks. These 11 States administer over 50 percent of the Federal AFDC funds.

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1/Pennsylvania, Florida, Kentucky, North Carolina, Ohio, New Mexico, Missouri, California, and Illinois.

REQUIREMENT FOR REIMBURSEMENT  
OF FEDERAL AFDC FUNDS

The AFDC program, established under title IV of the Social Security Act (42 U.S.C. 601), is a cooperative Federal-State program that provides cash assistance and social services to needy, dependent children and their caretaker relatives. Under the act, Federal AFDC funds are available to all States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands (hereafter referred to as States). The Federal share ranged from 50 to 83 percent of a State's total AFDC expenditures. To receive Federal funds, the States must administer their AFDC programs in accordance with the act and applicable Federal regulations.

HEW provides AFDC funds to States to meet the Federal share of their current disbursing needs under letter-of-credit regulations issued by the Department of the Treasury. States are authorized to draw Federal funds from Treasury on or before the day they issue the AFDC checks. States prepare a Quarterly Expenditure Report to account to HEW for their AFDC program expenditures and to claim any additional funds due the States for these expenditures or to credit amounts due the Federal Government. The report specifically provides for information to be furnished on:

- Federal funds received during a quarter.
- Federal share of collections received.
- Federal share of adjustments decreasing claims for prior quarters.

For prior quarters, the States are required to identify adjustments based on Federal audits and to specify other adjustments.

NEED FOR CRITERIA FOR RETURN  
OF FEDERAL AFDC FUNDS

HEW has not provided criteria to govern States' reimbursement of the Federal portion of uncashed AFDC checks. To the extent Federal funds were previously included in these checks, the Federal Government should receive credit through a reduction in the State agency's claim for funding.

Although some State and local agencies had established their own criteria for such credits, there is no assurance that appropriate credits have or will be made.

SSA's Office of Family Assistance is responsible for providing national leadership in developing and coordinating the AFDC program. In addition, the Office has responsibility for insuring that SSA regional offices provide management guidance and technical assistance to States and for reviewing and evaluating their performance. Before March 1977 the program was administered by HEW's former Social and Rehabilitation Service.

According to Office of Family Assistance officials, no policy has been established concerning crediting the Federal portion of uncashed AFDC checks. Moreover, one official stated that the Office did not have enough staff to monitor the States' return of Federal funds or to insure that SSA's regional offices performed this function. Our contacts with two SSA regional offices 1/ showed that, although they had received copies of the Quarterly Expenditure Reports for the States in their jurisdiction, they had not acted to insure that these States made appropriate credits to the Federal Government.

#### FEDERAL CREDITS NOT MADE

In Massachusetts, we identified about \$10.6 million in welfare checks that were issued from fiscal year 1968 through fiscal year 1977, but not cashed. Of this amount, about \$4 million represented Federal AFDC payments that should have been but were not returned to the Federal Government.

Of the \$4 million, \$1.7 million was in AFDC checks that were transferred into Massachusetts' general fund. The other \$2.3 million was included in checks that should have been but were not canceled.

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1/States under the jurisdiction of these offices included Maine, Vermont, New Hampshire, Connecticut, Rhode Island, Massachusetts, New York, New Jersey, Puerto Rico, and the Virgin Islands.

Regarding the \$1.7 million, the Director of Finance for Massachusetts' Department of Public Welfare was not aware that credit had not been given to the Federal Government until we told him. He has since made a credit of \$1.4 million of this amount to the Government, and his department promised to credit the other \$0.3 million soon. Concerning the \$2.3 million, he indicated that a credit would be made when the remaining checks were canceled.

We noted that Massachusetts has a policy of investing all Federal, State, and local funds in excess of its immediate needs. Massachusetts may have earned about \$1 million on the Federal portion of uncashed AFDC checks since June 30, 1975. If the credits had been made promptly and properly, these moneys could instead have been used by the Federal Government.

In New York State, the Department of Social Services supervises the local administration of the AFDC program by 58 local governments (New York City and 57 counties). The department relies on the local governments to credit the Federal Government, as well as the State, for uncashed AFDC checks. The local governments, however, in reporting credits to the department do not specify the types being made; instead, they only report the total credit amount. Consequently, the State's Quarterly Expenditure Report to HEW also does not specify the types of credits being made, including those applicable to uncashed AFDC checks.

Each of the three local governments visited in New York had a different procedure for reimbursing the Federal portion of uncashed AFDC checks. One local government canceled welfare checks after 6 months and made the Federal credit. Another had procedures to reimburse the Federal Government for checks not cashed within 2 years. However, during our examination, this local government had not taken action to credit \$5,000 representing the Federal portion of checks issued since 1974. In New York City, credits were computed based on statistical expenditure data on all checks outstanding more than 60 days for its welfare programs, including AFDC. However, we were informed that a new computer system was being established that would enable the city to identify credits for each welfare program.

OTHER AUDITS SHOW FEDERAL  
CREDITS NOT MADE

In December 1976 the HEW Audit Agency alerted all its regional audit offices of its ongoing audit in Illinois, which showed that the Federal Government had not received credit for its portion of uncashed AFDC checks. It suggested that each regional audit director determine whether similar conditions existed within other HEW regions. Information on action taken by the audit directors was not readily available at the Agency's headquarters office.

In Illinois, State procedures were to cancel all welfare checks not cashed within 6 months and to make appropriate disbursements to the funding sources. However, in 1977 HEW Region V auditors reported that the Federal Government had not been given credit for its portion of these funds for July 1, 1973, through October 31, 1976, and later recovered about \$5.8 million.

Similarly, Puerto Rico had not established effective procedures for making these credits. Uncashed check funds were retained to honor recipient claims for 15 years, even for checks canceled before issuance or returned by the post office not cashed. All unclaimed funds, including the Federal AFDC funds, were then transferred into Puerto Rico's general fund. In 1976, HEW auditors recommended that a reduction of over \$0.5 million be made in the Federal share of expenditures for fiscal years 1973 and 1974 and that appropriate adjustments be made for later fiscal years. According to an HEW Audit Agency official, Puerto Rico agreed to make the adjustments.

The official indicated that the fiscal year 1979 HEW audit plan provides for AFDC audits to be made in 35 States; however, in only 2 of these States is the issue of Federal credits specifically designated to be covered. The official indicated that the regional audit directors could make additional audits outside the plan, however, including the issue of Federal credits.

CONCLUSIONS

States exercise considerable latitude in returning Federal funds held as uncashed AFDC checks. Presently, the only guidelines HEW has provided the States are instructions

for making general credits, such as credits for recoveries of program funds overpaid recipients. Until the President's proposed change in the procedure for funding the AFDC program is adopted and fully implemented, we believe the following recommendations should be carried out.

RECOMMENDATIONS

We recommend that you direct the Commissioner of SSA to establish (1) uniform requirements for States to credit the Federal Government for its portion of uncashed AFDC checks and (2) a mechanism for insuring that these credits are timely and accurate. In addition, action should be taken to identify and recover the total amount of Federal funds in uncashed AFDC checks that have not been refunded the Federal Government.

PROGRAM OFFICIALS' COMMENTS

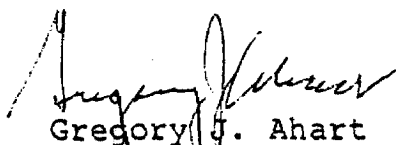
We discussed the results of our review with Office of Family Assistance officials. They generally agreed with our recommendations and indicated that actions will be taken to assure that States credit the Federal Government for its portion of uncashed AFDC checks and that criteria will be developed to guide the States in this regard.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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We are sending copies of this letter to the Chairmen of the four above-mentioned Committees, the House Committee on Ways and Means, the Senate Committee on Finance, and the Senate Appropriations Committee's Subcommittee on Labor, Health, Education, and Welfare. Copies are also being sent to the Director, Office of Management and Budget.

Sincerely yours,



Gregory J. Ahart  
Director