

GAO

Report to the Ranking Minority Member,
Subcommittee on Oversight of
Government Management, Committee
on Governmental Affairs, U.S. Senate

June 1995

WELFARE BENEFITS

Potential to Recover Hundreds of Millions More in Overpayments





United States
General Accounting Office
Washington, D.C. 20548

**Health, Education, and
Human Services Division**

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June 20, 1995

The Honorable Carl Levin
Ranking Minority Member
Subcommittee on Oversight
of Government Management
Committee on Governmental Affairs
United States Senate

Dear Senator Levin:

This report responds to your request for information on states' efforts to recover benefit overpayments in the Aid to Families With Dependent Children, Food Stamp, and Medicaid programs. It provides information on overpayments collected from clients in 1992—the most recent year for which data were available for all three programs. It also identifies factors that help or hinder effective recovery of overpayments, particularly the nature and extent of state recovery efforts and federal legislation. Additionally, data from our national survey of states on information about their overpayment recovery practices, upon which parts of this report are based, are being sent to you under separate cover and will be made available to others upon request.

As agreed with your office, unless you publically announce its contents earlier, we plan no further distribution of this report until 15 days from the date of this letter. At that time, we will send copies to the Chairmen and Ranking Minority Members of the House Committees on Ways and Means, Agriculture, and Commerce and Senate Committees on Finance and Agriculture. In addition, we will send copies to the Secretary of Agriculture, Administrator of the Food and Consumer Service, Secretary of Health and Human Services, Assistant Secretary for Children and Families, Administrator of the Health Care Financing Administration, Commissioner of the Internal Revenue Service, and other interested parties. We also will make copies available to others upon request.

If you have any questions concerning this report, please contact David P. Bixler, Assistant Director, at (202) 512-7201. Other GAO contacts and major contributors to this report are listed in appendix IX.

Sincerely yours,

Leslie G. Aronovitz
Associate Director, Income Security Issues

Executive Summary

Purpose

Under the legislative proposals that the Congress is considering to reform the nation's welfare system, resources for helping America's low-income families may become increasingly limited. Under these circumstances, it is critical that only those people who are eligible for welfare benefits receive them. In 1992,¹ people who were not entitled to benefits, or not entitled to the level of benefits provided, received an estimated \$4.7 billion in benefit overpayments by three of the nation's largest welfare programs—Aid to Families With Dependent Children (AFDC), Food Stamps, and Medicaid. These overpayments represent about 4 percent of the total benefits paid in these three programs.² Moreover, nationwide recovery of the overpayments in these programs, about \$333 million, was relatively low: about 19 percent of AFDC's estimated overpayments were collected, 7 percent of Food Stamps', and 2 percent of Medicaid's.

Given the current national emphasis on federal fiscal responsibility, the Ranking Minority Member, Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, asked GAO to determine (1) what states are doing to recover benefit overpayments, what are the more effective practices they are using, and what, if anything, they could do better and (2) what the federal government could do to help states recover more overpayments.

Background

AFDC, Food Stamps, and Medicaid are needs-based programs that provide either direct financial assistance, food coupons, or payment for certain medical services to low-income individuals and families. In 1992, combined federal- and state-funded benefits for these programs totaled about \$161 billion, about three-fourths of which was Medicaid expenditures. Although the costs of AFDC and Medicaid benefits are shared by the federal and state governments, Food Stamp benefits are fully funded by the federal government.

These programs are administered at the state level and overseen at the federal level by two cabinet-level agencies—the U.S. Department of Health and Human Services (HHS) and the U.S. Department of Agriculture (USDA). HHS' Administration for Children and Families is responsible for AFDC, and its Health Care Financing Administration is responsible for Medicaid.

¹Fiscal year 1992 was the most recent year for which data on expenditures, overpayments, and collections of overpayments were available for all three programs.

²Medicaid benefits for individuals whose Medicaid eligibility is based upon their eligibility for other programs, such as Supplemental Security Income, were not included in calculating this percentage because states do not determine these individuals' eligibility.

USDA's Food and Consumer Service is responsible for the Food Stamp Program. Administration at the state level includes determining individuals' eligibility and benefit levels as well as collecting benefit overpayments. Federal oversight responsibilities include issuing regulations, providing technical assistance, and monitoring states' performance using quality control systems.

In determining eligibility and benefit levels, mistakes are sometimes made or inaccurate information provided, which results in overpayments of cash, food coupons, or medical services to clients. Overpayments generally result when a (1) participating household or individual intentionally provides incorrect or insufficient information on which eligibility and benefit determinations are based (fraud), (2) participating household or individual unintentionally provides incorrect or insufficient information (client error), or (3) state administering agency incorrectly determines eligibility or benefits or does not correctly act on client-reported information (agency error).

To review states' overpayment recovery efforts, GAO surveyed welfare program officials in the 50 states and the District of Columbia. To collect data on ways that the federal government could help improve recovery at the state level, GAO interviewed federal and state welfare program officials and reviewed federal legislation and regulations for the three programs.

Results in Brief

Increasing state recovery efforts and extending effective federal recovery provisions to one or more programs could help recover hundreds of millions of dollars more in benefit overpayments in the AFDC, Food Stamp, and Medicaid programs. GAO found that the states with the highest recovery rates in fiscal year 1992 established claims for a greater portion of their overpayments. To help achieve success in recovering overpayments, these states used certain practices, and more of them, than did states with the lowest recovery rates. These practices included more timely efforts to verify potential overpayments and establishing claims for overpayments on more difficult cases, such as those involving clients who subsequently moved out of state. If all states had recovered overpayments at the same rate as the high-performing states, GAO estimates that an additional \$262 million could potentially have been recovered in 1992.

In addition, extending effective federal recovery provisions to one or more programs could potentially increase states' recovery of overpayments. Federal laws and regulations that facilitate recovery in one program are

not always in place in the other two. GAO estimates that extending such laws to all programs could increase recovered overpayments by millions more annually.

Principal Findings

Increased State Efforts Could Potentially Recover Substantial Overpayments

States with the highest recovery rates—generally the top one-third in each of the three programs—were at least twice as successful in recovering overpayments as were the bottom one-third of the states. A key reason that the higher performing states collected a substantially greater percentage of their overpayments than low-performing states is that they established claims for more of their overpayments. These states generally used a broader array of practices or tools to establish and collect overpayments, including more timely efforts to verify potential overpayments and establish claims, establishing overpayment claims on more difficult collection cases, and using a greater portion of their total staff on recovery efforts. If all states had been as successful as the top one-third performing states, GAO estimates that in 1992 an additional \$132 million might have been recovered from AFDC clients, \$100 million more from Food Stamp clients, and \$30 million more from Medicaid clients. (These estimates are gross collections and not net of the costs of obtaining them.)

Extending Effective Federal Recovery Provisions Also Could Potentially Increase Collections

Certain limitations in the programs may keep states from recovering additional millions of dollars of overpayments. While temporarily reducing benefits to recover overpayments is an effective collection method in the AFDC program, by law, it cannot be used in the Food Stamp Program to collect overpayments caused by agency error unless the client consents. GAO estimates that without this restriction states could potentially recover an additional \$33 million annually. Also, extending the use of federal income tax refund intercept—an effective overpayment collection tool in the Food Stamp Program—to AFDC and Medicaid could potentially increase recoveries by about \$24 million. (These estimates are gross collections and not net of the costs of obtaining them.)

Matters for Congressional Consideration

To help remove barriers to states' collection of overpayments in the AFDC, Food Stamp, and Medicaid programs and potentially recover more overpayments, the Congress may want to consider amending federal legislation to (1) authorize states to offset Food Stamp benefits without the client's consent to recover overpayments caused by agency errors and (2) extend the use of federal income tax refund intercept for collecting overpayments to the AFDC and Medicaid programs.

Agencies' Comments

USDA and HHS generally agreed with GAO's conclusion that more can be done to recover welfare benefit overpayments. USDA supports authorizing states to use involuntary recoupment of Food Stamp benefits to recover agency error overpayments, but questioned GAO's estimate of the amount obtainable from such a collection method. GAO requested but did not receive comments from the Internal Revenue Service. (See ch. 4.)

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Abbreviations

ACF	Administration for Children and Families
AFDC	Aid to Families With Dependent Children
FCS	Food and Consumer Service
HCFA	Health Care Financing Administration
HHS	U.S. Department of Health and Human Services
IRS	Internal Revenue Service
USDA	U.S. Department of Agriculture

Introduction

In federal fiscal year 1992,³ three of the nation's largest means-tested programs—Aid to Families With Dependent Children (AFDC), Food Stamps, and Medicaid—provided almost \$161 billion in cash, food coupons, and medical benefits, respectively, to millions of our nation's low-income people. These people included families with children who are deprived of support; households that need help buying food basics; and the low-income aged, blind, or disabled. That same year, however, people or households who were ineligible for these benefits, or who were not entitled to the level of benefits provided, received nearly \$4.7 billion in AFDC, Food Stamp, and Medicaid benefit overpayments or about 4 percent of the total benefits paid in the three programs.⁴

Program administrators try to prevent overpayments by carefully determining an applicant's initial eligibility. However, when errors are made, recovering overpayments is often very time consuming and difficult. Nationwide success in recovering these overpayments varies considerably among the three programs. While states recovered about \$215.6 million of nearly \$1.2 billion of AFDC overpayments, or about 18.7 percent, in fiscal year 1992, the recovery rate was appreciably lower for the other two programs. In this same year, almost \$104.3 million of about \$1.6 billion of Food Stamp overpayments, or about 6.5 percent, was recovered; while about \$13.2 million, or nearly 2 percent, of an estimated \$670.6 million of overpayments was recovered in the Medicaid program.⁵

When states do not promptly and efficiently identify and collect overpayments, governments lose the immediate use of these funds and incur additional expenses to recover them. Without a vigorous recovery effort, current and potential recipients may infer that the government considers the unrecovered funds dispensable. Under the legislative welfare reform proposals that the Congress is considering, resources available to help low-income Americans may become increasingly limited. Therefore, ensuring that the funds appropriated for these programs reach only those entitled to them is crucial.

³Fiscal year 1992 was the most recent year for which data on expenditures, overpayments, and collections of overpayments were available for all three programs.

⁴Medicaid benefits for individuals whose Medicaid eligibility is based upon their eligibility for other programs, such as Supplemental Security Income, were not included in calculating this percentage because states do not determine these individuals' eligibility.

⁵Because national data were not available at the federal level for all three programs, we used state-reported data to compare the nationwide recovery rates for the programs. The data used to calculate the recovery rates were provided by 49 states and the District of Columbia for the AFDC Program, 50 states and the District of Columbia for the Food Stamp Program, and 27 states for the Medicaid Program. Thus, the total overpayments reported here for the three programs do not equal the nationwide total of \$4.7 billion that appears in the first paragraph of this chapter.

The Ranking Minority Member of the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, asked us to determine (1) what states are doing to collect benefit overpayments in the AFDC, Food Stamp, and Medicaid programs;⁶ the more effective practices that they are using; and what, if anything, they could do better; and (2) what the federal government could do to help states collect more overpayments.

Federal Government and States Share Responsibility for Three Large Welfare Programs

Each year, the AFDC, Food Stamp, and Medicaid programs provide cash and other assistance to millions of economically disadvantaged persons. In 1992, the AFDC program, authorized by title IV-A of the Social Security Act, provided about \$22 billion in cash assistance to more than 13.6 million recipients—members of low-income families with children who were deprived of support due to the absence, death, disability, or unemployment of at least one parent. The Food Stamp Program, authorized by the 1964 Food Stamp Act, provided about \$21 billion in food coupons to more than 25.4 million recipients to help them buy food to meet their nutritional needs. And the Medicaid program, authorized by title XIX of the Social Security Act, paid about \$118 billion in 1992 for medical services for more than 30 million low-income persons who are aged, blind, or disabled; AFDC recipients; and other low-income persons.

Federal Government Oversees State Administration of Programs

The Department of Health and Human Services' (HHS) Administration for Children and Families (ACF) is responsible for the AFDC Program; HHS' Health Care Financing Administration (HCFA) oversees administration of the Medicaid Program; and the Department of Agriculture's (USDA) Food and Consumer Service (FCS) oversees the Food Stamp Program.

ACF's, FCS', and HCFA's oversight responsibility supports program operation at the state level. These agencies develop and issue regulations on general eligibility and benefit criteria, provide technical assistance and guidance to the states, and help monitor state performance through quality control systems. Under these systems, states must review a sample of their cases each month to assess the accuracy of their staffs' eligibility and benefit determination decisions. In turn, federal quality control reviewers from ACF, FCS, and HCFA assess the correctness of state findings by evaluating a subsample of the state samples. Differences between the state and federal findings are reconciled to calculate an official state error rate. If the error

⁶Our review of Medicaid focuses on the value of health care benefits provided to clients who were not eligible for benefits or who were eligible but had unmet liability—that is, their excess income had not been “spent down” to qualify. Our review does not focus on overpayments made to service providers.

rate is greater than a program's targeted error rate—for example, 3 percent in the case of Medicaid—then federal payments may be reduced by an amount calculated on the basis of the percentage point difference between the actual and target error rate. The error rate is also used to estimate the total dollar value of estimated overpayments for the state.

The federal government and states both provide funding for AFDC, Food Stamps, and Medicaid. The federal government pays from 50 to about 80 percent of benefit costs for AFDC and Medicaid and 50 percent of most administrative costs of those programs. The federal government pays 100 percent of benefit costs for Food Stamps and 50 percent of state administrative costs.

States Determine Household and Individual Eligibility and Benefit Amounts

The states manage the day-to-day functioning of AFDC, Food Stamps, and Medicaid through local offices—either district, county, or city. As part of the daily administration, eligibility staff evaluate applications to determine a household's or an individual's eligibility and to ensure that the correct level of benefits is authorized. Depending upon the state, these staff may be determining eligibility and benefit levels for one or all three programs.

The three programs' eligibility rules and income tests are complex and differ from one another; so, although all three programs take into account assets, household income, and size, the extent to which they do so varies. For example, in determining an applicant's eligibility under AFDC in fiscal year 1995, staff generally exclude the first \$1,500 in equity value of an applicant's automobile and count the remainder in determining available financial resources; under Medicaid, depending upon the type of applicant, staff exclude the first \$1,500 in equity value or \$4,500 in fair market value and, in certain cases, may exclude all of the value; and, under Food Stamps, staff exclude the first \$4,550 in fair market value and, in some cases, may exclude all of the fair market value.⁷ A requirement that clients notify the staff when their income changes further complicates eligibility determinations. Staff must then use three sets of eligibility criteria to recalculate benefit levels.

Overpayments Occur for Several Reasons

Given the complexity and diversity of eligibility rules among the three welfare programs, ineligible clients sometimes receive benefits or medical services or eligible clients sometimes receive more benefits than they are

⁷All of the fair market value of an applicant's automobile may be excluded in the Food Stamp and Medicaid programs for certain circumstances, such as when the automobile is used for employment purposes or transporting a disabled or handicapped person.

entitled to. Overpayments generally result when (1) a participating household or individual intentionally provides incorrect or insufficient information on which eligibility and benefit determinations are based (fraud), (2) a participating household or individual unintentionally provides incorrect or insufficient information (client error), or (3) the administering state agency miscalculates eligibility or benefits or does not correctly act on client-reported information (agency error).

States Are Responsible for Recovering Overpayments

Regardless of the cause of overpayments, state AFDC and Food Stamp offices are responsible for (1) preventing and identifying overpayments, (2) verifying potential overpayments and establishing claims for them, and (3) collecting overpayments. While no federal goals exist for states to recover a minimum percentage of their overpayments, federal legislation generally requires states to try to recover them in these two programs. Although state Medicaid offices' overpayment responsibilities are similar to those for the other two programs, under Medicaid law, the focus is on recovering overpayments to providers of medical services rather than the recipients of services. States may, but are not required to, recover funds from ineligible Medicaid clients when overpayments to providers are made in their behalf. In 1992, as a result of state law or policy, most states attempted to recover overpayments due to errors from Medicaid clients, including long-term care clients who received nursing home services to which they were not entitled.

States use a variety of methods, including computer matching and quality control reviews, to help prevent overpayments and to identify overpayments. The Deficit Reduction Act of 1984 requires states to routinely compare data supplied by applicants and clients of AFDC, Food Stamps, and Medicaid with other data sources in search of discrepancies. These other data sources include (1) Internal Revenue Service (IRS) data on interest, dividends, and other types of unearned income; (2) Social Security Administration data on benefits and earnings; and (3) state reports on quarterly wages and unemployment insurance benefits. States may also identify overpayments when they conduct their monthly quality control reviews of individual cases or verify an individual's alien status.

After identifying a possible overpayment, the next step is to verify the overpayment. Because one key factor in determining eligibility and benefit levels is a household's or an individual's financial information, this may involve contacting the client—or his or her employer—to obtain wage statements to compare with the information originally provided by the

client. Once the overpayment is verified, states establish a claim for it by entering a record in the state client billing and tracking system. By regulation, however, states are not required to pursue every overpayment. For example, both the AFDC and Food Stamp programs give states the option of not pursuing a nonfraudulent overpayment of less than \$35 if it cannot be collected by reducing the individual's or household's benefit. Under existing waiver authority, FCS has increased the less than \$35 threshold to less than \$100 for some states.

After establishing a claim for collection, states then send a written notice to the current or former client who received the overpayment advising him or her of the amount owed, explaining how the overpayment occurred, and requesting repayment. Federal law and regulations allow states to collect AFDC overpayments by offsetting a portion of current clients' benefits (recoupment) without their consent and do not distinguish between the types of overpayment (agency or client error). However, the Food Stamp Program can recoup for agency errors only if the client voluntarily agrees to such recoupment. In addition, states must first allow clients with client error overpayments to repay them by lump sum or installment payments. States can use recoupment if the client chooses recoupment to repay a client error claim or if the client fails to pay the claim using the method chosen. If the state determines that collection action through any of these payment methods would cause undue hardship for the client, collections can be suspended or repayment amounts reduced.

States have several other alternatives available to collect overpayments. Depending upon the program, they may garnish wages or intercept federal or state income tax refunds or state lottery winnings. States may also refer cases to collection agencies, report client debt to credit bureaus, use a small claims court, or place liens against a client's property to collect the outstanding debt.

All three programs allow states to retain a portion of the overpayments they recover. For AFDC and Medicaid, states keep an amount equal to the proportion of the benefits they originally provided in matching funds—from about 20 to 50 percent—regardless of the type of overpayment error. Although Food Stamp benefits are paid entirely by the federal government, states get to keep a portion of the overpayments that they recover. Currently, state agencies retain 25 percent of recovered Food Stamp overpayments due to client fraud, 10 percent for those due to client error, and nothing for those due to agency error.

Implications of Welfare Reform on Recovering Overpayments

As the Congress discusses various approaches to serving AFDC, Food Stamp, and Medicaid clients, some members are proposing restructuring these programs to give states more flexibility in administering them. While federal agencies currently oversee various aspects of these programs, states may find, under reform, that they must assume more—or even all—administrative and oversight responsibility. AFDC, Food Stamps, and Medicaid are entitlement programs: no limit exists on the amount of federal funding a state can receive since every person who is determined to be eligible must receive benefits. Under a block grant approach, however, states would receive a capped, defined amount of money. In this instance, they likely would also have increased financial interest in ensuring that funds are spent only on those who are eligible.

Scope and Methodology

To accomplish our objectives, we mailed a separate questionnaire for each of the three welfare programs to welfare officials in all 50 states and the District of Columbia. These questionnaires gathered information on (1) the methods states use to identify and collect overpayments, (2) how recovery efforts are coordinated among the three programs, (3) the level of overpayments established and collected in fiscal year 1992, and (4) what factors hinder or help states' abilities to recover overpayments. We also interviewed officials at ACF, FCS, HCFA, the Department of the Treasury's Financial Management Service, and IRS and welfare officials in seven states. Appendix I more completely describes our scope and methodology.

We conducted our work between April 1993 and March 1995 in accordance with generally accepted government auditing standards.

Successful Recovery of Overpayments Is Related to Establishment of Claims and Tools States Use

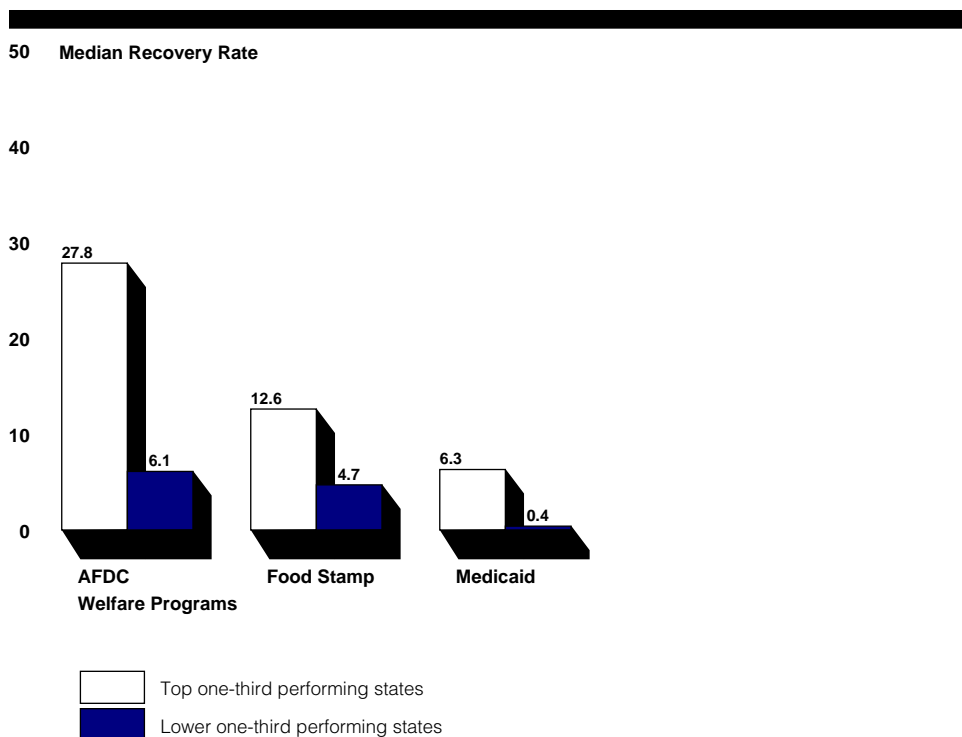
For each of the three programs we reviewed, about a third of the states—high-performing states—had recovered a substantially greater portion of their estimated overpayments than the lower one-third of the states. One key reason for the high-performing states' success is that they established more claims for their overpayments than low-performing states. In addition, they used a broader array of tools and practices to both establish and collect overpayments than the low-performing states. We estimated that, if all states had achieved recovery rates equal to those of the high-performing states, an additional \$262 million potentially could have been recovered in fiscal year 1992.

States' awareness and understanding of successful recovery techniques can help enhance their collection efforts. At the time of our review, the Food and Consumer Service (FCS) was sharing best Food Stamp recovery practices and overpayment collection data among the states, and the Administration for Children and Families (ACF) was planning to provide similar assistance for AFDC in 1996. However, HCFA was not providing, nor is it planning to provide, such assistance to the states for recovering Medicaid overpayments from clients.

Recovery Rates of High-Performing States

The median recovery rate for high-performing states was at least twice that of the low-performing states for each program. For example, as illustrated in figure 2.1, the high-performing states' median recovery rate in the AFDC program was about 28 percent of estimated overpayments, compared with 6 percent for the low-performing states.

Figure 2.1: Comparison of Median Recovery Rates of High- and Low-Performing States for the AFDC, Food Stamp, and Medicaid Programs
 (Fiscal Year 1992)

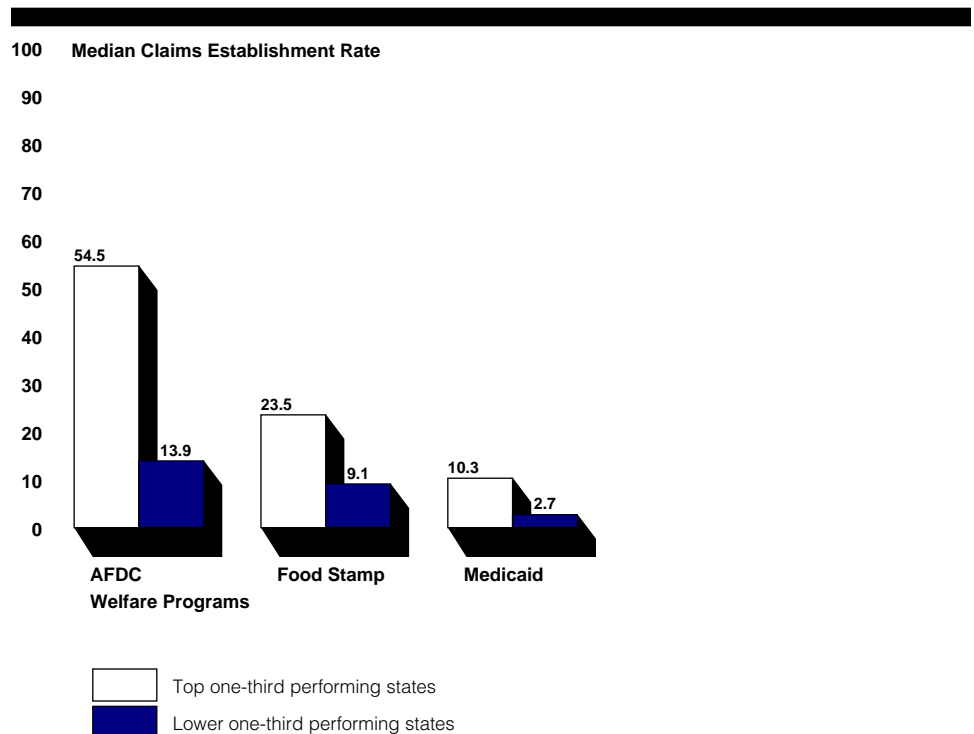


Although high-performing states were not always the same in each program, the following states were consistently among the high-performing states in fiscal year 1992 for at least two of the three programs: Alabama, Arkansas, California, Colorado, Georgia, Hawaii, Idaho, Illinois, Kentucky, New Mexico, North Dakota, Oregon, Utah, and Wyoming. Appendixes II through IV show individual state recovery rates for each program.

One main reason that high-performing states' recovery rates were greater than low-performing states' is that they established claims for a significantly greater portion of their overpayments. For states to collect any overpayment, they must first establish claims for them. As illustrated in figure 2.2, the high-performing states' median rate for establishing claims in the AFDC program, for example, was about 54 percent of estimated overpayments, compared with 14 percent for the low-performing states. The median recovery rate of high-performing states

in the AFDC program was substantially higher than that for low-performing states, as shown in figure 2.1.

Figure 2.2: Comparison of Median Rates for Establishing Claims of High- and Low-Performing States for the AFDC, Food Stamp, and Medicaid Programs (Fiscal Year 1992)



Successful Practices for Establishing Claims and Recovering Overpayments

States that had the most success in establishing claims and recovering overpayments used a much higher number of certain recovery practices and tools than other states. States can use many different practices or tools, under current law, to help recover overpayments. Following are the practices and tools for establishing claims and recovering overpayments that were used more by high-performing states than by low-performing states. The practices and tools used for establishing claims were

- use of self-initiated computer matches to identify potential overpayments,
- use of multiple approaches to identify potential overpayments,
- timely verification of overpayments,
- timely establishment of claims, and
- establishment of claims for more difficult collection cases.

The practices and tools used for recovering overpayments were

- lower average caseloads for eligibility staff,⁸
- greater portion of a state's total staff working to recover overpayments,
- use of state income tax refund intercept,
- use of multiple approaches to collect overpayments,⁹
- automated tracking and billing system with a full range of functions,¹⁰ and
- more of a state's overpayment records in automated tracking and billing system.

In studying the high-performing states, we found that they used a broad array of these practices, focusing on two aspects of the recovery process—establishing the claim and collecting the overpayment. Although not all of the high-performing states used every practice listed, we found that, overall, a greater proportion used at least five of these practices than did the low-performing states. Many states indicated in our survey that limited staff may have prevented them from doing more to recover overpayments.

Practices for Establishing Claims

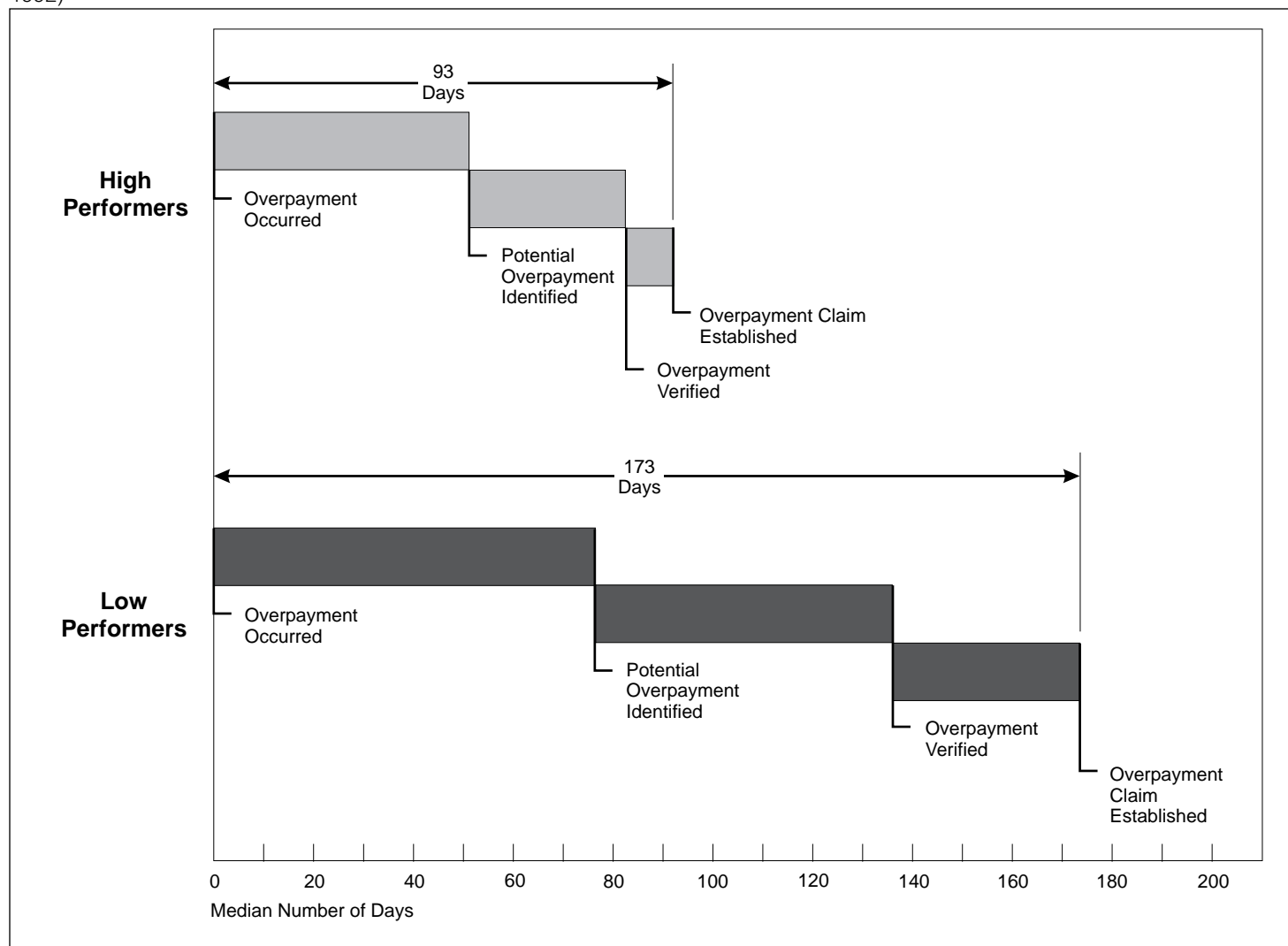
We found that high-performing states were more timely in verifying potential overpayments and establishing claims than were low-performing states. As illustrated in figure 2.3, high-performing states for the AFDC program, for example, established overpayment claims for current clients on average in about 3 months—half the average time it took for the lower one-third of the states, which was about 6 months.

⁸Only a few states provided us with caseload information for the Medicaid program. Therefore, this practice is not included in the analysis of the total number of practices to recover Medicaid overpayments.

⁹In this report, we define “multiple approaches” as all or most of the following methods to recover overpayments from current or former clients: (1) recouping of benefits (AFDC and Food Stamp only), (2) collecting Food Stamp coupons, (3) collecting voluntary cash payments, (4) collecting cash payments after referring to collection agency, (5) collecting cash payments after using small claims court, (6) collecting wage garnishments, (7) using property liens, (8) intercepting unemployment compensation benefits, (9) intercepting state income or property tax refunds (available in states with state income or property tax), (10) intercepting federal income tax refunds (Food Stamp only), or (11) using other collection method not listed above such as intercepting state lottery winnings.

¹⁰In this report, we define “full range of automated systems” as those systems that could do at least all of the following functions: (1) generate adverse action notices/demand letters, (2) generate overpayment statements to clients, (3) deduct part or all of the overpayments from a current or future welfare benefit, (4) track a client's current overpayment balance, and (5) identify claims that were delinquent in repayment.

Figure 2.3: Comparison of High- and Low-Performing States' Timeliness in Establishing AFDC Overpayments (Fiscal Year 1992)



In addition, one of our prior studies showed that successful recovery of overpayments is directly related to the time it takes to establish an overpayment claim once it is identified.¹¹ The timely establishment of overpayment claims for collection is important because, once clients

¹¹Benefit Overpayments: Recoveries Could Be Increased in the Food Stamp and AFDC Programs (GAO/RCED-86-17, Mar. 14, 1986).

discontinue receiving program benefits and overpayments can no longer be recouped, collection can be more difficult.

Another practice used by high-performing states was to establish claims for the more difficult collection cases, such as former clients who have moved out of state, provided no forwarding addresses, declared bankruptcy, or died. Although establishing claims in these cases is time consuming, states that did this increased their collection potential.

Practices for Collecting Overpayments

In addition to the specific practices associated with establishing claims, high-performing states also used several practices for collecting overpayments from former or current clients. For example, we found that these states had lower average caseloads per eligibility staff, which allowed their staff an opportunity to spend more time with each collection case. Further, these states dedicated a greater portion of their total staff to recovering overpayments, including using recovery specialists and fraud investigators where appropriate. For example, in the Food Stamp Program, an average of 8 percent of high-performing states' total staff were fraud investigators compared with 3 percent of low-performing states'.

While having more resources helped them to collect overpayments, high-performing states also used other practices not as common among the low-performing states. These included state tax refund intercepts, multiple collection methods, and automated systems with a full range of client billing and tracking functions. About 12 of the 15 high-performing states for the Food Stamp Program, for example, reported that they had a full range of automated functions, whereas 9 of the 20 low-performing states had this capacity. Appendix V has additional information related to state collection practices.

Potential for States to Improve Recovery Efforts

If all states had performed as high-performing states did in recovering AFDC, Food Stamp, and Medicaid overpayments in 1992, we estimate that an additional \$262 million could have potentially been recovered. Our estimate is based on each state agency performing at the median recovery rate of the top one-third performing states for each of the programs in 1992. This estimate is broken down among the three programs as follows: \$132 million in AFDC recoveries (61-percent increase over current recoveries), \$100 million in Food Stamp recoveries (96-percent increase), and \$30 million in Medicaid recoveries (230-percent increase).

Federal Efforts Help States Learn About Best Recovery Practices

Our estimate of \$262 million in potential additional recoveries assumes that lower performing states would use more of the recovery practices of the high-performing states. To do so, states would have to identify these practices and evaluate the cost benefit of using them. We found that FCS has helped states identify other states' "best practices" for recovering Food Stamp overpayments. ACF and HCFA, on the other hand, are not helping states learn about best recovery practices for AFDC or Medicaid overpayments, respectively. However, ACF has plans to begin offering such help in 1996; HCFA has no similar plans.

FCS communicates Food Stamp overpayment collection data and best recovery practices to states in a variety of ways. It annually collects recovery data—such as dollar amounts recouped—from the states and disseminates this information, which helps states compare their performance and establish recovery goals of their own. FCS also collects information on successful recovery practices from the states, periodically publishes this information, and disseminates it nationwide. In addition, FCS established a State Exchange Program that subsidizes state officials' travel to other states to learn about effective recovery practices, as well as methods to prevent overpayments. Finally, FCS provides training to states on the use of federal income tax refund intercepts. FCS officials told us that they believe their sharing of best practice and recovery information has helped states improve their overpayment recovery efforts.

In contrast, the AFDC and Medicaid programs provide little guidance on best recovery practices to the states. ACF had collected overpayment information until September 1988 when the Office of Management and Budget's approval of its reporting form expired. ACF did not renew the form. Subsequently, in November 1992, HHS' Office of the Inspector General reported that ACF did not have a reporting mechanism to collect information needed to assess the effectiveness of state agency compliance with program requirements for identifying and recovering AFDC overpayments.¹² ACF officials told us that, as a result of that report, they have redesigned the form and are planning to begin collecting financial recovery data from states in fiscal year 1996. In addition, the officials said that they are working on a guidance document for states that would include best recovery practices. During our review, Medicaid officials were not aware that several states were recovering overpayments from clients and, thus, were not collecting recovery data or sharing best

¹²Audit of Controls for Each Phase of the Overpayment Recovery Process in the Aid to Families With Dependent Children Program, U.S. Department of Health and Human Services, Office of the Inspector General, A-01-92-02506 (Nov. 10, 1992), p. 14.

practice information.¹³ Medicaid officials said that they had no plans to collect or disseminate best practice information because states are not required to collect overpayments from clients.

¹³HCFA disseminates a manual on the best practices used to collect from insurers and other liable third parties who have the primary responsibility to pay for claims that Medicaid paid in error.

Extending Effective Federal Recovery Provisions to One or More Programs Could Increase Collections

Looking at the programs from the federal perspective, we found that federal laws and regulations that facilitate recovery in one welfare program are not in place in all three. If legislative changes were made to extend recovery practices used in one program to the others, we estimate that states could potentially recover millions more in welfare overpayments annually.

A large part of the potential additional collections we estimate involves the Food Stamp Program, in which a rule limiting recovery of overpayments resulting from agency error has cost the program about \$33 million a year in potential collections. Currently, unless the client consents, states may not recover an overpayment by reducing the client's monthly benefits if the overpayment results from agency error.

We also estimated that about \$24 million could potentially be collected annually by extending the use of federal income tax refund intercept to the AFDC and Medicaid programs.¹⁴ Currently, only the Food Stamp Program allows states to intercept a federal income tax refund to recover overpayments from a former program client who is delinquent in repayment.

Eliminating Limitations on Recoupment Could Potentially Increase Food Stamp Collections

Recovering overpayments due to agency error through recoupment—or temporarily reducing benefits, without client consent—is an accepted collection method in AFDC but not allowed for Food Stamp overpayments. Food Stamp legislation precludes states from using recoupment, unless the client consents, to recover overpayments resulting from agency error. Eliminating the requirement for client consent could potentially yield additional collections estimated at about \$33 million annually.

For agency error overpayments, the Food Stamp restriction on using recoupment without client consent could negatively affect states' recovery efforts. As shown in table 3.1, although about 40 percent of the estimated overpayments in 1992 involved agency errors, less than 19 percent of the states' established claims and less than 16 percent of total collections involve agency error overpayments. One reason for these rates may be that, unlike for fraud or inadvertent client error, states cannot keep any collections of overpayments resulting from agency errors. Six states responding to our questionnaire commented on a need for financial incentives for states to collect agency error overpayments.

¹⁴The estimated additional overpayment collections from intercepting federal income tax refunds is not mutually exclusive of the estimated \$262 million in collections presented in chapter 2.

Table 3.1: Food Stamp Program—Estimated Overpayments, Claims Established, and Overpayments Collected Involving Agency Error (Fiscal Year 1992)

Dollars in millions			
	Total errors Dollars	Agency errors	
		Dollars	Percent of total errors
Estimated overpayments	\$1,710.2	\$688.4	40.2
Claims established	222.8	41.5	18.6
Overpayments collected	108.0	17.0	15.7

Source: Fiscal Year 1992 Food Stamp Quality Control Annual Report and Food Stamp Program State Activity Report.

Thirty-seven states reported that a federal requirement to recover agency error overpayments, such as using recoupment without client consent, would help them collect overpayments. Only 11 states reported that they opposed such a requirement. One reason for their response, provided by several states, may be that states do not keep any part of the amount collected when the overpayment results from agency error.

Allowing recoupment without client consent to collect overpayments resulting from agency error could enable states to potentially collect an estimated \$33 million in additional Food Stamp overpayments annually. Our estimate is based on an assumption that states would establish claims for agency error overpayments at the same rate that they did for client error overpayments in 1992 and collect overpayments at least at the same rate that agency error claims were collected in that year (see app. VI, table VI.1).

USDA supports using recoupment of Food Stamp benefits without client consent to recover agency error overpayments. In 1985, a legislative proposal to require recoupment without client consent for agency error overpayments was introduced but not enacted. Subsequently, we recommended in 1986 that the Congress amend the Food Stamp Act to authorize states to pursue recoupment of agency error overpayments without client consent.¹⁵ At that time, USDA supported using such recoupment for agency error claims. Subsequently, in 1993, USDA proposed legislation that recommended recoupment of agency error claims, but the Congress did not act on the recommendation. USDA is again evaluating efforts needed, such as the use of recoupment of agency error claims

¹⁵Benefit Overpayments: Recoveries Could Be Increased in the Food Stamp and AFDC Programs (GAO/RCED-86-17, Mar. 14, 1986).

without client consent, to ensure that agency error claims are treated the same as client error claims.

Extending Federal Income Tax Refund Intercept Could Potentially Increase AFDC and Medicaid Overpayment Collections

Although intercepting federal income tax refunds has proven effective in collecting Food Stamp overpayments, its use is not authorized for the AFDC and Medicaid programs. The Food Stamp Program currently intercepts tax refunds under demonstration project authority with participation by about two-fifths of the states. Twenty-one states intercepted federal income tax refunds to collect over \$30 million in Food Stamp benefit overpayments in 1994. Legislation would be needed to authorize AFDC's and Medicaid's use of federal income tax refund intercept. We estimate that such legislation could potentially result in overpayment collections increasing by \$23.6 million annually.

Federal Tax Refund Intercept Succeeds in Collecting Overpayments for the Food Stamp Program

States that use federal income tax refund intercepts in the Food Stamp Program do so as a last resort. First, only claims resulting from client error are referred for federal income tax refund intercept. Also, states may only refer claims for intercept if the client is no longer a Food Stamp beneficiary and the claim becomes delinquent after a state agency has tried several times to collect it.

Intercepting federal income tax refunds to collect delinquent claims from former Food Stamp clients involves a joint effort by the Food and Consumer Service (FCS), IRS, and the states. State agencies submit claims to FCS and notify the former beneficiaries. FCS consolidates individual state submissions, refers them to IRS for processing, and then transfers the amounts intercepted, including any earned income tax credit¹⁶ in the refund, to the states. States paid half of the \$8.28 IRS processing fee for each intercept in 1993; FCS paid the other half.

While no cost benefit study of the Food Stamp federal tax intercept program has been made, it appears effective in recovering substantial overpayments at a limited cost. Since FCS' 1992 pilot of the demonstration project in two states, collections from intercepts plus voluntary payments made in place of offset have represented at least 23 percent of total collections in the participating states.¹⁷

¹⁶The earned income tax credit provides a refundable tax credit to low-income working families, supplementing their earnings.

¹⁷Voluntary payments are an indirect benefit of the intercept program that occurs when former clients pay their debt after receiving notice that they are to be referred to IRS for offset.

Each year since 1992, FCS has added states to the program.¹⁸ As shown in table 3.2, intercept-related collections represented about 33 percent of total overpayments recovered in 21 participating states in fiscal year 1994. The federal share (not less than 75 percent¹⁹) of the \$30.6 million intercepted in that year was at least 23 times greater than the \$983,000 that FCS estimated it spent in administrative costs in 1994. These costs included salary and contractor costs, training costs, and FCS' share of the IRS processing fee. While FCS does not determine state administrative costs spent for tax intercept, FCS officials stated that they believed the states' retention share exceeded their administrative costs.

**Table 3.2: Federal Tax Intercept
Program Direct and Indirect
Collections of Food Stamp
Overpayments (Fiscal Years 1992-94)**

Dollars in millions				
Fiscal year	1992	1993	1994	
Participating states	2	9	21	
Intercept-related collections				
Tax refund offset	\$3.1	\$7.3	\$27.6	
Voluntary payments	.4	1.4	3.0	
Total	\$3.5	\$8.7	\$30.6	
Total collections in participating states	\$15.1	\$31.4	\$93.4	
Intercept-related collections as a percentage of total collections in participating states	23.2	27.7	32.8	

Legislation Needed to Extend Federal Income Tax Refund Intercept to AFDC and Medicaid

Current law does not authorize using federal income tax refund intercept in the AFDC and Medicaid programs. Broad support exists, however, to extend such authority to the two programs. Over the years, GAO, HHS, Treasury's Financial Management Service, state agencies, and the United Council on Welfare Fraud, Inc.—a program integrity advocacy group—have called for extending the federal income tax intercept, primarily to the AFDC program. Sixteen states responding to our AFDC survey and 10 states responding to our Medicaid survey cited a need for extending federal income tax intercept to collecting outstanding AFDC and Medicaid overpayments.

Legislation to extend federal income tax refund intercept to the AFDC program was introduced in 1994 but did not pass. The legislation, part of a welfare reform proposal introduced in the 103rd Congress, would have authorized an intercept program for AFDC overpayments. Commenting on

¹⁸FCS added 11 more states in 1995.

¹⁹The federal share of overpayment collections is 75 percent for fraud and 90 percent for inadvertent client error.

this proposal, officials from the Treasury's Financial Management Service cited the need to revise the proposal's language so that HHS' ACF would be the focal point for working with IRS. This would lessen the administrative burden on IRS because it could deal with one entity rather than 50 states and the District of Columbia. This approach would more closely resemble the Food Stamp intercept program, which uses FCS as its focal point.

In addition to new legislation for AFDC and Medicaid, legislative and regulatory change would be needed to achieve the full potential of the Food Stamp federal income tax intercept program. FCS officials told us that since they piloted the demonstration project, they have recruited additional states each year on the basis of the states' willingness to devote the staff and computer resources to implement the program. In its 1995 package of legislative recommendations to update Food Stamp legislation, USDA recommended a legislative change that would require all states to use the federal income tax refund intercept. Such a provision is contained in the recently passed House of Representatives' welfare reform bill, H.R. 4.

According to FCS officials, USDA also has drafted a regulatory change that would remove the program from its demonstration project status and fully authorize federal income tax refund intercept to collect client error overpayments. FCS officials told us that the decision to limit the federal income tax refund intercept to only overpayments caused by client error was a reaction to the failure of a 1994 legislative proposal to extend tax intercept to agency error overpayments. In commenting on a draft of this report, however, USDA stated that, as part of its evaluation of efforts needed to ensure that agency error claims are treated the same as client error claims, it is again considering the referral of agency error claims for federal tax intercept.

Extending Federal Tax Intercept Could Potentially Recover Substantial Overpayments

If the federal income tax refund intercept program were extended to the AFDC and Medicaid programs, we estimate that overpayment collections could potentially be increased \$23.6 million annually. The AFDC portion of our estimate—\$22.3 million—is based on an analysis of 24 states that reported using state income tax refund intercept in 1992. (See app. VI, table VI.2.) We also estimated that 11 states that used state tax intercept might collect about \$1.3 million through extending the federal tax refund intercept to the Medicaid program (see app. VI, table VI.3).

One ACF official we interviewed suggested that the possibility of intercepting AFDC overpayments might not be as great as in the Food

Chapter 3
Extending Effective Federal Recovery
Provisions to One or More Programs Could
Increase Collections

Stamp Program because AFDC clients are less likely than Food Stamp clients to be getting a federal income tax refund. Further, all of the ACF officials we interviewed believed that states may have to “wait in line” behind other programs already using federal income tax refund intercepts to collect from the same clients. Other than federal tax liability and past due child support owed AFDC clients, which receive first priority, the law does not prioritize agencies.

Conclusions, Matters for Congressional Consideration, Agency Comments, and Our Evaluation

Conclusions

Federal and state efforts to recover AFDC, Food Stamp, and Medicaid benefit overpayments have fallen short of their potential. While not all such overpayments are collectable, recovery of overpayments could substantially increase if lower performing states improved their recovery practices, particularly in establishing claims for overpayments. Although our estimates of the additional collections account for a small proportion of the total estimated overpayments in 1992, they represent a substantial increase in the amount that states collected in each program in that year. With the Food and Consumer Service's (FCS) continued sharing of state recovery information and best recovery practices and the Administration for Children and Families' (ACF) plans to do so soon, states have an opportunity to improve their recovery efforts in the AFDC and Food Stamp programs.

Moreover, states could improve their ability to recover more overpayments if the Congress would remove certain federal legislative barriers to collection and recovery techniques. Specifically, states could run more fiscally sound welfare programs if (1) limits on offsetting Food Stamp benefits to recover Food Stamp overpayments arising from agency error were removed and (2) authority to use federal income tax refund intercepts was extended to AFDC and Medicaid overpayments. While providing states these additional tools will not end overpayments in these welfare programs, it would provide states additional opportunities to recover overpayments.

Managing the three welfare programs' funds—including identifying, establishing, and collecting overpayments—is critical to the programs' integrity, regardless of how they may be structured or administered after the welfare reform debate. Preventing overpayments is clearly one way to ensure that taxpayer dollars are not used for unwarranted benefits, but overpayments will inevitably occur. Finding methods to better identify and recover overpayments, and obtaining additional collection tools, should continue to be a central concern of program administrators.

Matters for Congressional Consideration

The Congress may want to consider legislative amendments to remove barriers to states' collecting additional overpayments. Specifically, it may want to consider

- amending the Food Stamp Act of 1977 to authorize states to offset current recipients' benefits, without their consent, to recover overpayments caused by agency errors and

-
- extending the authority for states to intercept federal income tax refunds to include the recovery of AFDC and Medicaid overpayments.

Agency Comments

We requested written comments on a draft of this report from USDA, HHS, and IRS. IRS did not provide comments. USDA and HHS comments and our evaluation of them are summarized below. USDA's and HHS' written comments appear in full in appendixes VII and VIII, respectively.

USDA Comments and Our Evaluation

USDA concurred with our conclusion that more can be done to recover overpayments from current and former welfare clients. It agreed that, because some states establish claims for a greater percentage of their overpayments than others, they recover more overpayments. USDA also identified recent actions it is taking to reduce errors that lead to overpayments, including the creation of a core FCS team to work solely on developing and coordinating payment accuracy issues and identifying methods and incentives to encourage states to devote the necessary resources to identifying and establishing more overpayment claims. We believe these are positive steps toward reducing overpayments and improving collections and encourage USDA to continue such efforts. USDA also commented on a few specific observations in our report. Its detailed comments and our evaluation of them follow.

Collection Improvements

USDA noted that, while the nationwide recovery rate of Food Stamp overpayments was 7 percent, state agencies have been increasing the amount of overpayments collected in recent years. It stated that this increase is due in part to the use of the Federal Tax Refund Offset Program. USDA also commented that state agencies are collecting nearly 50 percent of the overpayments they establish as claims.

While we agree that states have increased their collection of overpayments each year, they have not increased collections relative to the growing amount of their estimated overpayments. For example, in fiscal year 1988, states collected about 8.6 percent (about \$71 million) of their estimated overpayments but collected less than 6.4 percent (about \$117 million) of estimated overpayments in fiscal year 1993. Regarding USDA's comment that states are collecting almost 50 percent of the overpayment claims they establish, USDA did not consider that most states are establishing claims for a small percentage of their estimated overpayments. For example, in 1992, 31 states had established claims for less than 20 percent of their total estimated Food Stamp overpayments.

Welfare Reform Implications

Regarding our comments about the implications of welfare reform on recovering overpayments, USDA believes it is our opinion and not fact that states would have an increased financial interest in ensuring that block grant funds are spent only on those who are eligible. In addition, USDA commented that a capped level of funding under block grants does not presume that overpayment errors will be fewer or that more staff will be available to collect overpayments. It also noted that, under block grants, the accuracy in determining benefit levels would largely depend on the state eligibility standards that would replace current federal standards.

It is our opinion that states would have an increased interest in ensuring payment accuracy under block grants. However, we did not state, nor do we presume, that with block grants fewer overpayment errors would occur or more staff would be available to collect overpayments. We agree with USDA that the accuracy of determining benefit levels depends on the eligibility standards. Eligibility standards, however, are not the only variable that affects the accuracy of benefit determinations. The accuracy of benefit determinations is also affected, for example, if the client intentionally or unintentionally withholds necessary eligibility information, such as earnings or assets.

Involuntary Recoupment of
Agency Errors

USDA points out that we did not accurately report its position on involuntary recoupment of agency error overpayments. It previously supported and continues to support the position that states should be able to use involuntary recoupment to collect agency error overpayments. We revised the report to reflect USDA's position.

Estimate of Additional Agency
Error Collections

USDA believes that our estimate of additional agency error collections if states were allowed to use involuntary recoupment of benefits is optimistic. It questioned an assumption we used in calculating our estimate—that states would establish agency error claims at the same rate as client errors. USDA contends that states may not devote the same amount of resources to establish and collect agency error claims as they do to determine client errors because states do not keep a portion of agency error collections as they do for client error collections. While some states may aggressively pursue agency error claims, USDA does not believe that involuntary recoupment alone would generate the added incentive to achieve the additional agency error collections we estimated.

We do not believe our estimate of additional agency error collections is overly optimistic. While we agree that states have a clear incentive to devote their limited resources to collecting client error overpayments, we

also believe that states would have a continued interest to recover overpayments caused by agency errors. First, by law, states are required to establish claims for, and attempt to collect, all types of overpayments. Collecting all types of overpayments helps maintain program integrity. Second, as noted in the report, our survey results suggest that most states would favor a federal requirement to recover agency error overpayments, such as involuntary recoupment, because it would increase their ability to collect such overpayments. We believe that involuntary recoupment would make it easier for states to collect agency error overpayments and, thus, states would be more likely to establish claims for agency error overpayments as they do for client error overpayments.

Other Technical Comments

USDA also provided technical comments on our draft report. We made changes where appropriate in the final report.

HHS Comments and Our Evaluation

In commenting on a draft of this report, HHS agreed that federal and state efforts to recover overpayments fall short of their potential. In particular, it said that a substantial potential for increase in AFDC recoveries exists if lower performing states improved to the level of the high-performing ones. The Department also believes that federal agencies and states must emphasize the need to maintain payment accuracy as well as find methods to better identify and recover overpayments.

HHS also provided other comments that raised questions about our analyses and scope of review. These and other comments and our evaluation of them follow.

Quality of GAO Analysis

HHS raised questions about the quality of our analysis and stated that we were somewhat selective in citing findings that may exaggerate differences in the characteristics of high- and low-performing states. Specifically, it questioned how we (1) defined high- and low-performing states and specific overpayment terms used throughout the report, (2) identified most promising practices, and (3) measured collection rates.

We disagree with HHS' assertions about the quality of our analysis and presentation of findings. As we explained in appendix I, for each program, our definition of state performance is based upon a ranking of the states according to the percentage of estimated overpayments they collected and a subsequent division of the state rankings into approximate thirds—high-, middle-, and low-performing states. The practices that we referred to as most promising in the draft of this report are those that tended to be more

commonly used by high-performing states than by low-performing states. Thus, because we did not study the effectiveness of individual practices, we deleted our reference to the practices as most promising. The overpayment terms we use throughout the report and our methodology for calculating collection rates were also explained in appendix I. While we agree with HHS about the difficulties associated with calculating state collection rates, in the absence of better data, we established the proxy measure defined in the report.

HHS also stated that it hoped the report would elaborate more on the cost-effectiveness of various practices, causes for differences among states' performance, and differences in state administrative costs. These issues were beyond this report's scope and objectives. Our review focused more broadly on the recovery of welfare overpayments and not on any individual state's performance.

Multiple Program Goals Require Staff Tradeoffs

HHS believes that the report needs to acknowledge that the programs discussed in this report have multiple goals that often require tradeoffs. It commented that state eligibility workers who spend their time recovering overpayments have to divert their efforts from helping the client population attain self-sufficiency. Clearly, between these two program goals are tradeoffs that states would have to make in allocating their resources. We are not suggesting that significant state resources be diverted from casework. Rather, we are suggesting that, by adopting some of the practices discussed in the report, states could improve their performance in recovering overpayments. Most states already have recovery specialists devoted to recovering overpayments. By providing effective recovery techniques to these specialists, states may not have to divert scarce resources from self-sufficiency efforts to recover overpayments.

Other Technical Comments

In considering other HHS comments, we clarified our discussion of program administration, rules, and procedures. In addition, HHS offered technical comments on the report draft. We considered these comments for the final report and made changes where appropriate.

Scope and Methodology

To accomplish our objectives, we surveyed officials in the 50 states and the District of Columbia to determine the methods states use to identify and collect overpayments; how recovery efforts were coordinated among the three programs; what amounts of overpayments were established and collected in the most recent year for which data were available for the three programs, federal fiscal year 1992; and what factors hinder or help states in collecting overpayments.

We used three questionnaires in each state, one each for AFDC, Food Stamps, and Medicaid. Our analyses are based on responses from officials in all 50 states and the District of Columbia.²⁰ Although we did not independently verify the accuracy of all survey data provided by the states, we did verify the amounts reported as estimated overpayments, claims established, and overpayments collected for the AFDC and Food Stamp programs by comparing them to Administration for Children and Families (ACF) and Food and Consumer Service (FCS) records, respectively, to the extent available. No similar records were available to verify Medicaid data reported by the states. Copies of our questionnaires and survey results can be obtained by writing to

U.S. General Accounting Office
NGB/Income Security
Attention: Ms. Suzanne Sterling
441 G Street NW
Washington, DC 20548.

Nationwide and state-by-state data matching overpayment collections with the year the overpayments occurred were not available for any of the programs. In the absence of such data to calculate recovery rates, we developed a proxy measure of an individual state's recovery performance for each of the three programs by dividing the overpayment dollars recovered by each state in 1992 by quality control estimates of overpayment dollars²¹ for that year from ACF, FCS, and HCFA.²² We realize that a one-to-one correspondence does not exist between overpayments made and recovered in a given year. For example, overpayments can occur a year or more before they are identified and established as claims; then

²⁰The District of Columbia did not respond to our Medicaid overpayment recovery survey.

²¹Estimates of overpayment dollars were calculated by multiplying the error rate by 1992 benefit expenditures.

²²The estimate of Medicaid overpayments does not include Medicaid expenditures for individuals whose Medicaid eligibility is based upon their eligibility for Supplemental Security Income, Indian Health Services, and AFDC while in foster care, which generally is not determined by the state.

collections can continue to be received years after the overpayment claims were established. We believe, however, that this proxy measure reasonably reflects the variation in the 1992 recovery performance among states.²³

To help determine the more effective practices that states use to collect overpayments, for each program, we ranked the states by the collection-to-overpayments ratio developed from the proxy measure of states' recovery performance. We then divided the states into high-, middle-, and low-performance categories for each program, with approximately one-third of the states in each of the three groups, as shown in table I.1. We defined high-performing states as those with an AFDC recovery rate of 20 percent or greater, a Food Stamp recovery rate of 10 percent or greater, or a Medicaid recovery rate of 3 percent or greater.

Table I.1: High-, Middle-, and Low-Performing States' AFDC, Food Stamp, and Medicaid Overpayment Recovery Levels (Fiscal Year 1992)

Program	High		Middle		Low	
	Percent	Number of states	Percent	Number of states	Percent	Number of states
AFDC	20 or greater	19	10 to less than 20	16	Less than 10	15
Food Stamp	10 or greater	15	7 to less than 10	16	Less than 7	20
Medicaid	3 or greater	10	1 to less than 3	8	Less than 1	9

Note: The data used to calculate the recovery rates were provided by 49 states and the District of Columbia for the AFDC program, 50 states and the District of Columbia for the Food Stamp program, and 27 states for the Medicaid program.

By categorizing the states this way, we could analyze our survey data to determine if high-performing states differed from low-performing states in the number or kind of practices used to establish or collect overpayments. We also used this ranking of states' performance to estimate the potential for additional collections if lower performing states raised their recovery efforts to the level of high-performing states. Our estimate of the additional collections represents gross collections and is not net of the cost of obtaining them.

²³As a further test of our Food Stamp proxy measure (6.5 percent recovery rate nationwide), we compared Food Stamp collection and estimated overpayment data for 1988 through 1993 and derived a 7.4 percent nationwide recovery rate for the 6-year period. The data are from FCS' annual quality control and state activity reports. However, similar data are not available for the AFDC and Medicaid programs.

We also interviewed federal and state officials to better understand their recovery policies and practices. We interviewed officials from ACF, FCS, and HCFA; Treasury's Financial Management Service and IRS; and seven states (California, Maryland, North Carolina, Oregon, Tennessee, Texas, and Wisconsin). We focused our interviews on four aspects of recovery: (1) recovery organization and coordination; (2) use of specific identification and collection methods; (3) factors that hinder recovery; and (4) federal oversight, monitoring, and guidance of state recovery efforts.

To determine what the federal government can do to help states recover more overpayments, we reviewed the federal laws and regulations for each program. In addition, as presented in appendix VI, we estimated the additional overpayments that could be collected if certain legislative or regulatory provisions that facilitate recovery in one program were extended to the others. Our estimate of additional recoveries represents gross collections and is not net of the cost of obtaining them.

States' Performance in Recovering AFDC Overpayments, Fiscal Year 1992

High (20 percent and greater)		Middle (10 to less than 20 percent)		Low (Less than 10 percent)	
State	Percent of estimated overpayments recovered	State	Percent of estimated overpayments recovered	State	Percent of estimated overpayments recovered
North Dakota	67.0	Idaho	18.7	Iowa	9.7
Nevada	63.4	South Carolina	17.4	Michigan	8.8
Oregon	40.1	Oklahoma	17.2	Connecticut	8.5
New York	39.0	North Carolina	16.5	Tennessee	7.5
Nebraska	35.7	Delaware	16.2	Maryland	7.4
Illinois	35.3	Alabama	15.0	Ohio	6.9
Georgia	34.4	Virginia	14.6	Wisconsin	6.3
Utah	33.5	Montana	14.5	Mississippi	6.1
Colorado	30.1	Arkansas	14.3	Texas	6.0
Hawaii	27.8	Arizona	12.6	West Virginia	5.9
Minnesota	26.7	Missouri	12.4	Pennsylvania	4.9
New Mexico	25.6	Rhode Island	12.0	Louisiana	4.8
South Dakota	24.8	New Jersey	11.9	Florida	2.6
Washington	24.4	Indiana	11.0	New Hampshire	2.0
Kentucky	23.9	Massachusetts	10.5	Maine	1.1
California	23.7	Vermont	10.3		
Wyoming	21.7				
Alaska	21.0				
Washington, D.C.	20.8				

Note: AFDC recovery information was not available for Kansas.

States' Performance in Recovering Food Stamp Overpayments, Fiscal Year 1992

High (10 percent and greater)		Middle (7 to less than 10 percent)		Low (Less than 7 percent)	
State	Percent of estimated overpayments recovered	State	Percent of estimated overpayments recovered	State	Percent of estimated overpayments recovered
Hawaii	29.1	South Dakota	9.8	North Carolina	6.2
North Dakota	18.1	Alaska	9.3	Connecticut	6.0
Utah	16.7	New Jersey	9.3	Maryland	6.0
Oregon	16.6	Kansas	8.9	Arizona	5.9
Idaho	15.3	Montana	8.7	Texas	5.8
Colorado	14.5	Iowa	8.5	New Hampshire	5.6
Wisconsin	13.0	Vermont	8.3	Oklahoma	5.5
Alabama	12.6	Washington	8.3	Washington, D.C.	5.4
Georgia	12.6	South Carolina	8.3	New York	5.2
Illinois	12.5	Missouri	8.1	West Virginia	5.2
Wyoming	12.5	New Mexico	8.0	Nevada	4.1
Arkansas	11.1	Nebraska	8.0	Tennessee	3.9
California	10.4	Maine	7.8	Virginia	3.7
Pennsylvania	10.3	Minnesota	7.5	Massachusetts	3.7
Kentucky	10.2	Delaware	7.3	Mississippi	3.1
		Michigan	7.1	Louisiana	3.1
				Indiana	3.0
				Rhode Island	2.6
				Ohio	2.5
				Florida	1.3

States' Performance in Recovering Medicaid Overpayments, Fiscal Year 1992

High (3 percent and greater)		Middle (1 to less than 3 percent)		Low (Less than 1 percent)	
State	Percent of estimated overpayments recovered	State	Percent of estimated overpayments recovered	State	Percent of estimated overpayments recovered
Alabama	13.4	Alaska	2.7	Nevada	.8
Idaho	10.8	Oregon	2.3	Hawaii	.7
Maryland	10.0	New Jersey	2.3	Nebraska	.6
Utah	7.3	Washington	2.0	South Dakota	.5
New Mexico	6.4	Wyoming	1.7	Texas	.5
Montana	6.2	Iowa	1.5	Georgia	.2
Arkansas	5.2	North Carolina	1.4	Kentucky	.2
Missouri	3.7	Delaware	1.3	South Carolina	.1
California	3.4			Florida	less than .1
Colorado	3.2				

Note: Medicaid recovery information was not available for Arizona, Connecticut, District of Columbia, Illinois, Indiana, Kansas, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, New Hampshire, New York, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Vermont, Virginia, West Virginia, and Wisconsin.

Comparison of Recovery Efforts of High- and Low-Performing States

The following tables provide additional information on our analyses of the recovery practices that successful states use to establish and collect overpayments as discussed in chapter 2.

Table V.1: For the AFDC or Food Stamp Programs, a Greater Percentage of High- Than Low-Performing States Used Self-Initiated Computer Matches to Identify Overpayments

Program ^a	High		Low	
	Number of states	Percent	Number of states	Percent
AFDC	18 of 19	95	10 of 15	67
Food Stamp	15 of 15	100	15 of 20	75

^aThere was relatively little difference between high- and low-performing states for the Medicaid program for this individual practice, and, therefore, the program is not included in the table.

Table V.2: For the AFDC or Food Stamp Programs, a Greater Percentage of High- Than Low-Performing States Used Multiple Approaches to Identify Overpayments

Program ^a	High		Low	
	Number of states	Percent	Number of states	Percent
AFDC	15 of 19	79	10 of 15	67
Food Stamp	11 of 15	73	13 of 20	65

Note: In this report, those states that use at least all of the following methods to identify potential overpayments are considered as using multiple approaches: (1) self-initiated computer matches; (2) quality control reviews; (3) fraud hotlines; (4) client application procedures; (5) client recertification process; and (6) methods other than those listed, such as supervisory reviews of client applications processed by eligibility staff.

^aThere was relatively little difference between high- and low-performing states for the Medicaid program for this individual practice, and, therefore, the program is not included in the table.

Table V.3: For the AFDC, Food Stamp, or Medicaid Programs, the Total Types of Difficult Collections That States Reported They Would Attempt Was Higher in High- Than Low-Performing States

Program	High		Low	
	Number of states ^a	Total types (average)	Number of states ^a	Total types (average)
AFDC	19	5	15	4
Food Stamp	15	5	20	4
Medicaid	10	6	9	4

Note: More difficult types of collection include collections of overpayments from current or former clients for each of the following situations: (1) current client who declared bankruptcy, (2) current client who could not repay the debt, (3) former client who moved out of state, (4) former client with no forwarding address, (5) former client who declared bankruptcy, (6) former client who could not repay the debt, and (7) former client who was deceased.

^aExcludes state(s) in each performance category that did not respond to the question.

Appendix V
Comparison of Recovery Efforts of High-
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Table V.4: For the AFDC, Food Stamp, or Medicaid Programs, the Median Caseload Per Eligibility Staff Was Lower in High- Than Low-Performing States

Program	High		Low	
	Number of states ^a	Median caseload	Number of states ^a	Median caseload
AFDC	14	218	10	332
Food Stamp	11	230	11	321
Medicaid	4	216	6	254

^aExcludes state(s) in each performance category that did not respond to the question.

Table V.5: For the AFDC, Food Stamp, or Medicaid Programs, the Average Percent of Total Staff Who Were Recovery Specialists Was Higher in High- Than Low-Performing States

Program	High		Low	
	Number of states ^a	Average percent	Number of states ^a	Average percent
AFDC	13	4	8	3
Food Stamp	13	7	12	3
Medicaid	6	5	9	4

Note: Total staff include eligibility staff, recovery specialists, and fraud investigators.

^aExcludes state(s) in each performance category that did not respond to the question.

Table V.6: For the AFDC or Food Stamp Programs, the Average Percent of Total Staff Who Were Fraud Investigators Was Higher in High- Than Low-Performing States

Program ^a	High		Low	
	Number of states ^b	Average percent	Number of states ^b	Average percent
AFDC	13	4	8	2
Food Stamp	13	8	12	3

Note: Total staff include eligibility staff, recovery specialists, and fraud investigators.

^aThere was relatively little difference between high- and low-performing states for the Medicaid program for this individual practice, and, therefore, the program is not included in the table.

^bExcludes state(s) in each performance category that did not respond to the question.

Table V.7: For the AFDC, Food Stamp, or Medicaid Programs, a Greater Percentage of High- Than Low-Performing States Used State Income or Property Tax Refund Intercept to Collect Overpayments

Program	High		Low	
	Number of states ^a	Percent	Number of states	Percent
AFDC	10 of 18	56	6 of 15	40
Food Stamp	10 of 15	67	8 of 20	40
Medicaid	6 of 10	60	2 of 9	22

^aExcludes state(s) in each performance category that did not respond to the question.

Appendix V
Comparison of Recovery Efforts of High-
and Low-Performing States

Table V.8: For the AFDC, Food Stamp, or Medicaid Programs, a Greater Percentage of High- Than Low-Performing States Used More Multiple Approaches to Collect Overpayments

Program	Number of collection methods used	High		Low	
		Number of states ^a	Percent	Number of states	Percent
AFDC	11	5 of 19	26	0 of 15	0
Food Stamp	12	7 of 15	47	7 of 20	35
Medicaid	6	4 of 10	40	1 of 9	11

Note: In this report, states that use all or most of the following collection methods to recover overpayments from current or former clients are considered as using multiple approaches: (1) recouping of benefits (AFDC and Food Stamp only), (2) collecting Food Stamp coupons, (3) collecting voluntary cash payments, (4) collecting cash payments after referring to collection agency, (5) collecting cash payments after using small claims court, (6) collecting wage garnishments, (7) using property liens, (8) intercepting unemployment compensation benefits, (9) intercepting state income or property tax refunds (available in states with state income or property tax), (10) intercepting federal income tax refunds (Food Stamp only), or (11) using other collection method not listed above such as intercepting state lottery winnings.

^aExcludes state(s) in each performance category that did not respond to the question.

Table V.9: For the AFDC or Food Stamp Programs, a Greater Percentage of High- Than Low-Performing States Had Automated Billing Systems With a Full Range of Functions

Program ^a	High		Low	
	Number of states	Percent	Number of states	Percent
AFDC	13 of 19	68	6 of 15	40
Food Stamp	12 of 15	80	9 of 20	45

Note: In this report, we define as “full range” those automated systems that could do at least all of the following functions: (1) generate adverse action notices/demand letters, (2) generate overpayment statements to clients, (3) deduct part or all of the overpayments from a current or future welfare benefit, (4) track a client’s current overpayment balance, and (5) identify delinquent claims.

^aThere was relatively little difference between high- and low-performing states for the Medicaid program for this individual practice, and, therefore, the program is not included in the table.

Table V.10: For the AFDC, Food Stamp, or Medicaid Programs, a Greater Percentage of High- Than Low-Performing States Had All or Almost All of Their Overpayment Records in an Automated Billing System

Program	High		Low	
	Number of states ^a	Percent	Number of states ^a	Percent
AFDC	14 of 18	78	10 of 15	67
Food Stamp	14 of 15	93	15 of 20	75
Medicaid	7 of 8	88	5 of 8	63

^aExcludes state(s) in each performance category that did not respond to the question.

Effect of Extending Effective Federal Recovery Provisions to One or More Programs Could Potentially Increase Collections

The following tables provide additional information supporting our estimates of the additional overpayments that could be recovered from establishing more uniform federal recovery provisions among the AFDC, Food Stamp, and Medicaid programs.

Table VI.1: Estimate of Additional Food Stamp Overpayment Recoveries If States Were Required to Reduce Benefits (Recoupment) to Recover Overpayments Resulting From Agency Errors

Dollars in millions	
Estimated overpayments due to agency error ^a	\$688.4
Claims establishment rate for client error overpayments ^b	.177
Estimated overpayment claims established	\$121.8
Claims collection rate for agency overpayments ^c	.41
Estimated overpayment claims collected	\$50.0
Less actual overpayment claims collected	\$17.0
Estimated additional overpayment collections	\$33.0

^aBased on 1992 quality control review data provided by the Food and Consumer Service.

^bWe assumed that with recoupment without the client's consent states would establish overpayment claims at the same rate that they did for client error overpayments.

^cWe assumed that with recoupment without the client's consent states would collect overpayment claims at the same rate as for agency error overpayments. In doing this, we were taking a conservative approach because the agency error collection rate was lower than that for client error overpayments.

To estimate potential additional collections from using federal income tax refund intercept for AFDC and Medicaid overpayments, as shown in tables VI.2 and VI.3, we used information provided by the United Council on Welfare Fraud, Inc., a program integrity advocacy group, and survey data provided by state agencies. Information from the Council included a ratio of the dollar amount of Food Stamp overpayments collected using state income tax intercept to the overpayments collected using federal tax intercept, based on a Council study of Alabama's and California's experience using federal tax refund intercept in 1992. To estimate the additional collections for the AFDC and Medicaid programs, we multiplied the total AFDC and Medicaid overpayments collected using state tax intercept in 1992 by the ratio provided by the Council. We assumed that the relationship between the overpayment amount collected using state income tax intercept and the amount collected using a federal income tax intercept for any state would be the same as that for Food Stamp overpayments.

Appendix VI
Effect of Extending Effective Federal
Recovery Provisions to One or More
Programs Could Potentially Increase
Collections

Table VI.2: Estimate of Additional AFDC Overpayment Collections for 24 States If Federal Income Tax Refund Intercept Were Available as an Overpayment Collection Method

Dollars in thousands	
Collections by 24 states using state income tax refund intercept ^a	\$8,360.7
Ratio of state income tax refund intercept to federal income tax refund intercept ^b	.375:1
Estimate of collections for 24 states by using federal income tax refund intercept	\$22,295.2

^aData developed from state responses to GAO nationwide survey of state AFDC agencies.

^bBased on data provided by the United Council on Welfare Fraud, Inc.

Table VI.3: Estimate of Additional Medicaid Overpayment Collections for 11 States If Federal Income Tax Refund Intercept Were Available as an Overpayment Collection Method

Dollars in thousands	
Collections by 11 states using state income tax refund intercept ^a	\$472.5
Ratio of state income tax refund intercept to federal income tax refund intercept ^b	.375:1
Estimate of collections for 11 states by using federal income tax refund intercept	\$1,259.9

^aData developed from state responses to GAO nationwide survey of state Medicaid agencies.

^bBased on data provided by the United Council on Welfare Fraud, Inc.

Comments From the Department of Agriculture



United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park Center Drive
Alexandria, VA 22302

MAY 05 1995

Leslie G. Aronovitz, Associate Director
Income Security Issues,
Health, Education and Human Services Division
General Accounting Office
Washington, DC 20548

Dear Ms. Aronovitz:

On behalf of the Food and Consumer Service (FCS), I would like to thank you for the opportunity to comment on the General Accounting Office's (GAO) Draft Report, WELFARE BENEFITS: Potential to Recover Hundreds of Millions More in Overpayments. We agree that more can be done to recover overpayments in the operation of Public Assistance Programs, and we are encouraged by many of the observations and conclusions made by the GAO. However, we would like to clarify a few of the observations raised by GAO with respect to the operation of the Food Stamp Program.

We believe that GAO is correct in its assertion that the chief reason why some States are more successful than other States in collecting overpayments is that these States establish more recipient claims. The Quality Control system that measures a State's performance, in part, by determining the value of overpayments is based on a small but statistically valid review of State certification activity. The system does project an overpayment error rate that when applied to the total value of benefits issued, identifies a total potential loss due to overpayment. The Quality Control system cannot identify the specific cases throughout the caseload where this occurs. Developing and implementing the tools to identify these cases and dedicating the time necessary to determine the actual overpayment are the critical and often time consuming tasks necessary to establishing recipient claims.

GAO identifies that the Food Stamp Program collects an estimated 7 percent of the annual loss to overpayment. It should be acknowledged that in recent years, Food Stamp State agencies have been increasing their collections of overpayments, due in part to initiatives such as the Federal Tax Refund Offset Program. At present State agencies are collecting recipient claims at a rate that is nearly half of what is being established annually.

Leslie Aronovitz

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The Food and Consumer Service has two fundamental objectives in the area of Payment accuracy and Program integrity. The Agency is committed to working with Food Stamp State agencies to reduce the errors that lead to Program overpayments. At FCS Headquarters a core team has been created to work exclusively on the development and coordination of payment accuracy issues. We are also looking for methods and incentives to encourage State agencies to devote the necessary resources to develop more recipient claims. The Agency is currently reevaluating its existing Program Regulations in the area of Food Stamp recipient claims and is looking for avenues that would encourage the development of additional claims.

In describing the potential implications that welfare reform may have on collecting overpayments, GAO asserts that under a block grant approach State agencies would have an increased financial interest in ensuring that funds are expended only on those who are eligible. We believe that this is an opinion, not a statement of fact. How effective States can be in providing accurate payments under block grant funding is largely dependent upon the nature of the eligibility standards that replace the existing Federal standards and the burden on State staff in ensuring accurate eligibility determinations. A capped level of funding does not automatically presume that there will be fewer overpayment errors or increased availability of State staff to pursue collecting overpayments caused by those errors.

We would like to clarify GAO's observation that "USDA supports the current law, which provides an exception for recoupment of State agency error overpayments, because it believes that it is fairer to the client." That is not an accurate assessment of this Agency's position. As correctly noted by GAO, USDA did support the concept of using such recoupment for State agency error claims in 1986. Further, on April 27, 1993, USDA recommended the recoupment of State agency error claims in a bill Secretary Espy sent to the Speaker of the House of Representatives in support of the Administration's Fiscal Year 1994 budget. Congress did not act on the recommendation. FCS officials have recently stated that, as part of efforts to improve program integrity and simplify program operations, FCS is again evaluating the efforts needed to ensure that State agency claims are treated in the same manner as other categories of recipient claims. This includes involuntary recoupment of State agency error claims and the referral of these claims to the Federal Tax Offset and Federal Salary Offset Programs.

Leslie Aronovitz

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In GAO's calculation of the increased benefit provided by allowing involuntary recoupment of State agency error claims (Page 62, Appendix VI), GAO assumes that Food Stamp State agencies would develop and establish State agency error claims at a level equal to the level of claims established for client overpayments. We believe that this is an optimistic projection. Food Stamp State agencies may retain a portion of the collection of an overpayment that occurred due to client error; they may not do so for State agency claims. Thus, there is a clear advantage to States to devote the limited resources that are available to establish (and collect) client error claims over State agency claims. Although many State agencies would aggressively pursue the establishment of State agency error claims, we do not believe that involuntary recoupment alone would provide sufficient incentive for the level of increase anticipated by GAO.

Under separate cover, we have provided GAO with additional, "technical corrections" to this Draft Report. Please let us know if we may be of further assistance.

Sincerely,



William E. Ludwig
Administrator

Comments From the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAY 12 1995

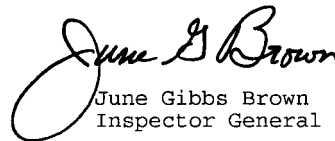
Ms. Leslie G. Aronovitz
Associate Director,
Income Security Issues
United States General
Accounting Office
Washington, D.C. 20548

Dear Ms. Aronovitz:

Enclosed are the Department's comments on your draft report, "Welfare Benefits: Potential to Recover Hundreds of Millions More in Overpayments." The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely yours,


June Gibbs Brown
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for General Accounting Office reports. The OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

Appendix VIII
Comments From the Department of Health
and Human Services

**COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE
U.S. GENERAL ACCOUNTING OFFICE'S DRAFT REPORT: "Welfare Benefits:
Potential to Recover Hundreds of Millions More in Overpayments."
(GAO/HEHS-95-111)**

The Department agrees with the overall focus of the General Accounting Office's (GAO) draft report that Federal and State efforts to recover welfare benefit overpayments fall short of the potential for recovery. We believe there is a substantial potential for increase in Aid to Families with Dependent Children (AFDC) recoveries if lower-performing States improved to the level of the high performing ones. Accordingly, we believe that the Federal agencies and States must emphasize the need to maintain payment accuracy as well as find methods to better identify and recover overpayments. Development of additional collection tools is of mutual concern.

The Department offers the following general and technical comments:

General Comments

While we probably would not disagree with the summary results and principal findings of this report, the quality of the analysis and the discussion raises the concern that readers may not fully understand the significance of its findings. For example: (1) as noted below, in several places, the discussion of program administration, rules, and procedures is sometimes imprecise and may lead to misunderstandings; and (2) there is some selective citing of findings which may exaggerate differences in the characteristics of high- and low-performing States.

Of additional importance is the fact that State eligibility workers who spend their time recovering overpayments have to lessen their efforts on making the client population self-sufficient. The report needs to acknowledge that the programs have multiple goals that often require trade-offs.

We would hope that a report such as this would provide a little more insight as to where the State and Federal governments should focus their attention and resources in order to improve their collections of overpayments. Unfortunately, this report is not very helpful in terms of sorting out which practices are most cost-effective. In fact the report needs to admit that conclusive data on cost-effectiveness is not available. However, if GAO has data or other arguments which identify cost-effective practices, we recommend that these be included in the report.

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Comments From the Department of Health
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It is extremely difficult to evaluate the information and conclusions in the report without more information on the survey instrument, the State responses, the types of data validation done, etc. For example, we could assume that different definitions of high-performing States would result in different estimates of potential collections, but we do not know how sensitive the collection estimates are to the specific definitions that have been selected. Further, the reader does not know how sensitive the report's other conclusions are to the definitions of high-performing and low-performing. On the surface, it seems the definitions are quite arbitrary, but this may not be the case. This issue is important because some of the report's conclusions are based on rather small differences between high-performing and low-performing States; we would want to know if the differences are real or more an artifact of the selected definitions. We also noted that States jump around in their rankings relative to the three programs, some very dramatically (for example, New York is high in AFDC and low in Food Stamps whereas Wisconsin is the opposite). What are the reasons for these differences? Is it because of differential effort or data problems? We recommend that you provide an explanation for these differences.

Also, it would be helpful to know on what basis practices were listed as "most promising." Was it on the basis of discussions with program experts or State officials, a survey, or some kind of statistical analysis?

While we would agree that timely actions are important to overpayment collections it would have been helpful to learn something of the underlying State practices which helped produce timely actions. From other parts of the report, one might infer that staffing and automation are part of the answer, but a more specific discussion would help. Also, if there were some more detailed context provided with respect to the process of identifying and verifying overpayments and establishing claims (including definitions of the terms, "potential overpayment identified," "overpayment verified," and "overpayment claim established"), it might be easier to discern how time was being lost or gained.

The report mentions that the percentage of overpayments recovered is an estimate because there is not a direct correspondence between the year of overpayment and the year of collection. However, we would recommend that the report acknowledge that there are several ways in which the numerator and denominator do not correspond; thus, we do not really know what percent of overpayments are collected. For example, the numerator and denominator do not match because the definition of overpayments

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for quality control purposes differs from the general meaning of the term as would apply to overpayment collections. Also, the report should probably mention that we would not expect any State to collect the amount of overpayments estimated through the quality control system because those estimates are based on a sample rather than a measure of the actual universe. As such, there would not be any way to detect the full universe unless one did a quality control-type review on all cases. Such a review would be prohibitively expensive.

The report discusses the differences in funding for AFDC and Food Stamp benefits, but reads as if the respective State and Federal roles under the AFDC, Medicaid, and Food Stamp programs are comparable. It would be helpful to clarify that there is more State flexibility in the administration of the AFDC program than in the Food Stamp program. For example, pages two and three indicate that States determine AFDC benefit levels, however, Federal rules govern Food Stamp benefit levels, with State and/or local agencies determining benefits for individual households.

Moreover, the report should acknowledge, earlier and more directly, that AFDC may be locally administered; in other words, some mention of local administration should be included in the text of the report rather than in footnote number nine only. References to States and the State agency in some instances should be changed to "State and local."

Perhaps, it should explicitly mention that the savings estimates are probably overstated inasmuch as the higher performing States probably have higher staffing levels and more highly developed computer systems. Also, the question is raised whether a quick analysis could be done to determine whether there are differences in overall administrative costs among the categories of States.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Acknowledgments

In addition to those named above, the following individuals made important contributions to this report: Mark Vinkenæs assisted with questionnaire development, Kathleen Ward assisted with the methodology and data analysis, Jean Freeman developed the data entry programs and keypunched questionnaire data, and Sara Peth provided data verification assistance.

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