

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

REVISED FISCAL NOTE: This fiscal note is a revision of the note issued on 6/14/95. The note has been revised to reflect new information from the Department of Human Resources which reduces the costs for automation and eliminates costs for counties.

BILL NUMBER: HB 479 (Third Edition)

SHORT TITLE: AFDC Fraud Control Program

SPONSOR(S): Rep. Howard

FISCAL IMPACT:

Expenditures:	Increase (X)	Decrease ()
Revenues:	Increase ()	Decrease ()
No Impact ()		
No Estimate Available ()		

FUND AFFECTED:

General Fund (X)	Highway Fund ()	Local Fund ()
Other Funds ()		

BILL SUMMARY:

The proposed legislation requires the Department of Human Resources to immediately implement the optional Aid to Dependent Children (AFDC) Fraud Control program pursuant to 45 CFR 235.112. Directs the Department to award incentive bonuses equal to one-half of the State's distributive share of the fraudulent AFDC benefit to counties who recoup fraudulent claims under the AFDC Fraud Control Program. Directs the Department to develop and implement a statewide automated system to track AFDC fraud claims and collect such claims.

EFFECTIVE DATE: Upon Ratification.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:

Department of Human Resources

Division of Social Services
Division of Information Management

County Departments of Social Services

FISCAL IMPACT

	<u>FY</u> 1996-97	<u>FY</u> 1997-98	<u>FY</u> 1998-99	<u>FY</u> 1999-00	<u>FY</u> 2000-01
TOTAL EXPENDITURES	\$207,441*	\$40,592	\$41,222	\$41,844	\$42,470
FEDERAL FUNDS	\$86,442*	\$1,977	\$2,036	\$2,097	\$2,160
STATE FUNDS	\$120,999*	\$38,615	\$39,185	\$39,746	\$40,309
LOCAL FUNDS	-0-	-0-	-0-	-0-	-0-
POSITIONS:	(0)	(0)	(0)	(0)	(0)

* Includes one-time expenditures for development of an automated system and for training (\$170,930 of the total expenditures and \$85,279 from state funds).

ASSUMPTIONS AND METHODOLOGY:

1. **County Staff Costs:** Federal regulations for the Optional AFDC Fraud Control Program used to require counties to have specific staff designated as fraud investigators, but the latest rules have eliminated this specific requirement. While all counties are required to administer the current AFDC fraud detection and prevention program, twenty counties do not have staff specifically designated as fraud investigators. Since the staff designation requirement has been eliminated, it is assumed for the purposes of this fiscal note that no additional fraud control staff will be hired by the twenty counties which do not have staff specifically designated for fraud control.

2. **Other Administrative Costs:** The implementation of HB 479 would require some one-time and on-going administrative costs at the state level. Administrative costs include (1) printing required notices, instructions, and training materials (\$16,000 in 1996-97 and \$2,000 in subsequent years); (2) postage for notices produced by the AFDC Claims System and mailed by the State (\$1,954 each year); and (3) training for the counties through four teleconference sessions at 35 sites across the State (\$16,000 in 1996-97). Training is currently provided through teleconferences. A 3% annual growth factor is assumed in years following 1996-97. The administrative costs would be funded with 50% federal funding and 50% state funding.

3. **Automated AFDC Claims System:** HB 479 requires the Department to develop and implement a statewide automated system to track AFDC fraud claims and to assist in the collection of such claims. The Division of Information Management (DIRM) in the Department of Human Resources has estimated the cost to develop an AFDC Claims System by reviewing the existing claims system for the Food Stamp program. In addition, DIRM has included in its estimate the capability to make incentive payments to counties. The one-time cost estimate to automate these two functions has been reduced to \$149,930 from the original \$500,000 because DIRM has determined that the existing Claims Account System can be modified to accommodate claims tracking for AFDC cases. The original estimate assumed that a new free-standing system was needed. It is assumed that the on-going maintenance of the system in years following 1996-97 will be absorbed into the existing operating budget for maintaining computer systems. The cost for the Automated AFDC Claims System would be funded with 50% federal funding and 50% state funding.

4. Incentive Payments to Counties: HB 479 requires the Department to award incentive bonuses equal to one-half of the State's distributive share of the fraudulent AFDC benefit to counties who recoup fraudulent claims under the AFDC Fraud Control Program. Under the current fraud detection and prevention program, AFDC fraud claims recouped by the counties are distributed based on the Federal Financial Participation (FFP) rate during the year the AFDC benefit was paid. For example, a fraudulent AFDC claim of \$1,000 paid in 1995-96 and recouped in 1996-97 would be distributed in the following manner: Federal share - \$646 (64.62%), State share - \$177 (17.69%), and County share \$177 (17.69%). Under HB 479, the distribution would be as follows: Federal Share - \$646 (64.62%), State share - \$88 (one-half of 17.69% of the total claim), and County share - \$266 (17.69% of the total and one-half of the State share of the claim).

Based on past collections, counties are collecting an estimated \$348,000 in fraudulent AFDC claims annually. Based the experience of the Food Stamp program when it implemented a similar fraud control program, it has been assumed that collection of fraudulent AFDC claims will increase over current collections by 10% in 1996-97(\$383,800) and 15% in subsequent years (\$400,200). Incentive payments for counties have been determined using these assumptions. In addition, the following FFP rates have been assumed:

The following FFP Rates and Incentive Payments have been revised because rates have been updated and reduced by the federal government.

Fiscal	FFP Rates		Incentive Payments		
	<u>Year</u>	<u>Federal</u>	<u>State</u>	<u>County</u>	<u>To Counties</u>
	1996-97	63.89%	18.06%	18.06%	\$34,557
	1997-98	63.38%	18.31%	18.31%	\$36,638
	1998-99	62.87%	18.57%	18.57%	\$37,149
	1999-00	62.37%	18.82%	18.82%	\$37,649
	2000-01	61.87%	19.06%	19.06%	\$38,149

The incentive payments may offset the cost of the optional AFDC Fraud Control Program in all 100 counties. The incentive payments would be 100% state funded.

SOURCES OF DATA:

Department of Human Resources
 Division of Social Services
 Division of Information Resources
 County Departments of Social Services

FISCAL RESEARCH DIVISION

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