

## Determination of When Outstanding Overpayment Balances Should Be Reported on and Removed from the 227 Report: Reporting and Validation

**Background.** States report outstanding overpayments by age in Section E of the ETA 227 report and validate that section through Data Validation (DV) Population 14. According to the reporting instructions in Handbook 401, after balances have been reported for 8 quarters--or three quarters in the 451+ age category—they are to be removed from the totals on the 227 report, unless the state is still pursuing active collection actions on them. Knowing when overpayment balances are to be reported on the ETA 227 report, and when they are to be removed for reporting purposes (even if still kept on the state’s books for collection purposes) has proven to be a challenge for both report-preparers and validators. This brief instruction reviews the logic and provides some illustrative examples from a validation perspective, including a discussion of the notion of Active Collection Status and pseudo-code of rules for populating this element in the DV record.

**Reporting.** Deciding whether to report an outstanding overpayment requires applying a two-part test:

- The age of the overpayment, measured from the date the overpayment was established (Field 4 of the DV record layout for Population 14) to the end of the report quarter, and
- Whether the overpayment was in active collection status throughout the report quarter (Field 7 of the DV record is a collection status indicator).

The basic reporting rule is report an overpayment balance for eight quarters starting with the quarter in which it is established as an overpayment, and then remove it in the 9<sup>th</sup> quarter unless it is in active collection status at the end of that quarter. Continue to report an overpayment as long as it is being actively collected. In the quarter in which collection action ceases, include it on Line 312, “Receivables Removed at End of Period,” which will ensure that it is excluded from the amount “Outstanding at End of Period” (Line 313).

**Validation.** Data Validation validates this process by using a combination of the overpayment’s age and active collection status in the Population 14 extract record. The tricky part of building this record is proper use of the Active Collection Status (ACS) element, Field 7. This field becomes mandatory as soon as an overpayment is old enough to be reported on Line 506, “451 days or more”—for nearly all overpayments, the 6<sup>th</sup> quarter in which they are reported. (Use of this field for reporting ages 450 days or less is optional.) The ACS field has three acceptable values: N (Not in active collection); Y (Yes, in active collection); and D (Dropped from active collection during the report quarter.) This is how these values must be used:

- N: used for any quarter **through the 9<sup>th</sup> quarter** for which a record is not in active collection status.

- If an overpayment was being actively collected during any of quarters 6, or 7, or 8, but it is not actively collected throughout quarter 9, the record value for the 9<sup>th</sup> quarter must be N.
- Seeing N in combination with 8 previous quarters of reporting, the software will remove the balance.
- **Y:** must be used for any overpayment record for an OP in active collection status that has attained an age of 451 days.
- **D:** this value is used only for overpayments that have been
  - **Reported for at least 9 quarters** prior to the report quarter (RQ), and
  - Were in Active Collection during RQ-1
  - The software uses D as an indicator that the overpayment could not be removed at the usual “reported for 8 quarters” age because active collection kept it in the Outstanding at End of Period balance, but it has been Dropped from active collection during the RQ and will now be removed.

**Scenarios.** The table below gives five scenarios to illustrate the reporting and validation of an overpayment that was established on 6/15/2006, depending on the pattern of collection against it in various quarters. Yellow shading indicates when the overpayment would be reported on the 227 report; blue shading indicates quarter of removal.

- Scenario 1: OP was never in collection. It would be reported on the 227 reports for the period 6/30/2006 through 3/31/2008, and removed thereafter. DV extract files for the quarters 9/30/2007 through 6/30/2008 must contain value of N in Field 7 for this overpayment. It would be a removal record for quarter 6/30/2008. This record would not appear in a DV extract file built after 6/30/2008.
- Scenario 2: This OP is in active collection during the 9/30/2007 and 12/31/2007 quarters (ACS=Y); collection ceased during the 3/31/2008 report quarter and so it is code ACS=N, and it is removed in the 6/30/2008 quarter with ACS=N. If the record had been in active collection in the 3/31/2008 report quarter (ACS=Y), it would also be coded ACS=N in the 6/30/2008 extract file and be removed that quarter. This record would not appear in a DV extract file built after 6/30/2008.
- Scenario 3 and 4: In both of these, the OP was actively collected during the 6/30/2008 (9<sup>th</sup> report) quarter. They differ only in the ACS status in the 8<sup>th</sup> quarter. Collection action ceases during the 9/30/2008 quarter, which the DV record indicates by D (Dropped from active collection) in that quarter, and the software removes it from the reportable balance. These records would not appear in a DV extract file built after 9/30/2008.
- Scenario 5: The OP is in active collection during the 6/30/2008 and 9/30/2008 quarters (ACS=Y), and so it continues to be reported for those quarters. Collection ceases during the 12/31/2008 report quarter and so it is moved to ACS=D and removed so that it is not counted against the reported balance for the 12/31/2008 quarter.

<b>Reporting and Validation of an Overpayment Established on 6/15/2006 Depending on Active Collection Status in Different Quarters</b>									
Report Period		How the Overpayment Would be Reported on ETA 227			Values for Field 7--Collection Status—for this Overpayment in a Pop 14 Data Record for Extract file, by Quarter Validated				
Calendar Quarter	Age at EOQ	#Q reported	Age range	Report on line	1--No collection	2--Early Collection	3--Collection in Q9	4--Collection in Q8,9	5--Collection in Q10
6/30/2006	15	1	<90 days	501	Optional	Optional	Optional	Optional	Optional
9/30/2006	107	2	91-180	502	Optional	Optional	Optional	Optional	Optional
12/31/2006	199	3	181-270	503	Optional	Optional	Optional	Optional	Optional
3/31/2007	289	4	271-360	504	Optional	Optional	Optional	Optional	Optional
6/30/2007	380	5	361-450	505	Optional	Optional	Optional	Optional	Optional
9/30/2007	472	6	451+	506	N	Y	N	N	N
12/31/2007	564	7	451+	506	N	Y	N	N	N
3/31/2008	655	8	451+	506	N	N	N	Y	Y
6/30/2008	746	9	451+	506	N-Removed	N-Removed	Y	Y	Y
9/30/2008	838	10	451+	506	Not reported, No DV	Not reported, No DV	D--Removed	D--Removed	Y
12/31/2008	930				Not reported, No DV	Not reported, No DV	Not reported, No DV	Not reported, No DV	D--Removed

**The meaning of Active Collection Status.** In discussing the removal of OP balances Handbook 401 says that “receivables will be removed from the report after two years *unless recovery is in progress, i.e., currently being offset from a benefit claim, installment payments in progress, legal/civil action in progress, etc.*” (IV-3-9) Although the state must decide what is specifically meant by those actions and any others implied by the “etc.,” the intention of the 401 language is that the state be taking some concrete actions to recover the overpayment. For example, since late 2010 the Treasury Offset Program will make recoveries against all outstanding fraud overpayment balances, and those nonfraud overpayments due to claimants with unreported earnings, by intercepting Federal income tax refunds; however, a state should not automatically code every such overpayment balance as ACS = Y when building the Population 14 record for that reason. Instead, it should only consider them in active collection status if it has an active collection effort underway for the overpayment at the end of the validated quarter.

**Sample Pseudo-code for implementing the ACS indicator in the Population 14 extract file.** The following code expresses the logic behind the use of the Active Collection Status indicator (Field 7) when building the Population 14 extract file:

1. If the age of the OP is less than 450 days, **Active Collection Status indicator, Field 7, is optional (may be null.)**
2. If the age of the OP is > 450 days but less than 821 days, and
  - a. *Recovery is in progress, i.e., OP is currently being offset from a benefit claim, installment payments in progress, legal/civil action in progress, etc.,* **Set indicator for Field 7 to “Y” for “Yes, is in active collection”**
  - b. *If recovery is not in progress,* **Set indicator for Field 7 to “N” for “No, is not in active collection”**
3. *If the age of the OP is > 820 days and*
  - a. *Recovery is in progress, i.e., OP is currently being offset from a benefit claim, installment payments in progress, legal/civil action in progress, etc.,* **Set indicator for Field 7 to “Y” for “Yes, is in active collection”**
  - b. *If recovery is not in progress,* **Set indicator for Field 7 to “D” for “Dropped from active collection”**
  - c. If ACS indicator for previous quarter had been (or would have been) N or D, **do not include this OP in the Population 14 extract file for the current report quarter being validated; that balance should have already been removed for reporting.**
    1. If all or part of a previously-removed balance is subsequently recovered, enter the amount in the Recovery category of Section C (lines 302 and line 303-307 as appropriate) and enter the same amount on line 310, Additions, so that the recovery does not affect the end-of-quarter balance on line 313.