



MAY 13 2002

Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
Boston, MA 02203  
(617) 565-2684

Mr. Jack Murphy  
Director  
Child Support Enforcement  
77 Dorrance Street  
Providence, Rhode Island 02903

Dear Mr. Murphy:

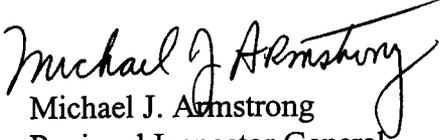
Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services (OAS) report entitled "Review of the Rhode Island Insurance Intercept Program." The period covered by this review was from April 1999 through September 2001.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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To facilitate identification, please refer to Common Identification Number A-01-01-02508 in all correspondence relating to this report.

Sincerely,

  
Michael J. Armstrong  
Regional Inspector General  
For Audit Services

Enclosures - as stated

Direct Reply to HHS Action Official:

Mr. Hugh F. Galligan  
Regional Administrator  
US Department of Health and Human Services  
John F. Kennedy Federal Building, Room 2000  
Boston, MA 02203

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF THE RHODE ISLAND  
INSURANCE INTERCEPT PROGRAM**



**JANET REHNQUIST**  
Inspector General

May 2002  
A-01-01-02508

# ***Office of Inspector General***

<http://oig.hhs.gov/>

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## EXECUTIVE SUMMARY

### BACKGROUND

To launch the insurance intercept claim program, Rhode Island amended its law to require every domestic insurance company that does business in the State to review a secure on-line website when claim payments equal or exceed \$3,000. The purpose of accessing the State's website is to identify insurance claimants to non-custodial parents (NCP) with past due child support and intercept their claim payments. Accordingly, a written notice is sent to the NCP informing him or her of the intercepted amount. The NCP is allowed 30 days to file an appeal. The types of insurance claims that are intercepted include personal injury and workers compensation cases filed by third parties. Upon settlement of the claim, the insurance payment is first reduced by any related attorney and medical provider fees. The remaining balance is then reduced by the amount of outstanding child support. Any remaining balance is paid to the NCP.

### OBJECTIVE

The objective of this review was to evaluate the effectiveness of Rhode Island's procedures for identifying and intercepting insurance claim payments from NCPs with past due child support.

### SUMMARY OF FINDINGS

Our review of Rhode Island's insurance intercept program found that the State collected \$528,583 from 154 of the 364 NCPs whose insurance claims matched with the State's delinquent child support database from April 1999 to August 2001. While the remaining 210 matches were still pending at the time of our review, we estimate that the State could collect as much as \$720,720 from them. In total, the State could collect as much as \$1,249,303 (\$528,583 + \$720,720) in child support from its insurance intercept program for the 364 matches. Our analysis of the \$528,583 that was collected noted that it:

- reduced outstanding child support for the 154 NCPs by 45 percent,
- increased financial support to NCP children, and
- recovered public assistance paid to custodial parents and their children.

From an administrative perspective, the insurance intercept program provided the State IV-D agency with current information to locate NCPs for the purpose of pursuing other enforcement actions, and may increase Federal incentive payments for improved collections. We found that the success of Rhode Island's insurance intercept program is attributable to:

- the significant average collections per case,
- the efficient use of computer based programs to identify potential matches,
- the cooperation of the insurance industry to participate and provide third party claimant information,

- Federal and State laws that provide immunity to insurers from lawsuits for intercepting insurance claim payments, and
- State compliance with due process requirements.

## **RECOMMENDATION**

Rhode Island should continue to pursue the 210 pending cases and provide the Administration for Children and Families (ACF) with program information, including collection results on the State's insurance intercept program. This information would be helpful to assist other States in their decision to implement an insurance intercept program.

## **STATE AGENCY COMMENTS**

The State agency concurred with our results and recommendation. The State has and will continue to attempt collection on the 210 pending cases and will provide ACF with the results of their insurance intercept efforts. The State is currently implementing a new Child Support Lien Network administrative web site that will detail all claims that matched to their delinquent database, while detailing those that are still pending settlement so that their staff can continue efforts to collect on such claims.

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# INTRODUCTION

## Background

In 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). The legislation required states to implement stronger child support enforcement tools, including license and passport suspension, automatic income withholding, liens on assets, and bank data matches. The insurance intercept program is not one of these mandated programs. The PRWORA also required the use of similar enforcement tools across lines. In fiscal year 2000, about 9.9 million non-custodial parents (NCP) owed \$79.4 billion in past due support. In Rhode Island, automated records indicate that the average delinquent NCP cases per month for the quarter ended September 2001 was about 15,500. The Office of Child Support Enforcement within the Administration for Children and Families (ACF) is the Federal agency that oversees the Title IV-D support enforcement program.

To improve child support collections and reduce the amount of past due support, the Rhode Island IV-D agency developed its insurance intercept program. In September 1998, it received a special improvement project grant of \$150,000 from ACF to develop an insurance claim intercept database. In September 1999, additional supplemental funds totaling \$190,000 were provided to expand the State's database and allow other states to participate in the program. The current database, established in 1999, is referred to as the Child Support Lien Network (CSLN). The CSLN is administered and hosted by the Rhode Island IV-D agency. A contracted vendor, Maximus, is responsible for providing operational and technical maintenance and support. Currently, ten States use CSLN to intercept insurance payments. These States include Alaska, Arkansas, Connecticut, Maine, New Jersey, Rhode Island, South Dakota, and Vermont. Two of the ten States, Georgia and Tennessee, are using CSLN in selected counties.

To launch the insurance intercept claim program, Rhode Island amended its law to require every domestic insurance company that does business in the State to review a secure on-line website when claim payments equal or exceed \$3,000. The purpose of accessing the State's website is to identify insurance claimants to NCPs with past due child support and intercept their claim payments. A written notice is sent to the NCP informing him or her of the intercepted amount. The NCP is allowed 30 days to file an appeal. The types of insurance claims that are intercepted include personal injury and workers compensation cases filed by third parties. Upon settlement of the claim, the insurance payment is first reduced by any related attorney and medical provider fees. The remaining balance is then reduced by the amount of outstanding child support. Any remaining balance is paid to the NCP. Although all domestic insurers are required to comply with the State's insurance intercept act, there is no penalty at this time for noncompliance.

Insurers are not required to access the website for claim payments less than \$3,000. Because the State has the right to subpoena settlement records below the \$3,000 threshold, insurers are encouraged to inform the State IV-D agency, via the website, on these settlements so that the appropriate lien and levy action to collect past due child support can be taken.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **Objective**

The objective of this review was to evaluate the effectiveness of Rhode Island's procedures for identifying and intercepting insurance claim payments from NCPs with past due child support.

### **Scope**

Our review was performed in accordance with generally accepted government auditing standards. Our assessment of the internal controls was limited to reviewing insurance intercept practices established at the State IV-D agency. We relied on information contained in the State IV-D agency's computer system, including collections received from insurance companies, the distribution of insurance receipts, child support payment history, and amounts outstanding.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations, policies and procedures;
- interviewed State IV-D officials;
- reviewed information on the State's CSLN insurance intercept program and related operations, including requirements and charges for other States that use CSLN; and
- traced Rhode Island's matched cases for the period from April 1999 through August 2001 and related collections from April 1999 through September 2001 to the State's child support system records and obtained information on collection receipt dates, payment and case histories, allocation and distribution of insurance collections, and outstanding child support balances.

We performed our fieldwork at the State IV-D agency in Providence, Rhode Island, between August 2001 and April 2002. The State's written response was received May 7, 2002 (See Appendix).

## **FINDINGS AND RECOMMENDATION**

Our review of Rhode Island's insurance intercept program found that the State collected \$528,583 from 154 of the 364 NCPs whose insurance claims matched with the State's delinquent child support database from April 1999 to August 2001. While the remaining 210 matches were still pending at the time of our review, we estimate that the State could collect as much as \$720,720 from them. Our analysis of the \$528,583 that was collected noted that it:

- reduced outstanding child support for the 154 NCPs by 45 percent,
- increased financial support to NCP children, and
- recovered public assistance paid to custodial parents and their children.

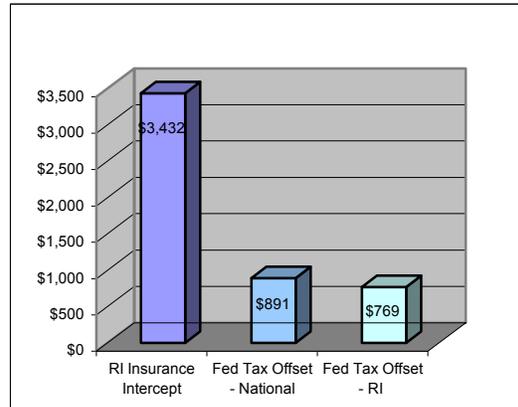
From an administrative perspective, the insurance intercept program provided the State IV-D agency with current information to locate NCPs for the purpose of pursuing other enforcement actions, and may increase Federal incentive payments for improved collections. The program's results can be attributable to several factors, including:

- significant average collections per case;
- efficient use of computer based programs;
- cooperation of insurance companies;
- insurer immunity from lawsuits; and
- compliance with due process requirements.

### **INCREASED CHILD SUPPORT COLLECTIONS**

We found that from April 1999 through August 2001, Rhode Island's insurance intercept program identified 364 matches of NCPs with past due child support. Our analysis disclosed that \$528,583 was collected from insurance payments for 154 of the 364 matches. The remaining 210 cases were still pending settlement at the time of our review. Using the average collection of \$3,432 per case for the 154 cases, we estimate that an additional \$720,720 could be collected from the 210 pending cases. In total, the State could collect as much as \$1,249,303 (\$528,583 + \$720,720) in child support from its insurance intercept program for the 364 matches.

As shown in Figure 1, collections from the 154 intercepted insurance payments averaged \$3,432 per case. In comparison, the Federal tax program averaged \$891 per case at the national level and \$769 per case for Rhode Island.<sup>1</sup> The range of collections from insurance payments intercepted was between \$280 to \$35,634.



**Figure 1 – Comparison of Average Collections for Insurance and Tax Intercepts**

In terms of the cost to operate the insurance intercept program, the Rhode Island IV-D agency contracted with a private vendor to maintain and update the CSLN database, and supply intercepted information. Related costs are borne by the State IV-D agency, which can select from the following two pricing options driven by the volume and match rate of delinquent cases. Payments are made to the contracted vendor.

- **Option 1** uses a two-tier fee structure to charge participating States. Participants are charged \$0.25 per case for the first 99,999 processed cases, and \$0.17 per case for any additional processed cases (100,000 and above).
- **Option 2** charges \$40 to \$60 per match case per month based on volume of case records processed plus a flat monthly maintenance fee of \$1,000 per month.

Using the 364 matches identified by Rhode Island, we determined that the most favorable pricing option would result in a cost of \$50,840 or 4.1 percent of the \$1,249,303 in total estimated collections. Administrative costs for the insurance intercept program are not separately identified by the State, however, a State IV-D official indicated that these costs were not considered significant and would be part of the day to day operations for collecting child support.

## **OTHER ADVANTAGES TO THE STATE IV-D AGENCY**

We also found that the success of the State’s insurance intercept program had direct impact on (i) reducing outstanding child support balances; (ii) updating delinquent NCP addresses; and (iii) potentially increasing Federal IV-D incentive payments that could defray some of the State’s cost for administering the program.

<sup>1</sup> Based on most recent data available from the FY1998 OCSE Annual Report.

## **Reducing Outstanding Child Support Balances**

Collections from the insurance intercept program resulted in significant reductions in outstanding child support balances. Specifically, we found that collections for the 154 cases reduced outstanding child support of \$1.2 million by about 45 percent (\$528,583 collected/\$1.2 million outstanding). The outstanding balances for the 154 collections cases ranged from \$71 to \$99,721 per case.

## **Updating Delinquent NCP Addresses**

The insurance intercept program also serves as a valuable NCP locator tool. Many delinquent NCPs do not provide updated address information to the State IV-D agency as required. Under the intercept program, insurers are requested to furnish the IV-D agency with the NCP claimant's current address. To receive payment for his or her insurance claim, the NCP must furnish a current address.

## **Increasing Federal IV-D Incentive Payments**

Increased collections from the insurance intercept program may result in increased Federal incentive payments, which could be used by the State IV-D agency to offset related costs. Beginning October 1999, State IV-D agencies are subject to new performance measurements that encourage and reward States for performing in a cost effective and efficient manner to secure support for children. Two of the five performance measures include:

- how well they are at collecting some amount of money on cases with outstanding balances, and
- the total dollars collected in the child support program for each dollar expended.

For States with an insurance intercept program, the resulting increase in collections and reduced arrearages should contribute to an increase in IV-D incentive payments. The increase in incentive payments and the 66 percent Federal reimbursement rate for administrative costs should offset the cost for administering the insurance intercept program.

## **Other Amounts Collected**

We found that \$27,695 of \$528,583 in insurance intercept collections was forwarded to other State IV-D agencies. These cases represent NCPs who reside in Rhode Island and their children reside in another State.

## **PROVIDING NEEDED FINANCIAL SUPPORT TO CHILDREN AND RECOVERING PUBLIC ASSISTANCE COSTS**

Under ACF regulations, collections relating to past due child support should be distributed between the NCP family and the State when the family has or is receiving public assistance. We found that collections under the insurance intercept program resulted in both increased financial support to children and recovered public assistance costs.

### **Providing Needed Financial Support To Children**

Our review of the 154 matches with collections showed that 64 percent of them (99 matches relating to 113 families) included families with household incomes barely above the Federal poverty level. Assisting families in collecting child support helps them sustain a better standard of living rather than just getting by on public assistance programs. We found that a total of \$213,325 was collected for the 113 families. Below are two examples where the unpaid financial support was significant.

- *The insurance intercept program identified an outstanding child support balance of \$35,634 for an NCP who was to receive a claim payment of \$600,000. As required, the insurance company intercepted the claim payment for the full amount with \$27,158 going to the NCP's children and \$8,466 was retained by the State IV-D agency to recover public assistance costs as further demonstrated by the examples in the next section.*
- *The intercept program identified another insurance claim for an NCP that owed \$20,345 in outstanding child support. The insurance company intercepted \$15,293 from the claim payment and forwarded the full amount to the NCP's children.*

### **Recovering Public Assistance Costs**

We found that 67 percent of the 154 matches (103 matches relating to 119 families) had or were receiving public assistance and collections to date from intercepted insurance payments offset \$270,075 in related costs. Public assistance costs included Rhode Island (46 percent) and Federal (54 percent) expenditures for Temporary Assistance for Needy Families, Title IV-A (AFDC) and IV-E (Foster Care) programs. Examples of insurance intercept collections that provided substantial recoveries of public assistance costs for taxpayers included:

- *The State IV-D agency retained \$13,783 from an intercepted claim payment of \$15,283 to the NCP. The balance of \$1,500 went to the NCP's children.*
- *The State retained \$12,599 from a claim payment of \$20,334 to the NCP. The balance of \$7,735 went to the NCP's children.*

## **Distributions in Process**

The remaining amount of \$17,488 in collections (\$528,583 less \$213,325 to NCP children, \$270,075 to the State's assistance programs, and \$27,695 to other State IV-D agencies) is under review for appropriate distribution.

## **ATTRIBUTES OF THE STATE'S INSURANCE INTERCEPT PROGRAM**

We found that the success of Rhode Island's insurance intercept program is attributable to:

- Significant average collections per case. As mentioned above, the average collection of \$3,432 per match noticeably exceeds the average collected from Federal and State tax offsets.
- The use of an electronic (computer based) medium to identify potential matches. The State's intercept program provides insurance companies with the following electronic options:
  - looking up each claimant on the secured CSLN website;
  - downloading delinquent child support information from CSLN and matching the file to their claim records;
  - providing claimant files to the State IV-D agency and having these files matched to the CSLN records;
  - contracting with a vendor to conduct automated matches with CSLN records.
- The cooperation of the insurance industry in participating and providing third party claimant information. To promote its program, the State met with insurance companies that conduct business in Rhode Island to request their assistance in obtaining child support from NCPs with outstanding balances. Even though insurance companies doing business in Rhode Island are required by law to participate in the insurance intercept program, they recognized that it is their civic duty to ensure that NCPs are providing the necessary financial support to their children rather than taxpayers.
- Federal and State laws that provide immunity to insurers from lawsuits for intercepting insurance payments.
- Due process procedures that require the State to notify NCPs that they have 30 days to file an appeal of the intercepted payment.

## **RECOMMENDATION**

Rhode Island should continue to pursue the 210 pending cases and provide ACF with program information, including collection results on the State's insurance intercept program. This information would be helpful to assist other s in their decision to implement an insurance intercept program.

## **STATE AGENCY COMMENTS**

The State agency concurred with our results and recommendation. The State has and will continue to attempt collection on the 210 pending cases and will provide ACF with the results of their insurance intercept efforts. The State is currently implementing a new Child Support Lien Network administrative web site that will detail all claims that matched to their delinquent database, while detailing those that are still pending settlement so that their staff can continue efforts to collect on such claims.

# **APPENDIX**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
DIVISION OF TAXATION - CHILD SUPPORT ENFORCEMENT  
77 Dorrance Street,  
Providence, RI 02903

RECEIVED

02 MAY -8 AM 11:00

INS/DIS/OP  
REGION I

May 7, 2002

Mr. Michael J. Armstrong  
Regional Inspector General  
Audit Services  
US Dept. of HHS  
Office of Inspector General  
John F. Kennedy Federal Building  
Boston, MA 02203

Dear Mr. Armstrong,

Re: A 01 01 02508 Review of the Rhode Island  
Insurance Intercept Program

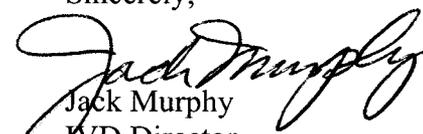
I have received the above report and provide the following written response relative to the findings of the review team.

Rhode Island is very pleased overall with the draft report and its findings. We believe that intercepting insurance claims for past due child support is tremendous new revenue stream that has previously gone untapped by the child support community. We are pleased that your review has made the same findings.

With respect to the report's recommendation that Rhode Island should continue to pursue the 210 cases that have claims that matched to delinquent obligor records, please be advised that we have and will continue to attempt collection on these potential assets and will provide your office and/or the Office of Administration for Children & Families with any results from our efforts in this regard. We are currently implementing a new CSLN administrative web site that will detail all claims that matched to our delinquent database, while detailing those that are still pending settlement so that our staff can continue their efforts to collect on such claims.

Thank you for the review that your staff conducted. We were very impressed with their professionalism and their thoroughness. The review and results presented were very helpful to us in Rhode Island and I am confident that the report's findings will assist other states in their decision making processes in seeking insurance claims as a source for child support enforcement.

Sincerely,

  
Jack Murphy  
IVD Director