



September 30, 2011

TO: George Sheldon
Acting Assistant Secretary
Administration for Children and Families

FROM: /Daniel R. Levinson/
Inspector General

SUBJECT: Rollup Review on States' Reporting of Undistributable Child Support Collections as Program Income (A-05-11-00025)

The attached final report provides the results of our rollup review on States' reporting of undistributable child support collections as program income.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-05-11-00025 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ROLLUP REVIEW ON STATES'
REPORTING OF UNDISTRIBUTABLE
CHILD SUPPORT COLLECTIONS AS
PROGRAM INCOME**



Daniel R. Levinson
Inspector General

September 2011
A-05-11-00025

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Child Support Enforcement Program (program) is a Federal, State, and local partnership, established in 1975 under Title IV-D of the Social Security Act, to collect child support payments from noncustodial parents for distribution to custodial parents. Within the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), the Office of Child Support Enforcement (OCSE) provides Federal oversight of the program.

An undistributable child support collection occurs when the State agency receives a child support payment but cannot identify or locate the custodial parent or return the funds to the noncustodial parent. The OCSE Policy Interpretation Question (PIQ)-88-7 and OCSE-PIQ-90-02 require States to offset program costs by recognizing and reporting undistributable child support collections as program income at the time the funds are considered abandoned under State law. OCSE-PIQ-90-02 states: “Every State has statutes and regulations governing the handling of unclaimed or abandoned property left in its care. OCSE-PIQ-88-7 ... recognizes this fact and encourages each State to utilize these individual State procedures to report undistributable or uncashed ... collections as title IV-D program income.”

States report undistributable collections and program income quarterly on Federal Forms OCSE-34A, Child Support Enforcement Program Collection Report, and OCSE-396A, Child Support Enforcement Program Expenditure Report, respectively.

OBJECTIVES

Our objectives were to summarize the results of our 23 previous audits examining treatment of undistributable child support and identify any systemic problems affecting multiple States.

SUMMARY OF FINDINGS

In our 23 previous audits, we found that 21 States did not recognize and/or report undistributable child support collections as program income in accordance with Federal requirements.

Specifically:

- 17 States did not recognize and report undistributable child support collections totaling \$32,799,395 (\$21,295,917 Federal share) as abandoned and
- 14 States did not report \$16,641,320 (\$11,040,014 Federal share) as program income after the States recognized the funds as undistributable child support collections.

These deficiencies occurred because States did not classify undistributable child support collections as abandoned and/or did not require that abandoned property be transferred to the States' abandoned-property accounts. In addition, certain States were not aware of OCSE's reporting requirements.

RECOMMENDATIONS

We recommend that ACF either:

- develop a uniform Federal policy for reporting undistributable child support as program income that does not rely on States' definitions of abandoned property
- or
- provide increased oversight of States to ensure the appropriate reporting of outstanding undistributable child support collections that qualify as abandoned property and
- issue guidance that collections determined to be undistributable should be reclassified and reported as program income when the State, in accordance with State laws and regulations, defines these funds as abandoned.

ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In written comments on our draft report, ACF stated that it is addressing the issue of undistributable child support collections in response to our work and will provide policy guidance and reiterate its reporting requirements. ACF's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Child Support Enforcement Program

The Child Support Enforcement Program (program) is a Federal, State, and local partnership, established in 1975 under Title IV-D of the Social Security Act, to ensure that noncustodial parents support their children. Under the program, State and local entities collect child support payments from noncustodial parents and distribute the payments to custodial parents. Within the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), the Office of Child Support Enforcement (OCSE) sets program standards and policy, evaluates performance, offers technical assistance, and reimburses States for a portion of their program costs.

Requirements for Reporting Program Income

An undistributable child support collection occurs when the State agency receives a child support payment but cannot identify or locate the custodial parent or return the funds to the noncustodial parent. The OCSE Policy Interpretation Question (PIQ)-88-7 and OCSE-PIQ-90-02 require States to offset program costs by recognizing and reporting undistributable child support collections as program income at the time the funds are considered abandoned under State law. OCSE-PIQ-90-02 states: “Every State has statutes and regulations governing the handling of unclaimed or abandoned property left in its care. OCSE-PIQ-88-7 ... recognizes this fact and encourages each State to utilize these individual State procedures to report undistributable or uncashed ... collections as title IV-D program income.”

States report undistributable collections and program income quarterly on Federal Forms OCSE-34A, Child Support Enforcement Program Collection Report, and OCSE-396A, Child Support Enforcement Program Expenditure Report, respectively.

Office of Inspector General Reviews of Undistributable Child Support Collections

We conducted 23 reviews¹ to determine whether 21 State agencies appropriately reported program income for undistributable child support collections. In our reviews, undistributable child support collections included (1) child support collections that could not be identified with or disbursed to the custodial parent or returned to the noncustodial parent and (2) checks for child support collections that were disbursed to the recipient but not cashed. (See Appendix A for a chart of unreported program income.)

¹ We reviewed three counties in California.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to summarize the results of our 23 previous audits examining treatment of undistributable child support and identify any systemic problems affecting multiple States.

Scope

Our prior reviews covered various periods from October 1, 1998, through December 31, 2007. We conducted our fieldwork at the respective State agencies from March 2004 through July 2008.

Methodology

To accomplish our objectives, we analyzed the findings and recommendations from our prior reviews.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

In our 23 previous audits, we found that 21 States did not recognize and/or report undistributable child support collections as program income in accordance with Federal requirements. Specifically:

- 17 States did not recognize and report undistributable child support collections totaling \$32,799,395 (\$21,295,917 Federal share) as abandoned and
- 14 States did not report \$16,641,320 (\$11,040,014 Federal share) as program income after the States recognized the funds as undistributable child support collections.

These deficiencies occurred because States did not classify undistributable child support collections as abandoned and/or did not require that abandoned property be transferred to the States' abandoned-property accounts. In addition, certain States were not aware of OCSE's reporting requirements.

FEDERAL REQUIREMENTS

An undistributable child support collection occurs when the State agency receives a child support payment but cannot identify or locate the custodial parent or return the funds to the noncustodial parent. In OCSE-PIQ-90-02, dated March 1, 1990, OCSE explains that "[u]ndistributable

collections result when the State IV-D agency receives a child support payment and is unable to identify and locate either the obligor (the absent parent) or the obligee (the custodial parent).” This guidance further states that “[c]ollections determined to be undistributable should be reclassified and reported as program income when the State, in accordance with State law, defines these funds to have been abandoned.” In the absence of Federal regulations defining when a child support collection should be considered undistributable and reported as program income, OCSE guidance defers to State abandoned-property laws. Pursuant to OCSE guidance, once collections are considered abandoned, the funds must be reported as program income. By recognizing and reporting undistributable child support collections as program income, program costs are offset.

UNDISTRIBUTABLE CHILD SUPPORT COLLECTIONS NOT CLASSIFIED AS ABANDONED PROPERTY

Seventeen States did not follow their own laws for classifying undistributable collections totaling \$32,799,395 (\$21,295,917 Federal share) as abandoned and/or for transferring the collections to an abandoned-property fund. Had these collections been appropriately classified and transferred, they could have been reported as program income.

Even though State laws define abandoned property, some States have avoided or circumvented their laws by not classifying undistributable child support collections as abandoned or not requiring that abandoned property be transferred to the State’s abandoned-property account. Consequently, these States have delayed and, in some cases, avoided recognizing and reporting undistributable child support collections as abandoned property and program income. For example:

- One State agency’s procedures permitted it, under certain circumstances, to defer reporting undistributed child support collections that met the State’s definition of abandoned property. Under these circumstances, the State agency could have suspended further efforts to identify the custodial or noncustodial parent after a collection was classified as a “deferred receipt.” These deferral procedures were not consistent with the State Property Code’s abandoned property provisions and could have been used indefinitely to postpone a determination that a property owner’s location was unknown.
- One State’s statutes provided that undisbursed or unidentified payments must be maintained in the child support trust fund payments account for 3 years. If after 3 years the State agency was unable to locate or identify the custodial parent or return the funds to the noncustodial parent, the State agency could use those funds for specific public outreach purposes. The State agency stated in its comments on our draft audit report that under State law, collections were not considered abandoned after 3 years but would become “truly undistributable” only if the State agency “made every effort in exercising due diligence to locate the parents who have first claim on the undistributed funds, ...” which could take much longer than 3 years.
- One State agency did not consider undistributable child support collections to be State funds and, therefore, considered them exempt from the State’s abandoned-property laws.

The State code did not contain any specific provision exempting child support collections from the abandoned-property laws.

- In 10 States, undistributable child support collections processed through the States or counties were not reported as abandoned property under the applicable laws. Child support payments made at the State and local levels met the States' definitions of abandoned property but were not transferred to the States' abandoned-property funds.

In addition, one State specifically excluded child support collections from its definition of abandoned property. Therefore, the State agency did not, nor was it required to, report any undistributable child support collections to OCSE as program income. We canceled our review in this State without issuing a report because the State was technically in compliance with OCSE-PIQ-88-7 and OCSE-PIQ-90-02.

Overall, the States did not have adequate controls, policies, and procedures necessary to ensure that undistributable child support collections were reported in accordance with Federal and State reporting requirements, which involves identification, transfer, and reporting of undistributable child support collections as program income quarterly. In addition, some States were not aware of OCSE's reporting requirements.

UNDISTRIBUTABLE CHILD SUPPORT COLLECTIONS NOT REPORTED AS PROGRAM INCOME

Fourteen States did not report program income totaling \$16,641,320 (\$11,040,014 Federal share) for unclaimed collections that were identified as abandoned and transferred to the States' abandoned-property funds. The States did not report these unclaimed collections as undistributable collections on Form OCSE-34A or program income on Form OCSE-396A.

Generally, the States did not have adequate controls, policies, and procedures necessary to ensure that undistributable child support collections were reported as program income quarterly in accordance with Federal reporting requirements.

CONCLUSION

By deferring to State laws and regulations related to abandoned property, ACF's policy for determining when child support is undistributable has allowed States to underreport program income, causing the Federal Government to reimburse States more than their fair share of program costs. As demonstrated throughout our reviews and as detailed in the examples above, States have avoided or delayed reporting these collections as program income through their interpretation and enforcement of abandoned-property laws. At least one State has specifically excluded child support collections from its definition of abandoned-property. As a result, under ACF policy, this State has no responsibility to report undistributable child support collections as program income.

RECOMMENDATIONS

We recommend that ACF either:

- develop a uniform Federal policy for reporting undistributable child support as program income that does not rely on States' definitions of abandoned property
- or
- provide increased oversight of States to ensure the appropriate reporting of outstanding undistributable child support collections that qualify as abandoned property and
- issue guidance that collections determined to be undistributable should be reclassified and reported as program income when the State, in accordance with State laws and regulations, defines these funds as abandoned.

ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS

In written comments on our draft report, ACF stated that it is addressing the issue of undistributable child support collections in response to our work and will provide policy guidance and reiterate its reporting requirements. ACF's comments are included in their entirety as Appendix B.

APPENDIXES

**APPENDIX A: UNREPORTED CHILD SUPPORT ENFORCEMENT
PROGRAM INCOME**

State	Report Number¹	Undistributable Collections Not Classified as Abandoned Property² (Federal Share)	Undistributable Collections Not Reported as Program Income³ (Federal Share)	Unreported Program Income (Federal Share)
California				
Los Angeles County	A-09-08-00024	\$0	\$0	\$0
Orange County	A-09-06-00040	1,431,460	1,987	1,433,447
Riverside County	A-09-07-00049	2,332	20,372	22,704
Colorado	A-07-07-04106	5,502	0	5,502
Connecticut	A-01-06-02502	1,066,738	0	1,066,738
Florida	A-04-06-03508	0	459,889	459,889
Georgia	A-04-06-03506	0	237,789	237,789
Illinois	A-05-04-00039	752,366	1,090,454	1,842,820
Indiana	A-05-06-00038	871,677	429,373	1,301,050
Kentucky	A-04-06-03507	1,346,897	0	1,346,897
Maryland	A-03-06-00565	1,876,116	286,132	2,162,248
Massachusetts	A-01-06-02500	1,300,000	0	1,300,000
Michigan	A-05-05-00033	4,397,133	997,916	5,395,049
Minnesota	A-05-06-00023	28,240	0	28,240
Mississippi	A-04-07-03515	612,013	0	612,013
Missouri	A-07-05-03069	218,578	238,550	457,128
Nebraska	A-07-06-03085	84,753	224,088	308,841
New Jersey	A-02-06-02005	0	14,601	14,601
New York ⁴	A-02-07-02005	0	4,876,580	4,876,580
Ohio	A-05-04-00075	330,233	1,894,291	2,224,524
Tennessee	A-04-08-03521	5,768,243	0	5,768,243
Texas	A-06-06-00088	1,120,671	243,574	1,364,245
Wisconsin	A-05-06-00018	82,965	24,418	107,383
Total		\$21,295,917	\$11,040,014	\$32,335,931

Program = Child Support Enforcement Program.

¹ These reports, except for New York's, are available at <http://oig.hhs.gov>.

² Undistributable child support collections that the State agency did not recognize as abandoned property or report as program income.

³ Undistributable child support collections that the State agency identified as abandoned property but did not report as program income.

⁴ The Office of Child Support Enforcement Audit Division completed the audit of New York in partnership with the Office of Inspector General. The Office of Inspector General did not issue a report for New York.

APPENDIX B: ADMINISTRATION FOR CHILDREN AND FAMILIES COMMENTS**DEPARTMENT OF HEALTH & HUMAN SERVICES****ADMINISTRATION FOR CHILDREN AND FAMILIES**
Office of the Assistant Secretary, Suite 600
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

AUG 22 2011

TO: Daniel R. Levinson
Inspector General

FROM: George H. Sheldon
Acting Assistant Secretary
for Children and Families 

SUBJECT: Office of Inspector General's (OIG) Draft Report titled, "Rollup Review on States' Reporting of Undistributable Child Support Collections as Program Income" (A-05-11-00025)

Attached are comments of the Administration for Children and Families on the above-referenced OIG draft report.

Should you have questions regarding our comments, please contact Vicki Turetsky, Commissioner, Office of Child Support Enforcement, at (202) 401-9369.

Attachment

**COMMENTS OF THE ADMINISTRATION FOR CHILDREN AND FAMILIES ON
THE OFFICE OF INSPECTOR GENERAL DRAFT REPORT TITLED, "ROLLUP
REVIEW ON STATES' REPORTING OF UNDISTRIBUTABLE CHILD SUPPORT
COLLECTIONS AS PROGRAM INCOME" (A-05-11-00025)**

The Administration for Children and Families (ACF) appreciates the opportunity to comment on the above-mentioned Office of Inspector General (OIG) draft report.

OIG Summary of Findings

In our 23 previous audits, we found that 21 States did not recognize and/or report undistributable child support collections as program income in accordance with Federal requirements. Specifically:

- 17 States did not recognize and report undistributable child support collections totaling \$32,799,395 (\$21,295,917 Federal share) as abandoned and
- 14 States did not report \$16,641,320 (\$11,040,014 Federal share) as program income after the States recognized the funds as undistributable child support collections.

These deficiencies occurred because States did not classify undistributable child support collections as abandoned and/or did not require that abandoned property be transferred to the States' abandoned-property accounts. In addition, certain States were not aware of OCSE's reporting requirements.

OIG Recommendations

We recommend that ACF either:

- develop a uniform Federal policy for reporting undistributable child support as program income that does not rely on States' definitions of abandoned property
- or
- provide increased oversight of States to ensure the appropriate reporting of outstanding undistributable child support collections that qualify as abandoned property and
 - issue guidance that collections determined to be undistributable should be reclassified and reported as program income when the State, in accordance with State laws and regulations, defines these funds as abandoned.

ACF Comments

The Office of Child Support Enforcement (OCSE) is addressing the issue of undistributable child support collections in response to the work of OIG. OCSE is developing a new regulation titled, "Efficiency in Child Support," which is expected to be published early in 2012. In the preamble of the Notice of Proposed Rulemaking, OCSE requests state child support agencies to provide information about their policies and procedures on both undistributable and abandoned collections. OCSE will use this information to provide further official policy guidance and reiterate its reporting requirements.