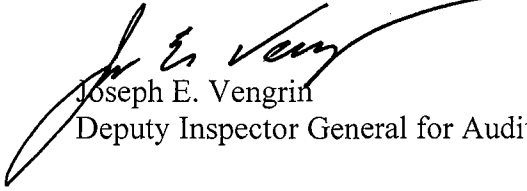




**AUG - 4 2008**

**TO:** Margot Bean  
Commissioner, Office of Child Support Enforcement  
Administration for Children and Families

**FROM:**   
Joseph E. Vengrin  
Deputy Inspector General for Audit Services

**SUBJECT:** Review of Undistributable Child Support Collections in Texas From October 1, 1998, Through March 31, 2006 (A-06-06-00088)

Attached is an advance copy of our final report on undistributable child support collections in Texas from October 1, 1998, through March 31, 2006. We will issue this report to the Texas Office of the Attorney General (the State agency) within 5 business days.

Our objectives were to determine whether the State agency appropriately reported program income from undistributable child support collections and interest earned on child support collections.

The State agency did not report program income of up to \$2,194,149 (\$1,448,138 Federal share) from undistributable child support collections and interest earned on collections by the State agency and 9 of the 15 county child support offices that we reviewed. This amount consisted of:

- up to \$1,697,986 (\$1,120,671 Federal share) in undistributable collections that certain county child support offices and the State agency had not recognized as abandoned and transferred to the State comptroller or county treasurers,
- up to \$369,051 (\$243,574 Federal share) in undistributable collections that certain county child support offices had recognized as abandoned and transferred to the State comptroller or county treasurers but that the State agency had not reported as program income, and
- up to \$127,112 (\$83,894 Federal share) in interest earned by certain counties and the State agency on child support collections.

These deficiencies occurred because the State agency did not have adequate procedures to ensure that it reported program income for all undistributable child support collections and interest earned on collections by the State agency and the counties.

The remaining six counties that we reviewed did not have program income from undistributable child support collections or from interest earned on child support collections.

We recommend that the State agency:

- work with OCSE and the county child support offices to determine the Title IV-D portion of the \$1,697,986 (\$1,120,671 Federal share) in undistributable collections that were not recognized as abandoned property, transfer the Title IV-D amount to the proper authority, and report the amount as program income;
- work with OCSE and the county child support offices to determine the Title IV-D portion of the \$369,051 (\$243,574 Federal share) in abandoned property that was transferred by county child support offices and report the amount as program income;
- work with OCSE and the county child support offices to determine the Title IV-D portion of the \$127,112 (\$83,894 Federal share) in interest earned and report the amount as program income;
- review the county child support offices that we did not review to ensure that undistributable child support collections, including any previously transferred abandoned property, and interest earned on child support collections were reported as program income; and
- revise its procedures for reporting undistributable child support collections and provide oversight and training to county and State agency staff to ensure that future undistributable collections and the interest earned on collections are reported as program income in accordance with State law.

In written comments on our draft report, the State agency disagreed with most of our findings and recommendations. The State agency partially agreed with our third recommendation and fully agreed with our last recommendation. The State agency did not provide any additional information that would lead us to change our findings or recommendations.

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 e-mail at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov). Please refer to report number A-06-06-00088.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services  
1100 Commerce, Room 632  
Dallas, TX 75242

**AUG - 8 2008**

Report Number: A-06-06-00088

Ms. Alicia Key  
Deputy Attorney General for Child Support  
Office of the Attorney General  
P. O. Box 12017  
Austin, Texas 78711-2017

Dear Ms. Key:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Undistributable Child Support Collections in Texas From October 1, 1998, Through March 31, 2006." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Sylvie Witten, Audit Manager, at (512) 339-3071 or through e-mail at [Sylvie.Witten@oig.hhs.gov](mailto:Sylvie.Witten@oig.hhs.gov). Please refer to report number A-06-06-00088 in all correspondence.

Sincerely,

Gordon L. Sato  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Mr. Leon R. McCowan  
Regional Administrator  
Administration for Children and Families  
Dallas Regional Office  
1301 Young Street, Room 914  
Dallas, Texas 75202-5433

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF UNDISTRIBUTABLE  
CHILD SUPPORT COLLECTIONS  
IN TEXAS FROM  
OCTOBER 1, 1998, THROUGH  
MARCH 31, 2006**



Daniel R. Levinson  
Inspector General

August 2008  
A-06-06-00088

# ***Office of Inspector General***

<http://oig.hhs.gov>

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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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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

## **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 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, the Office of Child Support Enforcement (OCSE) provides Federal oversight. In Texas, the Office of the Attorney General (the State agency) administers the program through its Child Support Division.

Undistributable collections result when the State agency receives child support payments but cannot identify or locate the custodial parent or return the funds to the noncustodial parent. OCSE requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from undistributable child support collections and interest earned on child support collections. OCSE defines undistributable collections as those that are considered abandoned under State law. In Texas, child support collections are considered abandoned when the holder does not have contact with the owner for 3 years and does not know the owner's address. These collections must be transferred as abandoned property to the Texas Comptroller of Public Accounts (the State comptroller) or, in the case of collections of \$100 or less held by a county child support office, to the county treasurer.

### **OBJECTIVES**

Our objectives were to determine whether the State agency appropriately reported program income from undistributable child support collections and interest earned on child support collections.

### **SUMMARY OF FINDINGS**

From October 1, 1998, through March 31, 2006, the State agency did not report program income of up to \$2,194,149 (\$1,448,138 Federal share) from undistributable child support collections and interest earned on collections by the State agency and 9 of the 15 county child support offices that we reviewed. This amount consisted of:

- up to \$1,697,986 (\$1,120,671 Federal share) in undistributable collections that certain county child support offices and the State agency had not recognized as abandoned and transferred to the State comptroller or county treasurers,
- up to \$369,051 (\$243,574 Federal share) in undistributable collections that certain county child support offices had recognized as abandoned and transferred to the State comptroller or county treasurers but that the State agency had not reported as program income, and
- up to \$127,112 (\$83,894 Federal share) in interest earned by certain counties and the State agency on child support collections.



These deficiencies occurred because the State agency did not have adequate procedures to ensure that it reported program income for all undistributable child support collections and interest earned on collections by the State agency and the counties.

The remaining six counties that we reviewed did not have program income from undistributable child support collections or from interest earned on child support collections.

## **RECOMMENDATIONS**

We recommend that the State agency:

- work with OCSE and the county child support offices to determine the Title IV-D portion of the \$1,697,986 (\$1,120,671 Federal share) in undistributable collections that were not recognized as abandoned property, transfer the Title IV-D amount to the proper authority, and report the amount as program income;
- work with OCSE and the county child support offices to determine the Title IV-D portion of the \$369,051 (\$243,574 Federal share) in abandoned property that was transferred by county child support offices and report the amount as program income;
- work with OCSE and the county child support offices to determine the Title IV-D portion of the \$127,112 (\$83,894 Federal share) in interest earned and report the amount as program income;
- review the county child support offices that we did not review to ensure that undistributable child support collections, including any previously transferred abandoned property, and interest earned on child support collections were reported as program income; and
- revise its procedures for reporting undistributable child support collections and provide oversight and training to county and State agency staff to ensure that future undistributable collections and the interest earned on collections are reported as program income in accordance with State law.

## **STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, the State agency disagreed with most of our findings and recommendations. The State agency partially agreed with our third recommendation and fully agreed with our last recommendation. The State agency did not provide any additional information that would lead us to change our findings or recommendations. The State agency's comments are included in their entirety as Appendix D.

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## INTRODUCTION

### BACKGROUND

#### **Child Support Enforcement Program**

The Child Support Enforcement 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, the Office of Child Support Enforcement (OCSE) provides Federal oversight.

In Texas, the Office of the Attorney General (the State agency) administers the program through its Child Support Division and receives Federal reimbursement at a rate of 66 percent of program costs. Prior to 2000, the State agency and county child support offices received and disbursed child support payments. In 2000, the State agency established the State Disbursement Unit (SDU) to collect and disburse Title IV-D child support payments for counties. Some county child support offices continued to collect and record child support payments in accordance with cooperative agreements with the State agency. In 2001, the SDU began processing non-Title-IV-D child support cases that required the State agency to withhold wages. The State agency uses the automated Texas Child Support Enforcement System (TXCSES) to track Title IV-D cases.

#### **Requirements for Reporting Program Income**

Undistributable collections result when the State agency receives child support payments but cannot identify or locate the custodial parent or return the funds to the noncustodial parent. OCSE Policy Interpretation Question (PIQ)-88-7 and OCSE-PIQ-90-02 require States to offset Child Support Enforcement program costs by recognizing and reporting undistributable 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 title IV-D collections as title IV-D program income.”

In addition, OCSE Action Transmittal (AT)-89-16 requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from interest earned on child support collections.

States are required to report undistributable collections and program income quarterly on Federal Form OCSE-34A, “Child Support Enforcement Program Quarterly Report of Collections,” and Form OCSE-396A, “Child Support Enforcement Program Financial Report,” respectively.

#### **Texas’s Abandoned Property Laws**

In Texas, child support collections are considered abandoned when the holder has not had contact with the owner for 3 years and does not know the owner’s address. Pursuant to the Texas Property Code, these unclaimed collections must be transferred as abandoned property to

the Texas Comptroller of Public Accounts (the State comptroller) or, in the case of collections of \$100 or less held by a county child support office, to the county treasurer.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

Our objectives were to determine whether the State agency appropriately reported program income from undistributable child support collections and interest earned on child support collections.

### **Scope**

We reviewed undistributable child support collections that the State agency was required to report on Form OCSE-34A and program income that the State agency was required to report on Form OCSE-396A for the period October 1, 1998, through March 31, 2006. During this timeframe, the State agency reported \$710,007 in program income from undistributable collections.<sup>1</sup>

We selected 15 county child support offices for review based on either the amount of Title IV-D collections or the recommendation of State agency officials.<sup>2</sup> For each of these counties, we reviewed undistributable collections transferred to the State comptroller or county treasurer, undistributable collections held by the county, and interest earned on child support collections held by the county. Our review included site visits to 8 of the 15 counties.

We limited our review of internal controls to understanding the State agency's policies and procedures for reporting undistributable collections and interest earned on child support collections as program income. Specifically, we reviewed the policies and procedures that the State agency and the selected county child support offices used to identify unclaimed property presumed abandoned under State law and to report undistributable collections and program income in accordance with Federal requirements.

We performed our fieldwork at the State agency in Austin, Texas, and at eight county child support offices from July 2006 through March 2007.

### **Methodology**

To accomplish our objectives, we:

- reviewed applicable Federal and State laws, regulations, and guidance, including OCSE program and policy announcements;

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<sup>1</sup>This amount represents undistributable collections that the State agency recognized as abandoned property, transferred to the State comptroller, and reported as program income to OCSE.

<sup>2</sup>The 15 counties included Cameron, Dallas, El Paso, Fort Bend, Galveston, Harris, Hidalgo, Jefferson, Lubbock, McLennan, Nueces, Potter, Tarrant, Travis, and Webb.

- interviewed State agency and county child support office officials to identify their policies, procedures, and internal controls for recognizing and reporting program income from undistributable child support collections and interest earned on child support collections;
- reviewed State agency policies and procedures for recognizing and reporting program income from undistributable child support collections and interest earned on child support collections;
- determined whether undistributable collections reported on Form OCSE-34A were also reported as program income on Form OCSE-396A for the period October 1, 2002, through March 31, 2006;
- reviewed undistributed child support collections data from the State agency and the selected county child support offices to quantify the amount that met the State's abandoned property law requirements;
- reviewed data related to undistributable child support collections that the county child support offices had transferred to the State comptroller or county treasurers and determined whether the State agency had reported the transferred amounts as program income;
- verified the interest that the State agency and the selected county child support offices earned on child support collections; and
- reviewed interest reported by the State agency.

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**

From October 1, 1998, through March 31, 2006, the State agency did not report program income of up to \$2,194,149 (\$1,448,138 Federal share) from undistributable child support collections and interest earned on collections by the State agency and 9 of the 15 county child support offices that we reviewed. This amount consisted of:

- up to \$1,697,986 (\$1,120,671 Federal share) in undistributable collections that certain county child support offices and the State agency had not recognized as abandoned and transferred to the State comptroller or county treasurers,
- up to \$369,051 (\$243,574 Federal share) in undistributable collections that certain county child support offices had recognized as abandoned and transferred to the State

comptroller or county treasurers but that the State agency had not reported as program income, and

- up to \$127,112 (\$83,894 Federal share) in interest earned by certain counties and the State agency on child support collections.

These deficiencies occurred because the State agency did not have adequate procedures to ensure that it reported program income for all undistributable child support collections and interest earned on collections by the State agency and the counties.

The remaining six counties that we reviewed did not have program income from undistributable child support collections or from interest earned on child support collections.

## **UNDISTRIBUTABLE COLLECTIONS**

### **Federal and State Requirements**

OCSE requires States to offset Child Support Enforcement program costs by reporting as program income any undistributable child support collections that are considered abandoned under State law. Instructions for line 9a of Form OCSE-34A define undistributable collections as “[t]he portion of collections reported on Line 9 that, despite numerous attempts, the State has determined it will be unable to distribute . . . and unable to return to the non-custodial parent.” Instructions for line 2b of Form OCSE-396A define program income as “[t]he total amount of other income to the State used to offset the administrative costs reported on Lines 1a or 1b . . . . [This includes] (ii) undistributable child support collections as reported on Line 9a of Form OCSE-34A, the ‘Quarterly Report of Collections’ . . . .”

Section 72.101(a) of the Texas Property Code states: “[p]ersonal property is presumed abandoned if, for longer than three years: (1) the existence and location of the owner of the property is unknown to the holder of the property; and (2) according to the knowledge and records of the holder of the property, a claim to the property has not been asserted or an act of ownership of the property has not been exercised.” Further, Texas’s “Unclaimed Property Reporting Instructions,” dated July 2004, state that property must be reported as abandoned when the State agency has not had contact with an owner for 3 years and the property owner’s location is unknown.

For property that is presumed abandoned as of June 30 each year, sections 74.101(a) and 74.301(a) of the Texas Property Code require the holder of the property to report and transfer the property to the State comptroller on or before the following November 1.<sup>3</sup> However, for property that is held by counties and valued at \$100 or less, sections 76.101(a) and 76.301(a) require the holder of the property to report and transfer the property to the holder’s county treasurer on or before the following November 1.

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<sup>3</sup>Minor statutory changes were made to these provisions during our audit period. These changes do not affect our analysis, findings, or conclusions.

## **Undistributable Collections Not Recognized as Abandoned Property by Counties and the State Agency**

Six of the fifteen county child support offices that we reviewed and the State agency did not recognize as abandoned property and transfer to the State comptroller or county treasurers undistributable collections of up to \$1,697,986 (\$1,120,671 Federal share).<sup>4</sup> The six county offices and the State agency should have transferred undistributable collections totaling up to \$949,684 and \$748,302, respectively, and the State agency then should have reported these amounts as program income. The remaining nine counties that we reviewed did not have program income from undistributable child support collections.

### *Undistributable Collections Not Recognized as Abandoned Property by Counties*

Six county child support offices held up to \$949,684 in undistributable collections beyond the applicable 3-year period. (See Appendix A.) Because the offices did not recognize the collections as abandoned property and transfer them to the State comptroller or county treasurers, the State agency did not report the Title IV-D portion of the collections as undistributable and as program income on Forms OCSE-34A and OCSE-396A, respectively.

The State agency did not have adequate procedures to ensure that undistributable child support collections held by the county offices were reported as program income. Specifically, the State agency did not provide sufficient oversight and training to ensure that county child support offices were aware of the requirement to transfer undistributable collections to the State comptroller or county treasurers. Many county officials stated that they were unaware of this requirement and that the State agency had never requested information on the counties' undistributable collections.

According to officials at the six county child support offices, the collections included both Title IV-D and non-Title-IV-D collections. However, the county offices could not identify the amounts attributable to Title IV-D collections, and the State agency was unable to provide data that would help us estimate the amounts.

### *Undistributable Collections Not Recognized as Abandoned Property by the State Agency*

The State agency held up to \$748,302 in undistributable collections beyond the applicable 3-year period. The State agency's "OAG Payment Operations Contracts UDC/Abandoned Property Procedures," dated July 24, 2006, permit the agency, under certain circumstances, to defer reporting undistributed child support collections that meet the State law's definition of abandoned property. Under these procedures, the State agency may suspend further effort to identify the custodial or noncustodial parent after a collection is classified as a "deferred receipt." Consequently, the State agency did not transfer the collections to the State comptroller after the applicable 3-year period or report them as program income. These deferral procedures are not consistent with the Texas Property Code's abandoned property provision because the

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<sup>4</sup>We adjusted the amount of undistributable collections not recognized as abandoned property by the counties by \$100 in our final report because one collection was subsequent to June 30, 2002, the last day that we would have considered property abandoned during our audit period.



procedures can be used indefinitely to postpone a determination that a property owner's location is unknown.

The table below shows the age and value of undistributed collections that the State agency held beyond the applicable 3-year period as of March 31, 2006.

**Age and Value of Undistributed Collections Held by the State Agency**

<b>Date of Collection (Age of Collection)</b>	<b>Value of Undistributed Collections</b>
Prior to July 1, 1999 (6 or more years)	\$202,531
July 1, 1999, to June 30, 2000 (5 to 6 years)	134,330
July 1, 2000, to June 30, 2001 (4 to 5 years)	175,731
July 1, 2001, to June 30, 2002 (3 to 4 years)	235,710
<b>Total</b>	<b>\$748,302</b>

We based our determination that these amounts may represent undistributable collections on the age of the collections. The State agency's data, which we used to determine the amounts listed in the table above, did not include the date of the last contact with the owners of the collections. Further, we did not review individual child support cases to determine whether the State agency had had contact with the owner since receipt of the payment. We would not have presumed a collection abandoned if the State agency had had contact with the owner within the 3 years prior to June 30, 2005.

**Undistributable Collections Transferred by Counties but Not Reported by the State Agency as Program Income**

The State agency did not report program income totaling up to \$369,051 (\$243,574 Federal share) for undistributable child support collections that five county child support offices had transferred to the State comptroller or to the county treasurers as abandoned property. (See Appendix B.)

The State agency did not have adequate procedures to ensure that undistributable child support collections transferred by the counties were reported as program income. Specifically, the State agency did not provide sufficient oversight and training to ensure that county child support offices were aware of the need to report to the State agency the amounts transferred as abandoned property. Many county officials stated that they were unaware of the need to notify the State agency and that the State agency had never requested information on undistributable collections transferred by the counties as abandoned property.

According to officials of the five county child support offices, the collections transferred to the State comptroller or to the county treasurers included both Title IV-D and non-Title-IV-D collections. However, the county child support offices could not identify the amount of collections attributable to Title IV-D, and the State agency was unable to provide data that would help us estimate the amount.

## **INTEREST EARNED ON COLLECTIONS**

### **Federal Requirement**

OCSE AT-89-16 requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from interest earned on child support collections.

### **Interest Earned on Collections Not Reported as Program Income**

The State agency did not report as program income up to \$127,112 (\$83,894 Federal share) in interest earned on child support collections held by 4 of the 15 counties that we reviewed and by the State agency. The four county child support offices and the State agency earned interest on child support collections totaling up to \$100,574 and \$26,538, respectively, that should have been reported as program income. The remaining 11 counties did not earn interest on child support collections.

#### *Interest Earned on County Collections*

Four county child support offices did not report to the State agency up to \$100,574 in interest earned on child support collections. (See Appendix C.) As a result, the State agency did not report this interest as program income.

The State agency did not have adequate procedures to ensure that it reported program income from interest earned on county child support collections. Specifically, the State agency did not provide sufficient oversight and training to ensure that county child support offices were aware of the need to report interest to the State agency. Many county officials stated that they were unaware of the need to report interest and that the State agency had never requested information on interest earned by the counties.

According to officials at the four county child support offices, the interest related to both Title IV-D and non-Title-IV-D collections. However, the county child support offices could not identify the amount of collections attributable to Title IV-D, and the State agency was unable to provide data that would help us estimate the amount.

#### *Interest Earned on State Agency Collections*

Although the State agency reported program income for most of the interest earned on child support collections for the period October 1, 2002, through March 31, 2006, the State agency did not report up to \$26,538 in interest earned during that period. State agency officials informed us that they had reduced the amount of interest reported on Form OCSE-396A by \$26,538 because the collections were unrelated to the Child Support Enforcement program. However, we reviewed some of these collections and determined that the majority of the collections reviewed were related to Title IV-D cases and therefore reportable as program income.

We were unable to determine the amount of interest earned on the State agency's child support collections for the period October 1, 1998, to September 30, 2002, because the supporting

documentation had been destroyed in accordance with the State agency's record retention guidance.

## **RECOMMENDATIONS**

We recommend that the State agency:

- work with OCSE and the county child support offices to determine the Title IV-D portion of the \$1,697,986 (\$1,120,671 Federal share) in undistributable collections that were not recognized as abandoned property, transfer the Title IV-D amount to the proper authority, and report the amount as program income;
- work with OCSE and the county child support offices to determine the Title IV-D portion of the \$369,051 (\$243,574 Federal share) in abandoned property that was transferred by county child support offices and report the amount as program income;
- work with OCSE and the county child support offices to determine the Title IV-D portion of the \$127,112 (\$83,894 Federal share) in interest earned and report the amount as program income;
- review the county child support offices that we did not review to ensure that undistributable child support collections, including any previously transferred abandoned property, and interest earned on child support collections were reported as program income; and
- revise its procedures for reporting undistributable child support collections and provide oversight and training to county and State agency staff to ensure that future undistributable collections and the interest earned on collections are reported as program income in accordance with State law.

## **STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, the State agency disagreed with most of our findings and recommendations. The State agency partially agreed with our third recommendation and fully agreed with our last recommendation. The State agency did not provide any additional information that would lead us to change our findings or recommendations. The State agency's comments, which we summarize below, appear in their entirety as Appendix D.

### **Undistributable Collections Not Recognized as Abandoned Property by the State Agency**

#### *State Agency Comments*

The State agency asserted that it had disbursed in a timely manner, refunded, or appropriately assigned to the State as much as \$600,000 of the \$748,302 in undistributable collections that it held. The State agency said that we mistakenly believed that the money had not been disbursed

because of the manner in which the TXCSES processes adjustments. The State agency said that when an adjustment is made to a child support order, the order is removed from the system, causing collections that were distributed in prior years to temporarily appear as being held for long periods. The State agency said that it had initiated a change that would eliminate the misperception.

The State agency attributed the remaining amount that we had identified as undistributable to a problem in TXCSES. The State agency explained that if a child support warrant is not cashed, the system voids it after 2 years and reapplies it to the case. If a confirmed address is located, the system reissues the warrant and restarts the 3-year count based on the last warrant issuance date rather than the date the collection was received. The State agency said that it would correct the problem. The State agency added that it was conducting additional research and would designate as unclaimed property and report as program income any funds that it determines to be undistributable.

#### *Office of Inspector General Response*

We discussed this finding with the State agency on multiple occasions, yet it never informed us of any misperception or provided us with any documentation to support its statement that as much as \$600,000 of the \$748,302 in collections was disbursed in a timely manner, refunded, or appropriately assigned to the State. In addition, the \$748,302 was included in the data that we reconciled to the undistributed amounts reported by the State agency on Form OCSE-34A's supporting Schedule UDC for the quarter ended March 31, 2006. Therefore, if the State agency's assertion that there was a misperception is true, we must conclude that the State agency inaccurately reported undistributed collections to OCSE. Accordingly, the State agency should amend its OCSE-34A report to account for the error. In addition, once the State agency completes its research, it should provide documentation to OCSE supporting the amount of collections that the State agency determines was disbursed in a timely manner, refunded, or appropriately assigned to the State.

### **Undistributable Collections Not Recognized as Abandoned Property by the Counties**

#### *State Agency Comments*

The State agency said that (1) our recommendation assumed that all money held by the counties was for IV-D collections and (2) it did not have the legal authority to obtain information from the counties to identify IV-D collections. The State agency also said that its review of one-third of Dallas County's receipts showed that less than 10 percent of the items could be identified as IV-D on the date of collection and that approximately \$250,000 of the undistributed collections in Dallas County were found to be pre-1994 payments and therefore outside the review period. Finally, the State agency said that it was fair to assume that the majority of any post-2000 payments made to a county rather than the SDU were for non-IV-D collections and not collected through income withholding because Texas law has been clear since 2001 that all IV-D payments and non-IV-D payments collected through income withholding are to be paid to the SDU.

The State agency said that it would continue its review of Dallas and other counties and develop additional outreach and training on handling undistributable funds. The State agency said, however, that it did not have the express statutory authority to mandate additional reporting or auditing that would allow it to make accurate estimates or report the related program income for all counties.

*Office of Inspector General Response*

We disagree with the State agency's assertion that our recommendation assumed that all money held by the counties was for IV-D collections. We specifically recommended that the State agency determine the IV-D portion of the undistributable collections, transfer that amount to the proper authority, and report the amount as program income. We also disagree with the State agency's assertion that it did not have the legal authority to obtain information from the counties to identify IV-D collections. The State agency is responsible for ensuring that undistributable IV-D collections, whether received by the State agency or by counties, are transferred as abandoned property and reported as program income. In fact, the State plan incorporates 45 CFR § 302.10(c), which states: "The IV-D agency will assure that the plan is continuously in operation in all appropriate offices or agencies through . . . [r]egular planned examination and evaluation of operations in local offices by regularly assigned State staff, including regular visits by such staff; and through reports, controls, or other necessary methods."

With respect to Dallas County, whether the collections could be identified as IV-D on the date of collection is irrelevant. According to the Texas Property Code, unclaimed personal property becomes abandoned after 3 years. Because the collections had been undisbursed for more than 3 years, they should have been transferred to the county treasurer or State comptroller, and the IV-D portion should have been reported as program income. Further, although our audit period covered undistributable child support collections and program income that the State agency was required to report for the period October 1, 1998, through March 31, 2006, the Texas Property Code requires that property abandoned as of June 30 of each year be reported. Therefore, any collections that previously had met the 3-year abandonment period but had not been reported as abandoned, including those in Dallas County, should have been reported as abandoned during our audit period.

Finally, we have no assurance of the accuracy of the State agency's assertion that the majority of post-2000 payments made to a county would be non-IV-D collections. We acknowledge that efforts were underway for all IV-D collections to be sent to the SDU. However, according to the State agency's documentation, all of the counties in our review continued to collect IV-D payments under agreements with the State agency until at least 2003, whereas all amounts that we identified as undistributable had initial receipt dates of June 30, 2002, or earlier.

We continue to recommend that the State agency work with OCSE and the county child support offices to determine the IV-D portion of the \$949,684 identified as undistributable county collections that were not recognized as abandoned, transfer the IV-D portion to the proper authority, and report the amount as program income.

## **Undistributable Collections Transferred by Counties but Not Reported by the State Agency as Program Income**

### *State Agency Comments*

The State agency said that the process that it used for reporting undisbursed suspense funds on Forms OCSE-34A and OCSE-396A functioned as intended and that the instructions for the forms did not appear to envision counties' inadvertent receipt of IV-D payments. The State agency said that it had no way to determine whether IV-D payments had been improperly made to counties but that counties had received ample instructions to forward to the SDU any IV-D payments or post-1994 non-IV-D payments collected through income withholding. The State agency said that any child support collections that counties received after the implementation of the SDU were almost certain to have been non-IV-D payments that the counties should have processed.

The State agency also said that it had contracts with many counties to provide some services at the local level. According to the State agency, these services did not involve receiving and processing child support payments that the SDU should have processed. The State agency said that it had routinely conducted onsite visits in the contracting counties and agreed to:

- conduct additional training and monitoring,
- adjust county contracts to be more specific about handling collections and abandoned property,
- attempt to develop a mechanism for gathering relevant data from the counties for inclusion in the Forms OCSE-34A and OCSE-396A, and
- monitor county submissions to the State comptroller's Unclaimed Property Fund.

### *Office of Inspector General Response*

We acknowledge that counties had been instructed to forward to the SDU any IV-D payments or post-1994 non-IV-D payments collected through income withholding. However, if a county was unable to identify the collections as either IV-D or non-IV-D, it would not have forwarded the payments to the SDU. Further, we have no assurance of the accuracy of the State agency's assertion that any child support collections that counties received after the creation of the SDU were almost certain to be non-IV-D payments. We acknowledge that efforts were underway for all IV-D collections to be sent to the SDU. However, according to the State agency's documentation, all of the counties in our review continued to collect IV-D payments under agreements with the State agency until at least 2003.

We continue to recommend that the State agency work with OCSE and the county child support offices to determine the IV-D portion of the \$369,051 in abandoned property that was transferred by county child support offices and report the amount as program income.

## **Interest Earned on State Agency Collections Not Reported as Program Income**

The State agency concurred with this finding, agreed to report \$26,538 in interest as program income, and also agreed to report an additional \$6,862 in interest as program income for the period after the review period. The State agency explained that certain child support deposits were inappropriately treated as erroneous deposits; thus, the interest was omitted from reported program income. The State agency said that it implemented corrective actions after we brought this issue to its attention.

## **Interest Earned on County Collections Not Reported as Program Income**

### *State Agency Comments*

The State agency asserted that our recommendation incorrectly assumed that all interest earned by the counties was for IV-D collections. The State agency said that this assumption was unsupported by documentation and that it was reasonable to assume that the majority of collections received by the counties, and interest earned on those collections, was attributable to non-IV-D collections.

### *Office of Inspector General Response*

We disagree with the State agency's assertion. We specifically recommended that the State agency determine the IV-D portion of the interest earned and report the amount as program income. In addition, we have no assurance of the correctness of the State agency's assumption that the majority of collections received by the counties, and interest earned on those collections, was attributable to non-IV-D collections. We acknowledge that efforts were made to send all IV-D collections to the SDU. However, according to the State agency's documentation, all of the counties in our review collected IV-D payments under agreements with the State agency until at least 2003. Even if the IV-D funds represent only a small portion of the county collections, the interest earned on those funds should be reported as program income. Therefore, we continue to recommend that the State agency work with OCSE and the county child support offices to determine the IV-D portion of the \$100,574 in interest earned by the counties and report the amount as program income.

## **Recommendation To Review County Child Support Offices That Were Not Reviewed by the Office of Inspector General**

### *State Agency Comments*

The State agency questioned its statutory authority for mandating reviews of county offices to ensure that undistributable child support collections were reported as program income. However, the State agency agreed to increase its monitoring of those counties under contract with the State agency. In addition, the State agency said that it would continue providing training and outreach to counties.

*Office of Inspector General Response*

The State plan incorporates 45 CFR § 302.10(c), which states: “The IV-D agency will assure that the plan is continuously in operation in all appropriate offices or agencies through . . . [r]egular planned examination and evaluation of operations in local offices by regularly assigned State staff, including regular visits by such staff; and through reports, controls, or other necessary methods.” Therefore, we conclude that the State agency has the authority to review information at the county level. Accordingly, we continue to recommend that the State agency review the county child support offices that we did not review to ensure that undistributable child support collections and interest earned on those collections were reported as program income.

**OTHER MATTER: INACCURATE REPORTING OF  
THE AGE OF UNDISTRIBUTED COLLECTIONS**

During our review, we found that the State agency did not accurately report the age of undistributed collections on Form OCSE-34A’s supporting Schedule UDC. According to the State agency’s Schedule UDC, none of the undistributed collections was more than 3 years old. The TXCSES, which the State agency uses to prepare Schedule UDC, had numerous codes to identify collections that were up to 3 years old but no codes to identify collections that were 3 or more years old. However, as shown in the table on page 6, the State agency held some collections that were more than 6 years old.



# **APPENDIXES**

**UNDISTRIBUTABLE COLLECTIONS NOT RECOGNIZED  
AS ABANDONED PROPERTY BY COUNTIES**

	<b>Amount Held Beyond the 3-Year Period</b>
Dallas County	\$732,447
Hidalgo County	108,506
McLennan County	74,605
Cameron County	22,847
Nueces County	10,118
Galveston County	1,161
<b>Total</b>	<b>\$949,684<sup>1</sup></b>

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<sup>1</sup>We adjusted the amount of undistributable collections not recognized as abandoned property by the counties by \$100 in our final report because one collection was subsequent to June 30, 2002, the last day that we would have considered property abandoned during our audit period.

**UNDISTRIBUTABLE COLLECTIONS TRANSFERRED BY COUNTIES  
BUT NOT REPORTED BY THE STATE AGENCY AS  
PROGRAM INCOME**

	<b>Amount Transferred to the State Comptroller</b>	<b>Amount Transferred to the County Treasurer</b>	<b>Total Transferred</b>
Harris County	\$195,932	\$79,446	\$275,378
Travis County	36,265	0	36,265
Jefferson County	28,235	0	28,235
Hidalgo County	14,584	11,360	25,944
McLennan County	3,229	0	3,229
<b>Total</b>	<b>\$278,245</b>	<b>\$90,806</b>	<b>\$369,051</b>

## INTEREST EARNED ON COUNTY COLLECTIONS

	<b>Amount Earned on Child Support Collections</b>
Nueces County	\$62,059
Jefferson County	31,296
Galveston County	5,888
Cameron County	1,331
<b>Total</b>	<b>\$100,574</b>



**ATTORNEY GENERAL OF TEXAS**

**GREG ABBOTT**

CHILD SUPPORT DIVISION

April 25, 2008

Gordon L. Sato  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Inspector General  
1100 Commerce, Room 632  
Dallas, Texas 75242

Dear Mr. Sato:

Attached is a detailed response to the U. S. Department of Health and Human Services, Office of the Inspector General's draft report entitled "Review of Undistributed Child Support Collections in Texas From October 1, 1998, Through March 31, 2006."

If you have any questions, or if I can be of further service, please feel free to contact me directly at 512-460-6122. As always, I appreciate the ongoing assistance and cooperation of your staff.

Sincerely,

Alicia G. Key  
Deputy Attorney General for Child Support

Attachment

- c: Jennifer L. Hunn, Office of Inspector General / Office of Audit Services
- Gina R. Landers, Office of Inspector General / Office of Audit Services
- John Retzloff, Office of Inspector General / Office of Audit Services

**Response of the Office of the Attorney General  
to the OIG Review of Undistributable Child Support Collections in Texas**

**Finding 1(pages 3-5 and Appendix A); Undistributable Collections Not Recognized as Abandoned Property:**

*From October 1, 1998, through March 31, 2006, the State agency did not report program income ... from undistributable child support collections and interest earned on collections by the State agency and 9 of the 15 county child support offices that we reviewed. The amount consisted of up to \$1,698,086 (\$1,120,737 Federal share) in undistributable collections that certain county child support offices and the State agency had not recognized as abandoned and transferred to the State comptroller or county treasurers. (\$949,784 is attributed to six counties; \$748,302 is attributed to the state)*

**Recommendation 1 (page 8):**

*We (OIG) recommend that the State agency work with OCSE and the county child support offices to determine the Title IV-D portion of the \$1,698,086 (\$1,120,737 Federal share) in undistributable collections that were not recognized [by certain county child support offices and the State agency] as abandoned, transfer the Title IV-D amount to the proper authority, and report the amount as program income.*

**CSD Response:** The state and county portions of the finding are discussed independently.

**State:** A system analysis of the receipts identified by the auditors as undisbursed by the state, showed that as much as \$600,000 of the \$748,302 in receipts (about 80 percent), were timely disbursed, refunded or appropriately assigned to the state. The misperception by the auditors that this money has not been disbursed is, in large part, caused by the manner in which the Texas Child Support Enforcement System (TXCSES) processes adjustments. When an adjustment is made, the order is removed from the system causing collections that were distributed and disbursed in prior years to temporarily appear as an overage. Once the order is re-entered, the system rolls back to the effective date of the order and applies all payments made since the effective date against the amounts owed in the adjusted order. This process creates the misperception that the overage created by the adjustment has been held for long periods of time. A Change Control Document (CCD #8843 *Modify UDC Reporting to Reflect Correct Timeframes*) has been issued and is expected to be completed in July 2008, which will begin the aging process on the date of the adjustment rather than the date of receipt, and eliminate this misperception.

Of the remaining collections that could not be easily identified as disbursed or assigned to the state, it appears that a system problem with the Texas Child Support Enforcement System (TXCSES) has been identified (*BRD #8184 Unclaimed Property*) and will be

corrected in the coming months. Currently, if a child support warrant is not cashed, it is voided after two years and reapplied to the case. If a confirmed address is located, the warrant is reissued and the system restarts the three year count based on the last warrant issuance date rather than the initial receipt date. The OAG has seen a 75 percent success rate on all reissued warrants; however, to catch those few payments that should not be reissued, once the system change is in place, the system will not reissue the warrant without human intervention

*Additional research is being conducted and once an actual amount of the undistributable funds is determined, if any, the monies will be designated as unclaimed property and reported on the 34A as program income.*

**County:** Although the auditors admitted that the counties could not identify their undistributable collections as related to either IV-D or non-IV-D collections, and that the auditors could not ascertain whether money being held by the counties is related to IV-D payments, the audit recommendations assume that **all** money held by the county is for IV-D collections. This assumption is imprecise and wholly unsupported by the documentation. The position that the Office of the Attorney General (OAG) as the Texas Title IV-D agency should identify which of these collections are related to IV-D cases lays the burden of proof on the agency and further assumes that the OAG has the legal authority to extract this information from the counties, which it does not. It may well be true that certain counties have collections on hand that should have been reported as abandoned property and either reported to the county treasurer (if under \$100) or the State Comptroller (if over \$100). However, a review of one-third of the total receipts being held by Dallas County, the county with 77 percent of the dollars shown in Appendix A, reveals that less than 10 percent of the items could be identified as IV-D on the date of collection. However, collaborative efforts are currently underway to post and disburse these monies to the appropriate parties.

Another fact that the auditors did not report is that approximately \$250,000 of the undistributed Dallas County collections were found to be pre-1994 payments, and are therefore outside of the review period. Further, it is fair to assume that the great majority of any post-2000 payments made to a county registry rather than the State Disbursement Unit (SDU) were for non-IV-D collections and not made by income withholding. Since that time, Texas law has been clear that all IV-D payments and non-IV-D payments made by income withholding are to be paid to the State Disbursement Unit (SDU). Further, the State agency has engaged in considerable outreach to employers in the state about payment to the SDU. A copy of the Employer's Handbook is available on the agency website at <https://portal.cs.oag.state.tx.us/wps/portal/EmployerHome>.

As recommended, the OAG will continue its review of Dallas and other counties, and develop additional outreach and training to counties in the handling of any undistributable funds. We do not, however, have the express statutory authority to mandate additional reporting or auditing that would allow us to make accurate estimates or report the related program income for all counties.

**Finding 2 (pages 6-7 and Appendix B); Undistributable Collections Transferred by Counties but Not Reported as Program Income:**

*The amount [of unreported income] consisted of up to \$369,051 (\$243,574 Federal share) in undistributed collections that certain county child support offices had recognized as abandoned and transferred to the State comptroller or county treasurers but that the State agency had not reported as program income. (\$90,806 is held by the County Treasurer in two counties; \$278,245 is held by the State Comptroller)*

**Recommendation 2 (page 8):** *We (OIG) recommend that the State agency work with OCSE to determine the Title IV-D portion of the \$369,051 (\$243,574 Federal share) in abandoned property that was transferred by county child support offices and report the amount as program income.*

**CSD Response:** The process used by the OAG for reporting undisbursed suspense funds via the OCSE 34A and OCSE 396A is functioning as intended. When items are considered to be unclaimed property, the money is transferred to the Comptroller and reported on lines 9 and 9a of the OCSE 34A Report and line 2b of the OCSE 396A Report.

The inadvertent receipt of stray IV-D payments by county registries does not appear to have been envisioned when the Instructions to the 34A or the 396A reports were written. Further, the OAG has no way to determine whether payments in IV-D cases have been improperly made to counties. However, counties have received ample instructions to forward to the SDU any payments in IV-D cases or post-1994 non-IV-D cases made by income withholding. Any child support collections received by counties after the implementation of the SDU are almost certain to be payments for non-IV-D cases that should be processed by the counties.

The OAG does have contracts with many counties for the provision of customer service and state case registry services at the local level. These services do not, however, involve the receipt and processing of child support payments that are supposed to be processed at the SDU. However, with respect to those counties, the OAG routinely conducts on-site monitoring visits. In the past 18 months, OAG staff visited Bandera, Bastrop, Cameron, Hale, Hidalgo, Hockley, Kerr, Lee, Medina, Taylor, Uvalde and Willacy counties. These on-site reviews have not focused on payment processing or unclaimed property funds. However, with respect to those counties under contract with the OAG, in addition to the current activities being performed, we agree to:

- 1) conduct additional training and monitoring of counties;
- 2) adjust county contracts to include more specifics relating to the handling of collections and abandoned property;
- 3) attempt to develop a mechanism for gathering and reporting relevant data to the OAG Accounting Division for inclusion in the OCSE 34A and 396A Reports; and
- 4) monitor the county submissions to the Comptroller's Unclaimed Property Fund on an ongoing basis.



CSD regularly communicates with counties through its newsletters, workgroups, and website, and in response to the audit findings has recently published an article on the appropriate handling of undistributed and abandoned child support funds.

**Finding 3(pages 7-8 and Appendix C); Interest Earned on County Collections:**

*The amount [of unreported income] consisted of up to \$127,112 (\$83,894 Federal share) in interest earned by certain counties and the State agency on child support collections. [\$100,574 is attributed to the counties; \$26,538 is attributed to the state].*

**Recommendation 3 (page 8):** *We (OIG) recommend that the State agency work with OCSE and the county child support offices to determine the Title IV-D portion of the \$127,112 (\$83,894 Federal share) in interest earned and report the amount as program income.*

**CSD Response:** The amounts held by the state and counties are discussed independently.

**State:** We concur with the audit finding and will report the \$26,538 in interest as well as \$6,862 for the time period subsequent to the review period, March 31, 2006 through June 30, 2007, as additional program income. In explanation, occasionally monies are erroneously deposited into the Child Support fund maintained by the Comptroller's Office, and those monies and any interest earned on those monies are later transferred to the correct fund and omitted from the amount being reported as Child Support program income interest. Certain Child Support Suspense Account monies were also being treated as erroneous deposits, when, in fact, we now know they were Child Support deposits. When, in July 2007, the auditors brought this to our attention, the agency immediately implemented corrective action. An additional interest amount of \$33,400 (\$26,538 and \$6,862) will be reflected as program income in our 2<sup>nd</sup> quarter fiscal year 2008 OCSE-396A quarterly report.

**County:** See response to findings 1 and 2. Although the auditors admitted that the counties could not identify whether interest earned on collections was related to either IV-D or non-IV-D collections, and that the auditors could not ascertain whether the interest was earned on IV-D payments, the audit recommendations assume that **all** interest earned by the counties was on IV-D collections. This assumption is imprecise and wholly unsupported by the documentation. In fact, as explained above, it is reasonable to assume that the great majority of collections received by the counties, and interest earned on those collections, is attributed to non-IV-D collections.

**ADDITIONAL RECOMMENDATIONS**

**Recommendation 4 (pages 8):** *We (OIG) recommend that the State agency review the county child support offices that we did not review to ensure that undistributed child*

*support collections, including any previously transferred abandoned property, and interest earned on child support collections were reported as program income.*

The agency's statutory authority for mandating reviews remains in question. However, as explained above, the OAG will increase its monitoring of those counties under contract with the OAG for provisions of certain services (local customer service and state case registry services.) In addition, training and outreach to counties will continue.

**Recommendation 5 (pages 8):** *We (OIG) recommend that the State agency revise its procedures for reporting undistributed child support collections and provide oversight and training to county and State agency staff to ensure that future undistributed collections and the interest earned on collections are reported as program income in accordance with State law.*

Appropriate system and procedural changes will be made in the instances noted above. Additional training for all counties and monitoring of counties under contract will be implemented, as appropriate.