



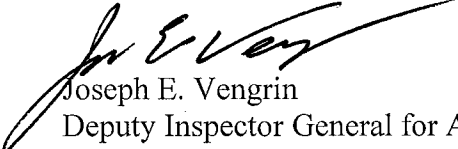
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

NOV 28 2007

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 Kentucky From
October 1, 1998, Through December 31, 2005 (A-04-06-03507)

Attached is an advance copy of our final report on undistributable child support collections in Kentucky from October 1, 1998, through December 31, 2005. We will issue this report to the Kentucky Division of Child Support (the State agency) within 5 business days.

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

During our review period, the State agency did not recognize any undistributable child support collections, nor did it report any program income. As of December 2005, the State agency had not recognized or reported program income totaling \$2,681,571 (\$1,769,837 Federal share) for undistributable child support collections and interest income earned from uncashed Kentucky Department of Treasury (Treasury) checks.

The State agency failed to recognize or report program income totaling \$2,040,753 (\$1,346,897 Federal share) for undistributable child support collections that should have been recognized as forfeited or abandoned and transferred in accordance with State requirements. The \$2,040,753 included:

- \$1,618,804 (\$1,068,411 Federal share) for uncashed Treasury checks that met the State's 5-year eligibility requirement for forfeiture but were never transferred to the State's general fund and reported as program income and
- \$421,949 (\$278,486 Federal share) for undistributed collections within the Kentucky Automated Child Support Enforcement System that were presumed abandoned under State law and undistributed collections held by two county offices that were presumed abandoned under State law but were never transferred to Treasury and reported as program income.

The State agency also did not recognize or report program income totaling \$640,818 (\$422,940 Federal share) for interest earned from uncashed Treasury checks.

These deficiencies occurred because the State agency did not have adequate policies and procedures to ensure compliance with Federal reporting requirements.

We recommend that the State agency:

- ensure that undistributable collections totaling \$2,040,753 (\$1,346,897 Federal share) are transferred to the State's general fund or Treasury in accordance with State requirements and reported as program income;
- recognize and report program income totaling \$640,818 (\$422,940 Federal share) for interest earned from uncashed Treasury checks;
- implement policies and procedures to ensure that uncashed checks and undistributed collections that are considered abandoned in accordance with State law are transferred to Treasury (in cases where funds that are presumed abandoned are not held in Treasury accounts) and reported as program income;
- implement policies and procedures to recognize and report as program income the interest earned from uncashed Treasury checks;
- recognize and report program income for collections that became eligible for forfeiture or abandonment subsequent to our audit period; and
- recognize and report program income for interest earned from uncashed Treasury checks subsequent to our audit period.

In comments on our draft report, the State agency concurred with our findings. In response to all recommendations, the State agency said that it was working with the Finance and Administration Cabinet and Treasury to implement processes for ongoing compliance.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Grants and Internal Activities, at (202) 619-1175 or through e-mail at Joe.Green@oig.hhs.gov. Please refer to report number A-04-06-03507.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

NOV 30 2007

Report Number: A-04-06-03507

Mr. Mark D. Birdwhistell, Secretary
Cabinet for Health and Family Services
275 East Main Street, 5W-A
Frankfort, Kentucky 40621

Dear Mr. Birdwhistell:

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 Kentucky From October 1, 1998, Through December 31, 2005." 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, within 10 business days after the final report is issued, it 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 John Drake, Audit Manager, at (404) 562-7755 or through e-mail at John.Drake@oig.hhs.gov. Please refer to report number A-04-06-03507 in all correspondence.

Sincerely,

Peter J. Barbera
Regional Inspector General
for Audit Services, Region IV

Enclosure

Direct Reply to HHS Action Official:

Ms. Carlis V. Williams
Regional Administrator, Region IV
Administration for Children and Families
Atlanta Federal Center
61 Forsyth Street SW., Suite 4M60
Atlanta, Georgia 30303-8909

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF UNDISTRIBUTABLE
CHILD SUPPORT COLLECTIONS
IN KENTUCKY FROM OCTOBER 1,
1998, THROUGH DECEMBER 31,
2005**



Daniel R. Levinson
Inspector General

November 2007
A-04-06-03507

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:

Office of Audit Services

The Office of Audit Services (OAS) provides all 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.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS 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 Kentucky, the Division of Child Support (the State agency), located in the Department for Community Based Services in the Cabinet for Health and Family Services, administers the program.

Undistributable collections result 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. 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. Kentucky statutes state that unpaid (uncashed) checks are eligible for forfeiture after 5 years and that undistributed collections are presumed abandoned after 3 years.

The State agency contracts with local law enforcement officials to provide child support services to families and maintain child support cases in the Kentucky Automated Child Support Enforcement System (KASES). In accordance with Kentucky statutes, the Department of Treasury (Treasury) generates all checks and electronic payments for the child support program. Treasury also maintains records and funds for undistributed collections, and its Unclaimed Property Division is responsible for the State's unclaimed property program.

OBJECTIVES

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

SUMMARY OF FINDINGS

During our review period, the State agency did not recognize any undistributable child support collections, nor did it report any program income. As of December 2005, the State agency had not recognized or reported program income totaling \$2,681,571 (\$1,769,837 Federal share) for undistributable child support collections and interest income earned from uncashed Treasury checks.

The State agency failed to recognize or report program income totaling \$2,040,753 (\$1,346,897 Federal share) for undistributable child support collections that should have been recognized as

forfeited or abandoned and transferred in accordance with State requirements. The \$2,040,753 included:

- \$1,618,804 (\$1,068,411 Federal share) for uncashed Treasury checks that met the State's 5-year eligibility requirement for forfeiture but were never transferred to the State's general fund and reported as program income and
- \$421,949 (\$278,486 Federal share) for undistributed collections within KASES that were presumed abandoned under State law and undistributed collections held by two county offices that were presumed abandoned under State law but were never transferred to Treasury and reported as program income.

The State agency also did not recognize or report program income totaling \$640,818 (\$422,940 Federal share) for interest earned from uncashed Treasury checks.

These deficiencies occurred because the State agency did not have adequate policies and procedures to ensure compliance with Federal reporting requirements.

RECOMMENDATIONS

We recommend that the State agency:

- ensure that undistributable collections totaling \$2,040,753 (\$1,346,897 Federal share) are transferred to the State's general fund or Treasury in accordance with State requirements and reported as program income;
- recognize and report program income totaling \$640,818 (\$422,940 Federal share) for interest earned from uncashed Treasury checks;
- implement policies and procedures to ensure that uncashed checks and undistributed collections that are considered abandoned in accordance with State law are transferred to Treasury (in cases where funds that are presumed abandoned are not held in Treasury accounts) and reported as program income;
- implement policies and procedures to recognize and report as program income the interest earned from uncashed Treasury checks;
- recognize and report program income for collections that became eligible for forfeiture or abandonment subsequent to our audit period; and
- recognize and report program income for interest earned from uncashed Treasury checks subsequent to our audit period.

STATE AGENCY COMMENTS

In comments on our draft report, the State agency concurred with our findings. In response to all recommendations, the State agency said that it was working with the Finance and Administration Cabinet and Treasury to implement processes for ongoing compliance.

The complete text of the State agency's comments is included as the Appendix.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Child Support Enforcement Program.....	1
Kentucky’s Child Support Enforcement Program	1
OBJECTIVES, SCOPE, AND METHODOLOGY	2
Objectives	2
Scope.....	2
Methodology	2
FINDINGS AND RECOMMENDATIONS	3
PROGRAM INCOME NOT REPORTED FOR	
UNDISTRIBUTABLE COLLECTIONS	4
Federal Requirements	4
Uncashed Treasury Checks.....	4
Undistributed Collections	5
PROGRAM INCOME NOT REPORTED FOR INTEREST EARNED FROM	
UNCASHED TREASURY CHECKS	6
Federal Requirements	6
Interest Earned From Uncashed Treasury Checks.....	6
INADEQUATE POLICIES AND PROCEDURES	6
RECOMMENDATIONS	7
STATE AGENCY COMMENTS	7
OTHER MATTER	7
APPENDIX	
STATE AGENCY COMMENTS	

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.

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

Kentucky’s Child Support Enforcement Program

In Kentucky, the Division of Child Support (the State agency), located in the Department for Community Based Services in the Cabinet for Health and Family Services, administers the Child Support Enforcement program. The State agency contracts with local law enforcement officials to provide child support services to families and maintain child support cases in the Kentucky Automated Child Support Enforcement System (KASES). In accordance with Kentucky statutes, the Department of Treasury (Treasury) generates all checks and electronic payments for the child support program. Treasury also maintains records and funds for undistributed collections, and its Unclaimed Property Division is responsible for the State’s unclaimed property program. The Office of the Controller, within the Finance and Administration Cabinet, is responsible for all State accounting policies and procedures, cash management, and strategic financial planning.

Uncashed Checks

Pursuant to Kentucky statutes, checks issued by Treasury are valid for 1 year after issuance. After 1 year, Treasury removes the unpaid (uncashed¹) checks from the accounts of record and credits the amounts to the fund against which the checks were originally drawn. The funds for the uncashed checks are transferred to an unredeemed checks refund account, where they are held for potential redemption. After 5 years from the date of issuance, these funds are eligible for forfeiture and transfer to the State’s general fund, at which time the amounts should be reported as program income.

¹For clarity, unpaid checks are referred to as “uncashed” checks in this report.

Undistributed Collections

Kentucky statutes state that when collections have not been distributed because checks were not issued or were returned, the funds are presumed abandoned after 3 years.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

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

Scope

For the period October 1, 1998, through December 31, 2005, we reviewed \$2,681,571 in undistributable child support collections and interest earned on child support collections.

We did not review the overall internal control structure of the State agency's operations or financial management. However, we evaluated the State agency's controls over undistributable child support collections and interest earned on child support collections. We did not review any controls at the two county offices that we visited because they had stopped processing child support collections.

We performed fieldwork at the offices of the Cabinet for Health and Family Services, Treasury, and the Finance and Administration Cabinet in Frankfort, Kentucky. We also performed fieldwork at the Jefferson and Fayette County offices. We performed the fieldwork from February to November 2006.

Methodology

To accomplish our objectives, we:

- reviewed applicable Federal and State laws and guidance, including OCSE program and policy announcements;
- interviewed State agency officials to identify their policies and procedures for recognizing and reporting program income pertaining to undistributable collections and interest earned from child support collections;
- evaluated policies and procedures for recognizing and reporting program income pertaining to undistributable collections and interest earned from child support collections;

- reviewed Forms OCSE-34A and OCSE-396A to identify the undistributable collections and program income that the State agency reported for the quarters ended December 1998 to December 2005;
- reviewed undistributable child support collections in State accounts that met the State's definition of abandoned property;
- surveyed 10 counties that either (1) previously processed child support payments or (2) collected the majority of the child support for the quarter ended December 2005 to determine whether they held undistributable child support collections that met the State's definition of abandoned property;²
- reviewed 2 counties' undistributable child support collections that met the State's definition of abandoned property; and
- determined whether the State agency appropriately reported the interest earned on child support collections.

We performed our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

During our review period, the State agency did not recognize any undistributable child support collections, nor did it report any program income. As of December 2005, the State agency had not recognized or reported program income totaling \$2,681,571 (\$1,769,837 Federal share) for undistributable child support collections and interest income earned from uncashed Treasury checks.

The State agency failed to recognize or report program income totaling \$2,040,753 (\$1,346,897 Federal share) for undistributable child support collections that should have been recognized as forfeited or abandoned and transferred in accordance with State requirements. The \$2,040,753 included:

- \$1,618,804 (\$1,068,411 Federal share) for uncashed Treasury checks that met the State's 5-year eligibility requirement for forfeiture but were never transferred to the State's general fund and reported as program income and
- \$421,949 (\$278,486 Federal share) for undistributed collections within KASES that were presumed abandoned under State law and undistributed collections held by two county offices that were presumed abandoned under State law but were never transferred to Treasury and reported as program income.

²The counties surveyed included Boone, Campbell, Christian, Fayette, Gallatin, Grant, Hardin, Jefferson, Kenton, and Pendleton. Only two counties, Jefferson and Fayette, held undistributable collections, which totaled \$257,122.

The State agency also did not recognize or report program income totaling \$640,818 (\$422,940 Federal share) for interest earned from uncashed Treasury checks.

These deficiencies occurred because the State agency did not have adequate policies and procedures to ensure compliance with Federal reporting requirements.

PROGRAM INCOME NOT REPORTED FOR UNDISTRIBUTABLE COLLECTIONS

Federal Requirements

The 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 program income from undistributable child support collections when the funds are considered abandoned. OCSE-PIQ-88-7 states:

If a IV-D . . . collection is truly undistributable, the State may dispose of it in accordance with State law. States may, for example, provide that such collections must be refunded to the obligor or that they become the property of the State if unclaimed after a period of time. In the latter case, if clearly identified as IV-D collections, this revenue must be counted as program income and be used to reduce IV-D program expenditures, in accordance with Federal regulations at 45 CFR 304.50.

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.”

Forms OCSE-34A and OCSE-396A require States to report program income for undistributable collections when State law considers them abandoned. 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 in accordance with the provision of Section 457 of the Social Security Act and unable to return to the non-custodial parent. Under State law, these amounts are considered to be ‘abandoned property.’”

Uncashed Treasury Checks

Kentucky Revised Statutes (KRS) 41.070 requires that all agency funds, including child support collections, be deposited into accounts maintained by Treasury. Checks issued by Treasury are valid for 1 year from the issue date (KRS 41.370(a)). After 1 year, Treasury is authorized “to clear the records of all such unpaid checks and credit the amounts to the fund against which it was originally drawn” (Id.). Even after the records have been cleared, a properly endorsed check will be paid if presented for payment within 5 years from the date it was originally issued (KRS 41.370(2), which incorporates by reference a 5-year period described in KRS 413.120). After

5 years, these funds are eligible “to be forfeited in whole or in part and thereupon be transferred to the extent so forfeited to the general fund” (KRS 41.300).

The State agency did not recognize or report program income of \$1,618,804 (\$1,068,411 Federal share) for uncashed Treasury checks that had been held for more than 5 years. The State agency did not identify the uncashed Treasury checks that had been transferred to the unredeemed checks refund account. As a result, it failed to recognize the uncashed checks as undistributable when they became eligible for forfeiture and transfer to the State’s general fund.

Undistributed Collections

KRS 393.090 requires that intangible property that “has remained unclaimed by the owner for more than . . . (3) years after it became payable or distributable is presumed abandoned.” As intangible property, child support collections that have not been distributed because checks were not issued or were returned are presumed abandoned after 3 years and should be reported as program income. For intangible property that is presumed abandoned and not already in the possession of Treasury, such property must be transferred to Treasury or placed in an interest-bearing account and made assignable to Treasury (KRS 393.130(1) and (5)).

The State agency did not report program income of \$421,949 (\$278,486 Federal share) for undistributed collections within KASES held in Treasury accounts that were presumed abandoned under State law and undistributed collections that were held by two county offices that were presumed abandoned under State law but never transferred to Treasury.

- The State agency did not report program income of \$164,827 (\$108,786 Federal share) for unclaimed collections that were held within KASES for more than 3 years. The State agency identified these collections as having remained unclaimed for more than 3 years but did not recognize them as undistributable.
- The State agency did not report program income of \$257,122 (\$169,700 Federal share) that Jefferson and Fayette Counties had held for more than 3 years but had not reported to the State agency. This amount included \$226,683 (\$149,610 Federal share) held by Jefferson County and \$30,439 (\$20,090 Federal share) held by Fayette County.³ The counties did not report these undistributed collections to the State agency because they were unaware that they were required to do so. If the counties had recognized the collections as undistributable, they could have transferred the collections to Treasury, and the State agency could have reported them as program income.

³Fayette County combined Title IV-D and non-Title IV-D child support collections into one account and was unable to separately identify the Title IV-D collections. Therefore, we estimated the Title IV-D undistributable child support collections by multiplying Fayette County’s total undistributed collections by the ratio of Title IV-D cases to total cases during August 2006.

PROGRAM INCOME NOT REPORTED FOR INTEREST EARNED FROM UNCASHED TREASURY CHECKS

Federal Requirements

OCSE-AT-89-16 requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from interest earned from child support collections. Specifically, OCSE-AT-89-16 states: “Although not required by either statute or regulation, many States have chosen to invest or deposit these funds in income-producing accounts. Any amount earned through these activities is considered program income and must be used by States to offset program expenditures.”

OCSE Informational Memorandum (IM) 89-05 encourages States to deposit child support collections in interest-bearing accounts and states: “Child Support Enforcement Agency funds deposited in State or local accounts must have interest accounted for and offset against CSE [Child Support Enforcement] expenditures.”

The OCSE-396A instructions for line 2b, “Interest Earned and Other Program Income . . . ,” require that States report:

The total amount of other income to the State used to offset the administrative costs reported on Lines 1a and 1b. Include: (i) Interest or investment income earned when child support collections, fees or other program income funds are deposited in interest-bearing accounts or used in other investment-type activities; (ii) undistributable child support collections as reported on Line 9a of Form OCSE-34A

Interest Earned From Uncashed Treasury Checks

The State agency did not recognize or report program income of \$640,818 (\$422,940 Federal share) for interest earned from uncashed Treasury checks. After 1 year from the date of issue, the funds for the uncashed checks were transferred to an unredeemed checks refund account, where they remained until they were claimed or forfeited. The interest earned on the uncashed Treasury checks accrued to the State’s general fund. Because the State agency did not identify uncashed Treasury checks that were transferred to the unredeemed checks refund account, it did not identify and report the interest earned from those checks.

INADEQUATE POLICIES AND PROCEDURES

The deficiencies discussed above occurred because the State agency did not have adequate policies and procedures to ensure compliance with Federal reporting requirements.

RECOMMENDATIONS

We recommend that the State agency:

- ensure that undistributable collections totaling \$2,040,753 (\$1,346,897 Federal share) are transferred to the State’s general fund or Treasury in accordance with State requirements and reported as program income;
- recognize and report program income totaling \$640,818 (\$422,940 Federal share) for interest earned from uncashed Treasury checks;
- implement policies and procedures to ensure that uncashed checks and undistributed collections that are considered abandoned in accordance with State law are transferred to Treasury (in cases where funds that are presumed abandoned are not held in Treasury accounts) and reported as program income;
- implement policies and procedures to recognize and report as program income the interest earned from uncashed Treasury checks;
- recognize and report program income for collections that became eligible for forfeiture or abandonment subsequent to our audit period; and
- recognize and report program income for interest earned from uncashed Treasury checks subsequent to our audit period.

STATE AGENCY COMMENTS

In comments on our draft report, the State agency concurred with our findings. In response to all recommendations, the State agency said that it was working with the Finance and Administration Cabinet and Treasury to implement processes for ongoing compliance. The State agency added that it would identify undistributable funds subsequent to the audit and make appropriate adjustments to its Federal reports. The State agency also said that it was working to enhance its systems to allow for better tracking and reporting of undistributable funds.

The complete text of the State agency’s comments is included as the Appendix.

OTHER MATTER

For child support collections that cannot be distributed to custodial parents, the State agency is responsible for making a diligent effort to return the collections to the noncustodial parents. OCSE-IM-89-05 states: “Only those collections which cannot be processed to the custodial parent or appropriately returned to the obligor [noncustodial parent] should be placed in State CSE accounts.”

The State agency did not attempt to return to noncustodial parents those collections that could not be distributed to the custodial parents. As a result, the collections have remained in the State's accounts with the collections that were presumed abandoned and considered undistributable. We were unable to identify collections that could have been returned to noncustodial parents because the State agency did not maintain documentation that would have allowed their return. Although State agency officials expressed an intention to do so, the agency has not yet established policies and procedures to return the collections to the noncustodial parents when the collections could not be distributed to the custodial parents.

APPENDIX



CABINET FOR HEALTH AND FAMILY SERVICES
DEPARTMENT FOR COMMUNITY BASED SERVICES
COA Accredited Agency
Division of Administration and Financial Management

Ernie Fletcher
Governor

275 East Main Street, 3W-C
Frankfort, Kentucky 40621-0001
Telephone #: 502-564-7463
FAX #: 502-564-2267
www.chfs.ky.gov

Mark D. Birdwhistell
Secretary

October 24, 2007

Peter J. Barbera
Regional Inspector General
for Audit Services
Office of the Inspector General
Region IV – Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

Report # A-04-06-03507
Review of Undistributable Child Support Collections
In Kentucky from October 1, 1998 Through December 31, 2005

Dear Mr. Barbera:

Kentucky appreciates the extension granted for response to the aforementioned audit. Program and fiscal staff have reviewed the draft report and must concur with the findings of the OIG. Responses to recommendations are as follows:

- Recommendation: Ensure that undistributable collections totaling \$2,040,753 (\$1,246,897 Federal share) are transferred to the State's general fund or Treasury in accordance with State requirements and reported as program income.
 - Kentucky's Response: The Department for Community Based Services (DCBS) is currently working with the Finance and Administration Cabinet and Treasury to implement processes for ongoing compliance.
- Recommendation: Recognize and report program income totaling \$640,818 (\$422,940 Federal share) for interest earned from uncashed Treasury checks.
 - Kentucky's Response: DCBS is currently working with the Finance and Administration Cabinet and Treasury to implement processes for ongoing compliance.

OIG RESPONSE TO UNDISTRIBUTABLE
CHILD SUPPORT COLLECTIONS

A-04-06-03507

OCTOBER 24, 2007

PAGE TWO

- o Recommendation: Implement policies and procedure to ensure that uncashed checks and undistributed collections that are considered abandoned in accordance with State law are transferred to Treasury (in cases where funds that are presumed abandoned are not held in Treasury accounts) and reported as program income.
 - Kentucky's Response: DCBS is currently working with the Finance and Administration Cabinet and Treasury to implement processes for ongoing compliance.
- o Recommendation: Implement policies and procedures to recognize and report as program income the interest earned from Treasury checks.
 - Kentucky's Response: DCBS is currently working with the Finance and Administration Cabinet and Treasury to implement processes for ongoing compliance.
- o Recommendation: Recognize and report program income for collections that became eligible for forfeiture or abandonment subsequent to our audit period.
 - Kentucky's Response: DCBS is currently working with the Finance and Administration Cabinet and Treasury to implement processes for ongoing compliance.
- o Recommendation: Recognize and report program income for interest earned from uncashed Treasury checks subsequent to our audit period.
 - Kentucky's Response: DCBS is currently working with the Finance and Administration Cabinet and Treasury to implement processes for ongoing compliance.

The Department for Community Based Services will be diligent in our efforts to correct all deficiencies. We will identify undistributable funds since the point of the audit to make appropriate adjustments to the federal reports. We are also working closely with technology/systems staff to enhance automation that will track these funds for better reporting.

On behalf of the department program and fiscal staff, again I want to thank you for the extension on our response. Additionally, I would like to thank Ms. Loraine Forest for her patience and explanation of issues during the audit.

Sincerely,



Renee L. Close, Director
Division of Administration and Financial Management

cc: ✓ John Drake
Mark Washington
Mark Comett
Gail Wells
Rachel Dockal