



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

MAY 21 1999
Michael Mangano
Date for June Gibbs Brown
From Inspector General

Subject Review of New Hampshire's Procedures for Reporting Earnings and Collecting Child Support from Independent Contractors (A-01-98-02503)

To Olivia A. Golden
Assistant Secretary
for Children and Families

This is to alert you to the issuance of our final report on May 25, 1999. A copy is attached. The objective of our review was to determine the adequacy of New Hampshire's procedures for reporting earnings and collecting child support from independent contractors.

Our review disclosed that New Hampshire's Office of Child Support (State IV-D agency) collected \$1.065 million in child support from independent contractors during the period October 13, 1997 through October 12, 1998. This amount had not previously been identified or reported.

Federal law requires all States to have a system in place for businesses to report newly hired employees for the purpose of collecting child support payments. New Hampshire took this a step further by requiring businesses to report the hiring of independent contractors. We found that collections from independent contractors made a meaningful contribution in sustaining New Hampshire's growth rate for child support collections. Specifically, collections from garnishing wages increased by \$5.3 million (from \$32.7 million in Fiscal Year 1997 to \$38 million in Fiscal Year 1998). The estimated amount collected from independent contractors (\$1.065 million) accounts for about 20 percent of this increase.

Currently, 45 of 50 States do not have legislation enacted or pending to require businesses to report hired independent contractors and garnish their earnings for child support obligations. Three States, Massachusetts, New Jersey, and Kansas, have passed legislation but have not developed nor implemented related procedures. Iowa is the only other State besides New Hampshire that has implemented procedures for reporting and garnishing earnings from independent contractors. The results from both States can provide insight into the financial opportunity in employing such techniques for delinquent independent contractors. We plan to begin a review of Iowa's program this month. In the meantime, we recommend that the Administration for Children and Families consider the merits of encouraging other States to require businesses to report the hiring of independent contractors in a similar manner as reporting employees under the new hire reporting program.

The results in New Hampshire showed that the process:

- o increased collections by \$1.065 million;
- o did not significantly impact operating costs nor worker caseloads;
- o was relatively easy to implement in comparison to other enforcement tools;
- o consistently identified information regarding the current location or address of delinquent NCPs; and
- o enhanced the effectiveness of other collection tools such as license suspension and court order violations.

To determine the \$1.065 million, we reviewed a random sample of 300 cases from a population of 8,835 NCPs identified in the State's match of new hire reports to child support records from October 13, 1997 to October 12, 1998. Our results showed that 33 of 300 cases (11 percent) represented NCPs who were employed as independent contractors and made \$36,196 in child support payments. This amount does not include child support collected through tax offset. However, it does include amounts collected from license suspension for two cases since new hire reporting identified their earnings and employer, and IV-D caseworkers learned from their employers that they had licenses.

Any questions or comments on any aspect of this report are welcome. Please call me or have your staff contact John A. Ferris, Assistant Inspector General for Administrations of Children, Family, and Aging Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF NEW HAMPSHIRE'S
PROCEDURES FOR REPORTING
EARNINGS AND COLLECTING CHILD
SUPPORT FROM INDEPENDENT
CONTRACTORS**



JUNE GIBBS BROWN
Inspector General

MAY 1999
A-01-98-02503



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

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

CIN: A-01-98-02503

Ms. Kathleen L. Kerr
Director, DHHS
Division of Child Support Services
State Office Park South - Brown Building
129 Pleasant Street
Concord, New Hampshire 03301-3857

Mr. Darrell Gates
Director
NH Department of Employment Security
32 South Main Street
Concord, New Hampshire 03301-4857

Dear Ms. Kerr and Mr. Gates:

This letter presents the results of our review of New Hampshire's initiative for collecting child support from noncustodial parents (NCP) who are independent contractors. The objective of our review was to determine the adequacy of the State's procedures for reporting earnings and collecting child support from independent contractors.

We estimated that the State's Office of Child Support (State IV-D agency) collected \$1.065 million in child support from independent contractors from October 13, 1997 through October 12, 1998. Federal law requires all states to have a system in place for businesses to report newly hired employees for the purpose of collecting child support payments. New Hampshire took this a step further by requiring businesses to report the hiring of independent contractors. State IV-D officials reasoned that the process of garnishing contractor earnings would improve collections of current and past-due child support from a significant subset of the self-employed (one of the most difficult groups to collect from). New Hampshire's new hire reporting program improved collections and slowed the rate of growth for amounts outstanding in child support. Garnished independent contractor earnings contributed to these factors, demonstrating that it is an effective enforcement tool for collecting child support from the self-employed.

The State concurred with our results and emphasized that our analysis accurately reflects collected support from independent contractors (See Appendix C). The State added that it was

pleased to see that the adoption of the independent contractor component produced more than \$1 million in collections, which otherwise would not have been obtained. Further, the State indicated that collecting child support from the self-employed (the most difficult to collect support from) can be difficult and labor intensive. A mechanism such as new hire reporting, expanded to include independent contractors, can provide states with an efficient tool for collecting support from this group. Given the results from a small state like New Hampshire, nationwide collections could significantly increase if all states included independent contractors as part of the new hire reporting process.

INTRODUCTION

Background

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 included requirements for all employers to report new hires to a designated state agency. In New Hampshire, the designated agency is the Department of Employment Security (DES). Under PRWORA, states must have established a directory of new hires by October 1, 1997. Specifically, employers are required to report new hires to their state new hire directory within 20 days after the individual was hired or initially paid. As of May 1, 1998, states must conduct data matches between their child support case registry and the new hire directory. The Federal new hire reporting requirements are limited to individuals who are hired as employees, and do not include those hired as independent contractors. Federal child support regulations allow for states to establish procedures for wage or income withholdings. Specifically, Title 45 CFR 303.100 provides for states to withhold wages and income from absent parents with a child support order. The PRWORA further clarified the definition of income to mean any periodic form of payment due to an individual regardless of source.

To improve child support collections from the self-employed, New Hampshire enacted legislation requiring employers to also report the hiring of independent contractors with contracts exceeding \$2,500 a year. Employer reporting of individuals under this threshold is optional. State procedures for the withholding of payments to independent contractors for child support obligations are identical to those for wage withholdings of employees. Wage withholdings are the single most effective method of child support collections, accounting for about 56 percent of total child support collected by the states in Federal Fiscal Year (FFY) 1996.

Objective, Scope, and Methodology

The objective of our review was to determine the adequacy of State procedures for reporting earnings and collecting child support from independent contractors. Our review was performed in accordance with generally accepted government auditing standards. Our assessment of internal controls was limited to reviewing new hire reporting procedures established by both the

State IV-D agency and DES. We relied on information contained in the State IV-D agency's computer system for relevant information including NCP employment and payment history, payment type, delinquent amounts, and enforcement remedies.

We performed our fieldwork at the State IV-D agency and DES in Concord, New Hampshire between September 1998 and December 1998. We discussed the results of our review with both IV-D and DES officials on March 4, 1999.

To accomplish our objective, we:

- reviewed Federal regulations and State laws, policies, and procedures pertaining to the new hire reporting program;
- reviewed a randomly selected sample of 300 cases from 8,835 matches of new hire reports with child support records during the period October 13, 1997 through October 12, 1998 (See Appendix A and B). Matched cases do not include interstate cases, which account for about 25 percent of New Hampshire's caseload, nor cases where NCPs work in New Hampshire for multi-state employers that have opted to report its new hires to a designated state which does not have independent contractor reporting requirements;
- reviewed State IV-D records for each sample item including child support collections, payment histories, enforcement remedies applied, and delinquent obligations (for amounts collected, we included those child support payments from the date the NCP was identified by New Hampshire's new hire reporting program through October 12, 1998);
- determined the employment status (employee versus independent contractor) for sampled cases using DES' database, which includes employer and employee quarterly wage reports, and by contacting employers;
- tested the reliability of our population of daily matches between State IV- D and new hire records by sampling 30 matched records and verifying the selected NCPs' names and social security numbers to a new hire extract file from DES; and
- used the sample results to project the total number of independent contractors and amounts potentially collected from them using attribute and variable sample appraisal methodology (See Appendix A and B).

The draft report was issued to New Hampshire's DES and Division of Child Support Services on March 17, 1999. These agencies responded on April 13, 1999 and April 14, 1999, respectively.

RESULTS OF REVIEW

We estimated that New Hampshire collected \$1.065 million in child support from independent contractors from October 13, 1997 through October 12, 1998. Federal law requires all states to have a system in place for businesses to report newly hired employees for the purpose of collecting child support payments. New Hampshire took this a step further by requiring businesses to report independent contractors they have hired. State IV-D officials reasoned that the process of garnishing contractor earnings would improve collections of current and past-due child support from a significant subset of the self-employed (one of the most difficult groups to collect from). New Hampshire's new hire reporting program improved collections and slowed the rate of growth for amounts outstanding in child support. Garnished independent contractor earnings contributed to these factors, demonstrating that it is an effective enforcement tool for collecting child support from the self-employed.

New Hampshire's Process for Garnishing Employer Wages and Contractor Earnings

Effective October 1997, employers in New Hampshire are required to report the hiring of employees and independent contractors for contracts exceeding \$2,500 per year. However, businesses are encouraged to report all independent contractors regardless of the contract amount. New hire reports are submitted to DES, which, in general, is responsible for maintaining a computerized database of all new hire's within the state. Daily, DES updates its new hire database and submits this data to the State IV-D agency for matching by NCP name and social security number. The match generally yields a listing of recently hired NCPs with child support orders. For these matched cases, a notice is automatically sent by the computer to the NCP and employer. The notice to the employer contains instructions to garnish either employee wages or independent contractor earnings by the next pay period. For NCPs with multiple employers, State IV-D caseworkers often contact the employer or business with whom the NCP has the largest earnings base.

State IV-D officials advised us that adding independent contractors to the new hire reporting function did not significantly impact operating costs or worker caseloads. In terms of costs, states are Federally mandated, under the PRWORA, to implement the new hire reporting and matching program. The bulk of the costs for implementing this program would be incurred regardless of whether independent contractors are included. The State IV-D agency's process for garnishing earnings and sending out notification letters to employers for properly matched cases is automated with little worker involvement. As such, State officials indicated that the incremental costs for adding independent contractors would not be significant. Both State IV-D and DES agencies favor this program's relative ease of implementation. This program is considered to be one of the most effective and efficient enforcement remedies for obtaining child support from a difficult group of NCPs (e.g. those that are self-employed).

Child Support Collections

Collections from independent contractors made a meaningful contribution in sustaining New Hampshire's growth rate for child support collections. Figure 1 shows that collections from garnishing wages and other income increased by \$5.3 million (\$32.7 million to \$38 million) from FFY 1997 to FFY 1998. The estimated amount collected from independent contractors (\$1.065 million) accounts for about 20 percent of this increase. Overall, the growth rate in collections from garnishing wages and other income significantly contributed to New Hampshire's increase in child support collections when the growth rate in collections for other remedies, such as tax-offset, experienced a drop in its growth rate. Specifically, the \$5.3 million increase accounts for over 82 percent of the \$6.4 million (\$54.6 million to \$61 million) increase in total collections.

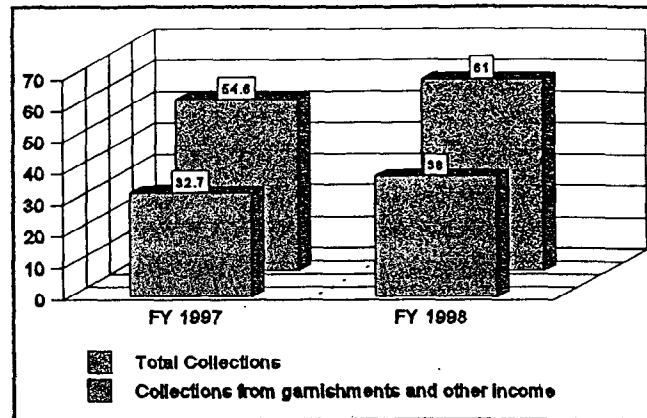


Figure 1- Child Support Collections (millions)

To determine the \$1.065 million, we reviewed a random sample of 300 cases from a population of 8,835 NCPs identified in the State's match of new hire reports to child support records from October 13, 1997 to October 12, 1998. Our results showed that 33 of 300 cases (11 percent) represented NCPs who were employed as independent contractors and made \$36,196 in child support payments (See Appendix A and B). This amount does not include child support collected through tax offset. However, it does include amounts collected from license suspension for two cases since new hire reporting identified their earnings and employer, and IV-D caseworkers learned from their employers that they had licenses. A breakout of the 33 cases disclosed that 11 of the cases (33 percent) received Temporary Assistance to Needy Families (TANF) benefits. The NCPs for this group paid \$4,653 (13 percent) of the \$36,196 in child support collections. Projecting the amounts collected for the 33 cases to our population of 8,835 cases resulted in an estimated 972 independent contractors paying about \$1.065 million in child support. The TANF subset accounted for an estimated 324 cases that paid \$137,031 in child support payments.

Further analysis of the 33 cases noted that amounts collected during the first year the new hire program was in place ranged from \$42 to \$8,126 with an average \$1,100 per case. Collections were achieved by either directly garnishing earnings, or indirectly as a result of notifying the NCP that the State IV-D agency was aware of any recent earnings and would take the necessary steps to collect child support (e.g. issue a court order violation). For the 33 cases we reviewed, the State directly garnished earnings for 22 cases (67 percent) and indirectly as a result of the NCP making support payments for the remaining 11 cases (33 percent). The IV-D records

showed that payments from the latter group could be directly attributable to the new hire reporting program identifying NCP earnings. Because the duration of their contracts was, for the most part, short term, they were not employed long enough for their earnings to be directly garnished by the State IV-D agency. The NCPs' industries included landscaping, construction, automotive repair, body shops, restaurants, and hotels. We noted that in 8 of the 11 cases, the duration of employment for these independent contractors was less than 35 days. The following example demonstrates how this process affects those who may engage in short term contracts.

The new hire reporting program identified an NCP who worked for six different employers at different times during the year we reviewed. The NCP worked as an independent contractor in four of the six jobs. Before new hire reporting, the NCP had an outstanding balance of \$5,936 representing about 20 months in past-due child support. After identifying the NCP through new hire reporting, the IV-D agency was able to collect \$1,819 during the periods the NCP worked as an independent contractor. Initially, the NCP voluntarily paid \$739 after the IV-D agency contacted him. The IV-D agency directly garnished his contractor earnings for the remaining \$1,080.

State IV-D and DES officials commented that another important benefit from New Hampshire's new hire reporting program is that it serves as a valuable parent locator tool. The program has been known to consistently identify information regarding the current address of delinquent NCPs. This information is often hard to come by, especially for the self-employed.

Amounts Outstanding

In addition to improving collections, the process of garnishing contractor earnings chips away at outstanding child support accumulated by independent contractors. We found that 31 of the 33 cases we reviewed (94 percent) had outstanding balances ranging from \$360 to \$23,641. This averages out to be \$4,879 per case. The other two cases were not delinquent.

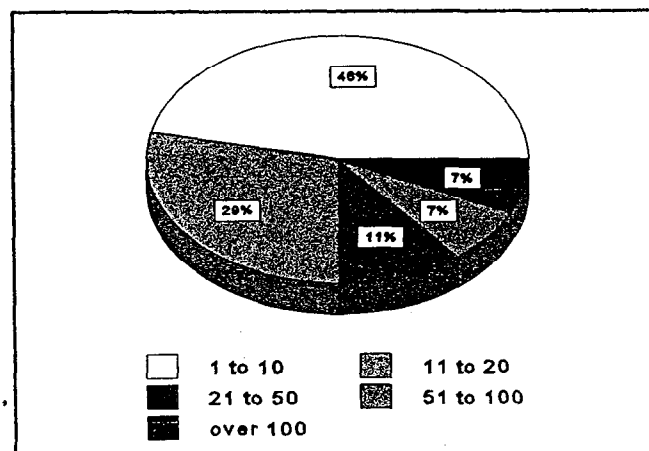


Figure 2 - Number of Months Outstanding

A closer look at the 31 cases with past-due support noted that 28 had sufficient information to determine the number of months outstanding. The remaining three NCPs, for reasons such as the child was over the age of majority (age 18), were no longer required to make current child support payments. Although the NCPs still owed accumulated amounts in past due child support, we did not age their accounts and focused on those cases that

currently owed child support at the time the NCP was identified by the new hire program. We found, for the 28 cases, that these independent contractors were late in paying their child support any where from 1 month to 243 months, or an average of 27 months. Figure 2 shows the breakdown for the number of months outstanding with 54 percent of the NCPs having accumulated 11 months or more in unpaid child support.

In total, 31 NCPs had accumulated over \$151,000 in outstanding child support before the new hire reporting program identified them. One NCP, as an example, had a delinquent balance of \$5,068 (11 months of child support payments) and was not making any payments before the new hire program was implemented (October 1997). As of October 12, 1998, the IV-D agency had directly garnished \$1,027 in contractor earnings. State IV-D records further showed that the NCP continued to make payments after our audit period.

Conclusion

New Hampshire's new hire reporting program, which includes independent contractors, improved collections and slowed the growth rate for amounts outstanding in child support. Collections from garnishing wages and other income increased by \$5.3 million from FFY 1997 to 1998. The amount collected from independent contractors, an estimated \$1.065 million, represents about 20 percent of this increase. Further, we believe amounts collected contributed to the slower growth rate in amounts outstanding in child support from FFY 1997 to FFY 1998. Both State and Regional Child Support Enforcement program officials indicated that the major collection initiative undertaken by New Hampshire in 1998 was the new hire reporting program. Hence, this program appears to have: (1) sustained a healthy growth rate in child support collections in FFY 1998 when returns from other remedies were not as strong as in the prior year; and (2) slowed the rate of growth for amounts outstanding in child support. The reduction in amounts outstanding is crucial, especially when 31 of the 33 independent contractors we reviewed averaged \$4,879 in past due support (money that could have improved the welfare of their children). We found that garnished independent contractor earnings contributed to sustained growth in collections and smaller increases in amounts outstanding, demonstrating that it is an effective enforcement tool for collecting child support from the self-employed (one of the most difficult groups to collect from).

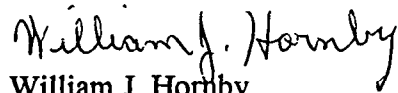
State Agency Comments

The State concurred with our results and emphasized that our analysis accurately reflects collected support from independent contractors (See Appendix C). The State added that it was pleased to see that the adoption of the independent contractor component produced more than \$1 million in collections, which otherwise would not have been obtained. Further, the State indicated that collecting child support from the self-employed (the most difficult to collect support from) can be difficult and labor intensive. A mechanism such as new hire reporting, expanded to include independent contractors, can provide states with an efficient tool for

Page 8 -Ms. Kathleen Kerr, Mr. Darrell Gates

collecting support from this group. Given the results from a small state like New Hampshire, nationwide collections could significantly increase if all states included independent contractors as part of the new hire reporting process.

Sincerely yours,


William J. Hornby
Regional Inspector General
for Audit Services

Enclosures - as stated

APPENDICES

ESTIMATE OF TITLE IV-D CASES WITH NCPs WORKING AS INDEPENDENT CONTRACTORS

To obtain our population for attribute sampling, we identified all match hits from New Hampshire's daily matches between new hire reports from employers and IV-D agency case records. These matches resulted in a population of 8,835 cases during the one year period of October 13, 1997 through October 12, 1998. From the population of 8,835 cases, we selected a simple random sample of 300 cases for review.

The table below shows the results of projecting the 33 cases of NCPs who were independent contractors and made child support payments after being identified by New Hampshire's new hire reporting program. Specifically, we estimate that there were 972 independent contractors who paid child support between October 13, 1997 and October 12, 1998. We are 90 percent confident that the number of NCPs that made payments fell between 724 and 1,270 cases.

	Number of Cases	Projected Totals	90 Percent Confidence Interval	
			Lower Limit	Upper Limit
NCPs working as independent contractors with child support payments	33	972	724	1270
Subgroup by method of payment:				
Support payments made through garnishments	22	648	446	907
Support payments made voluntarily after IV-D agency contacted NCP	11	324	184	527
Subgroup by public assistance type:				
NCP families receiving TANF	11	324	184	527
NCP families not on TANF	22	648	446	907

ESTIMATE OF CHILD SUPPORT COLLECTIONS FOR TITLE IV-D CASES WORKING AS INDEPENDENT CONTRACTORS

We obtained amounts collected in child support for each of the 33 independent contractors that made payments after they were identified by New Hampshire's new hire reporting program. We considered all payments received once the case was identified by the new hire program until the end of our audit period (October 12, 1998). Types of payments included the direct garnishment of earnings and voluntarily payments made by NCPs as a result of the IV-D agency contacting them.

The table below summarizes our statistical projections for the total amount collected from independent contractors once they were identified by the new hire reporting program. Specifically, we estimated that New Hampshire collected about \$1.065 million in child support payments from independent contractors from October 13, 1997 through October 12, 1999. We are 90 percent confident that the amount the State collected from these independent contractors fell between \$579,338 and \$1,552,607.

	Number of Cases	Projected Totals	90 Percent Confidence Interval	
			Lower Limit	Upper Limit
Collections from NCPs working as independent contractors	33	\$1,065,972	\$579,338	\$1,552,607
Subgroup: Collections by payment method				
Support payments made through garnishments	22	\$526,743	\$307,882	\$745,603
Support payments made voluntarily after IV-D agency contacted NCP	11	\$539,230	\$98,878	\$979,581
Subgroup: Collections by assistance type				
NCP families receiving TANF	11	\$137,031	\$56,028	\$218,034
NCP families not on TANF	22	\$928,941	\$446,768	\$1,411,114



STATE OF NEW HAMPSHIRE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF PROGRAM SUPPORT

Appendix C
Page 1 of 3

129 PLEASANT STREET, CONCORD, NH 03301-3857
603-271-4335 FAX: 603-271-5590 TDD Access: 1-800-735-2964

Donald L. Shurawny
Commissioner

Kathleen L. Kerr, Esq.
Director

April 14, 1999

William J. Hornby
Regional Inspector General for Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203

Dear Mr. Hornby:

Thank you for the opportunity to comment on the draft results of New Hampshire's initiative to collect support from independent contractors. We were very pleased to participate in this review in order to help assess whether requiring the reporting of earnings in excess of \$2500.00 by independent contractors has been worthwhile. We are confident that the results of the study represent an accurate reflection of the activity undertaken to collect support from the select population.

As you mention in your report, self-employed payors are often among the most difficult to collect support from and this reporting requirement has proven extremely helpful in obtaining collections in these cases. The report provides excellent information to show that the passage of new laws and remedies to assist in the collection of support can have very positive results for families. This also helps to show that the new hire reporting burden faced by the employer community has and will continue to payoff by providing the information necessary to ensure that responsible parents are supporting their children. The cooperative efforts between the Departments of Employment Security and Health and Human Services have helped to make the New Hire program a success. We are most appreciative of the efforts of NHDES in working with the employer community to encourage their compliance with the reporting requirements and ensuring that accurate, timely information is available to the child support program.

Given the significance of the results in a small state like New Hampshire, we believe that substantial collections could be realized nationally if this same reporting mechanism were in place in other states. Collecting child support from self-employed obligors can be difficult and labor intensive. A mechanism such as New Hire Reporting, expanded to include earnings by independent contractors, can provide states with a collection tool to assist with these difficult cases.

William J. Hornby
April 14, 1999
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Thank you for providing the resources to review this process and we would be happy to be available for any follow-up information you may require.

Sincerely,



Kathleen L. Kerr

cc: John Ratoff



Employment **SECURITY**

32 SOUTH MAIN STREET
CONCORD NEW HAMPSHIRE 03301-4857

April 13, 1999

JOHN J. RATOFF, Commissioner
JOSEPH WEISENBURGER, Deputy Commissioner

William J. Hornsby, Regional Inspector General
Office of Audit Services
Room 2425
John F. Kennedy Federal Building
Boston MA 02203

Dear Mr. Hornsby:

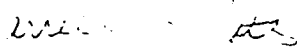
Thank you for an opportunity to comment on the draft report entitled, "Review of New Hampshire Procedures for Reporting Earnings and Collecting Child Support from Independent Contractors."

I support the findings of the report and applaud the efforts of the Office of Inspector General in determining the effectiveness of the independent contractor component of New Hampshire's New Hire Program. Keeping in mind that all of these efforts are on behalf of children, I am pleased to see that the adoption of the independent contractor component produced more than \$1 million, which otherwise would not have been obtained. If \$1 million in child support payments can be generated in a small state such as New Hampshire, it would be exciting to see what would be generated in large states such as California, New York, or Texas.

Other States may have a resistance to adopting an independent contractor component. Speaking as an individual, who has made many presentations within this state to employer organizations, most employers were less anxious when they realized that they could send new hire reports before \$2500 was earned, and when they were reminded that their efforts in sending reports on independent contractors benefited children. I believe the results of your audit are testaments of the willingness of employers in New Hampshire to comply with the independent contractor component.

The report, when official, will be extremely effective in helping this agency and the N.H. Department of Health and Human Services promote the benefits of the independent contractor component with the legislature, employers, and the public. It will also help to deflect any attempts to eliminate this component in the future. For that, we thank you.

Sincerely,


Darrell L. Gates, Director
Unemployment Compensation Bureau