



Memorandum

Date . JUL 8 1992

From Richard P. Kusserow,
Inspector GeneralSubject States ' Practices and Perspectives for Assessing Fees for
Child Support Services to Applicants not Receiving Aid to
Families with Dependent Children (A-06-91-00048)

TO

Jo Anne B. **Barnhart**
Assistant Secretary for
Children and Families

The attached final management advisory report provides you with the results of our review of States' (including territories), practices in establishing Child Support Enforcement (CSE) fees for non-Aid to Families with Dependent Children (non-AFDC) cases. The purpose of this review was to determine whether States were charging the application fee as originally envisioned by the Congressional Budget Office (CBO) and to obtain the opinions of State CSE officials on the potential impact of implementing mandatory application and user fees in non-AFDC cases.

Our review showed that revenues raised from application fees collected for non-AFDC cases did not meet the anticipated fee and revenues envisioned by the CBO. Therefore, we are recommending that the Administration for Children and Families (ACF) should actively continue to pursue their legislative proposal submitted to Congress: If ACF is unable to obtain congressional sponsorship for their current legislative proposal, then we suggest that they study other revenue raising alternatives such as making application fees contingent upon recovery of support payments or the option of charging non-AFDC cases with fees for the cost recovery of certain CSE services.

If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.

Attachment

**Memorandum**

JUL 8 1992

Date

From

Richard P. Kusserow
Inspector General*Bryan Titche*

Subject

States' Practices and Perspectives for Assessing Fees for Child Support Services to Applicants not Receiving Aid to Families with Dependent Children (A-06-9 I-00048)

TO

Jo Anne B. Barnhart
Assistant Secretary for
Children and Families

This final management advisory report provides you with the results of our review of 54 States and territories' practices in establishing Child Support Enforcement (CSE) fees for non-Aid to Families with Dependent Children (non-AFDC) cases. Our report is one of several Office of Inspector General reports issued on the CSE program, and it follows our earlier alert memorandum issued to you on July 29, 1991 concerning States' practices for assessing fees for child support services to non-AFDC applicants.

The objectives of this review were to: (1) determine whether States were charging the application fee and raising revenues as originally envisioned under the legislative history of Public Law (P.L.) 98-378 currently found at section 454(6) of the Social Security Act; (2) determine whether differences existed among States for application fees charged to non-AFDC cases, and (3) obtain opinions from selected State officials on the potential impact of implementing mandatory application and annual user fees. We took into consideration a Fiscal Year (FY) 1992 legislative proposal of the Administration for Children and Families (ACF), formerly the Family Support Administration. The proposal called for mandatory \$25 application and annual \$25 user fees for non-AFDC applicants.

SUMMARY

We found that 32 States were charging token application fees (\$1 or less), 9 States were charging between \$2 and \$10 and 10 States were charging more than \$10. The remaining three States used a sliding scale starting at \$1 and ending at \$25. Current law allows States to charge up to \$25 for application fees. The Congressional Budget Office (CBO) envisioned that fee revenues for all States in FY 1989; would amount to \$20 million, of which \$5 million would

relate to late payment fees; however, the total FY 1989 State revenues generated from all fees amounted to only \$6.5 million which included fee revenues other than just application fees. Revenues for FY 1990 increased by \$15.7 million to \$22.2 million; however, we obtained information from 11 States which comprised \$15.1 million of this increase and found that 93 percent of this increase related to non-application fee revenue.

Officials from three of the six States we visited endorsed the proposed mandatory application fee while officials from the three other States expressed concerns about the proposed application fee but did not provide any substantive evidence to support their concerns. The officials were concerned with: the related administrative burden in collecting and accounting for application fees, the possible impediment to individuals requesting CSE services, the States desire not to turn away individuals who could not afford to pay the fee, the lack of financial incentive in collecting application fees, and the fees in general take away child support which could be going to the child or the family.

As for the annual user fee, the current law does not require the States to charge such a fee. However, officials from five of the six States visited supported the annual user fee. The State CSE officials that did not support the annual user fee felt that such a fee takes away funds from the child and the family.

In order to determine the financial ability of users (potential and actual) to pay for CSE service, we analyzed income data contained in the Bureau of the Census, Current Population Survey (CPS) data relating to 1988 and 1989. Our analysis showed that more than 60 percent of non-AFDC users of CSE services as well as eligible nonusers had incomes 150 percent or more above the poverty level. Based upon this information, it would appear that many non-AFDC users and eligible nonusers have the financial ability to pay the ACF's proposed application and annual users fees. Furthermore, we believe that charging the proposed minimal fees to non-AFDC users is reasonable compared to the cost of similar services provided through the private sector legal system, and will help to offset the State costs of providing CSE services.

We are recommending that ACF actively continue to pursue its legislative proposal submitted to Congress in order to: (1) ensure that States are charging fees to recoup costs as originally intended under the current P.L. 98-378, (2) reduce the differences among States for fees charged to non-AFDC cases by establishing a mandatory \$25 application fee, and (3) impose a user fee of \$25 for each non-AFDC case in which there is an application for services and in which a collection is made. If the proposal is adopted, ACF estimated that the

financial effect would increase program revenues by an estimated \$385 million over the next 5 years.

During the course of our review, we obtained limited information on cost recovery which is a State option allowing the recovery of actual cost for providing CSE service to non-AFDC clients. Twenty-three States have implemented cost recovery. We believe that cost recovery provides a possible alternative or a supplement to the proposed mandatory application and annual user fees. Therefore, we suggest that ACF further study the feasibility of making cost recovery mandatory for non-AFDC clients.

We have considered the ACF comments on our draft report in your May 28, 1992, memorandum and made appropriate adjustments in our final report. The ACF comments are presented in their entirety in APPENDIX A of this report.

INTRODUCTION

BACKGROUND

The ACF submitted a FY 1992 legislative proposal to Congress which would require States to pay or collect from each non-AFDC individual who completes an application for CSE services (1) a mandatory \$25 application fee and (2) a mandatory \$25 annual user fee. The annual user fee would be applicable once the State collects child support payments.

The proposal would also allow States the option of charging a \$50 application fee and \$50 annual user fee only to those individuals who have income above 185 percent of the poverty level income. In addition, the proposal would retain the statutory provisions giving the States the option of recovering actual service costs in excess of fees charged.

This legislative proposal would replace the current mandatory fee established by P.L. 98-378 which amended section 454 (6) of the Social Security Act. The current law requires that a mandatory application fee not to exceed \$25 be imposed on those non-AFDC individuals who apply for CSE services. The application fee is to be paid by the individual applying for such services, recovered from the absent parent or paid by the State out of its own funds. The application fee may vary among such individuals on the basis of ability to pay as determined by the State. In the legislative history of P.L. 98-378, the CBO

estimated that the fee would average \$15 and that revenues would be \$15 million in FY 1989.

The ACF projected that enactment of the legislative proposal would result in program revenue totaling \$66 million in FY 1992 and \$385 million over the 5-year period from FY's 1992 through 1996. A copy of the proposal is shown as **Appendix B** to this report.

METHODOLOGY

The objectives of our review were to: (1) determine whether States were charging the application fee and raising revenues as originally intended under the current P.L. 98-378; (2) determine whether differences existed among States for fees charged to non-AFDC cases and (3) obtain opinions from selected State officials on the potential impact of implementing mandatory application and user fees. Our objectives were performed in relation to ACF's FY 1992 legislative proposal which called for mandatory \$25 application and annual \$25 user fees for non-AFDC applicants.

We contacted State CSE officials in 48 States and visited with State CSE officials in 6 of these States. The State CSE officials in the 48 States provided us with copies of their CSE State application forms and related application fee data. In addition, for the six States visited, we obtained verbal comments from State CSE officials regarding the proposed legislation. The six States visited were Arkansas, California, Colorado, Connecticut, New Mexico and Texas. For the remaining six States not contacted, we obtained application fee data from State plan information provided to us by regional CSE offices.

In addition, we analyzed FY 1990 fees and costs recovered for non-AFDC cases and subsequently identified 11 States which had significant revenue increases or decreases from FY 1989, or which had not reported any FY 1990 revenue. For these States, we asked State CSE officials to explain the cause of the increases and decreases or why the State did not report revenue. We also requested that the States provide us with the amount of fees which related to application fee revenue.

We also evaluated the financial ability of non-AFDC users and nonusers who are eligible for CSE services to pay the proposed fees by reviewing Bureau of the Census CPS data (available for March-April 1988) and calculated their annual incomes. In addition, we reviewed 1989 Bureau of the Census CPS data which provided poverty level income data relating to voluntary users and nonusers of CSE services.

Our analysis of State plan information which was obtained from either the States or CSE regional offices showed which States were performing cost recovery. We visited two of the States performing cost recovery and obtained schedules of the State's cost recovery fees as well as cost recovery revenue relating to 1989 and 1990.

We reviewed the legislative history of P.L. 98-378. We also discussed the legislative proposal with officials from ACF Headquarters, the Dallas Regional CSE Office and an official from the Office of the Assistant Secretary for Planning and Evaluation (ASPE). We did not independently verify information received from ACF, the States or other sources. Our field work was performed during the period March 1991 through January 1992.

RESULTS OF REVIEW

We found that 32 States were charging only token application fees (\$1 or less) of which 24 States absorbed the fees rather than charge the applicants. As a result of such a large number of States charging token application fees, the CBO's estimated FY 1989 application fee revenues of \$15 million was not achieved. Our analysis of State application fees also indicated that there were differences in the fees charge which ranged from \$.01 to \$25. In addition, some of the lowest per capita income States were charging the maximum application fee.

Although no States are currently required to charge an annual user fee, 23 States have implemented the option of recovering costs for certain CSE services.

At three of the six States we visited, State CSE officials did not support a mandatory application fee. These officials were primarily concerned about the administrative burden associated with collecting the fee and the impediment that the fee may pose to applicants seeking CSE services. However, these officials did not have any evidence to support their concerns.

Officials from five of the six States we visited supported the mandatory annual user fee. These officials stated that fees subject to collection were easier to collect since no up-front money was required.

The CSE officials were also generally opposed to the optional \$50 application fee and \$50 annual user fee only to those individuals who have incomes above 185 percent of the poverty level income. They indicated that verifying income on an annual basis could be an administrative burden because of the additional

staff time involved in verifying data with third parties unless some simplified method was used.

Our analysis of CPS data showed that a significant number of non-AFDC users have the financial ability to pay the proposed application and annual user fees. More than 60 percent of non-AFDC users and eligible nonusers had incomes which were 150 percent above the poverty level. In addition, more than 28 percent of this population had incomes 300 percent or more above the poverty level income. The CPS data also showed that 14 percent of the voluntary users of CSE services had incomes below the poverty level.

LEGISLATIVE HISTORY

The legislative history of P.L. 98-378 showed that Congress viewed the use of application fees as a reasonable means for defraying some of the costs of the CSE services. This view was contained in Senate Report No. 98-387, section III, "Fees for Services," which stated:

"...the State may vary the amount of the fee to reflect ability to pay. The Committee believes that this minimal fee requirement represents a reasonable way to help defray some of the costs incurred in processing the application and in providing support enforcement services. This fee would still be significantly less costly to the non-AFDC applicant than the cost of pursuing support enforcement through a private attorney."

Further, the legislative history of P.L. 98-378 showed that substantial cost savings were expected through the establishment of application fees. Senate Report No. 98-387, section V, "Budgetary Impact," contained the following estimate of savings related to application fees.

"CBO estimates total savings from this provision to rise from \$5 million in 1985 to \$20 million in 1989. Most of these savings are from the application fee, which is assumed to average \$15. Late payment fees are estimated to save only \$5 million a year."

CURRENT STATE PRACTICES AND APPLICATION FEE REVENUES

We obtained information on the States' policies concerning application fees in effect during the period April through June 1991 to determine if the fees were consistent with the intent of Congress. We also compared fee revenues as

reported by the States with the congressional estimate of application fee revenues to see if the application fees were raising the intended revenues.

Application Fees

Our review of States' practices relating to application fees during the time period April through June 1991 was conducted by obtaining data from 48 State CSE offices and regional CSE offices. Our analysis showed the following:

- 11 States had a **\$.01** fee
- 21 States had a **\$1** fee
- 1 State had a \$2 fee
- 6 States had a \$5 fee
- 2 States had a **\$10** fee
- 5 States had a \$20 fee
- 5 States had a \$25 fee
- 3 States had sliding scale fees ranging from **\$1** to \$25

As shown above, there was a wide variance among the States' application fees, ranging from \$.01 to \$25. The application fees in 24 States which charged token fees were paid by the States and not by the individuals who applied for the services. (**See Appendix C** for a map of application fees by State.) Our analysis of the States' application fees also revealed an inconsistent trend. Of the five States which had maximum application fees of \$25, three of these States in 1988 were ranked 45th or lower in per capita income. (**See Appendix D** for a complete listing of application fees by State, per capita income ranking and cost recovery data.)

In our opinion, Congress had not intended for States to establish application fees at levels as low as \$1 or less. The Senate report clearly stated that the average fee was assumed to be \$15 and that savings would be substantial--\$1 5 million in FY 1989. However, as discussed below, the estimated savings were not achieved.

Application Fee Revenues

The ACF, in its Fourteenth Annual Report to Congress, reported that total FY 1989 State fees amounted to only **\$6.5** million for all CSE fees, not just application fees. Furthermore, total fees for all States over the preceding three

FYs, as presented below, showed that States were not recouping costs as originally intended under the current P.L. 98-378 even when fees other than just application fees were considered. In fact, total fees have decreased in FY 1989 from the levels of FYs 1987 and 1988.

FY 1986	FY 1987	FY 1988
\$5,748,920	\$6,891,181	\$7,317,697

However, for FY 1990, the ACF's advance copy of the Fifteenth Annual Report to Congress reported that total fees and costs recovered for non-AFDC cases substantially increased to \$22.2 million or \$15.7 million over FY 1989 total fees.

In light of the significant FY 1990 fee increases, we identified eight States which had significant fee increases or decreases. These eight States accounted for \$15.1 million or 96 percent of the \$15.7 million increase. We contacted CSE officials in these States to determine the cause of the differences and to identify the amount of the fees which related to application fees. Fee increases in two of these States (Ohio and Michigan) accounted for \$14.8 million of the total increase. In addition, we contacted three States with zero or negative dollar amounts reported in ACF's Report to Congress to ensure that the information in the ACF's Report to Congress was reasonably accurate.

Appendix E contains a list of the 11 States contacted and shows the related fee information and FY 1990 application fees.

The results of our review of the 11 selected States relating to FY 1990 fees revealed that only 7 percent, or approximately \$1 million of the \$15.1 million related to application fees. Therefore, application fee revenue is continuing to be less than that envisioned by Congress.

For two of the States with token application fees (\$.01), revenues raised from such fees were negligible in reducing the cost of the CSE program. Specifically, the FY 1990 application fee revenues for Arkansas were \$76, compared with net program costs of \$9.2 million; California had application fee revenues of \$1,234, compared with net program costs of \$196.4 million.

STATE OPINIONS ON MANDATORY FEES

We met with CSE officials in six States, Arkansas, California, Colorado, Connecticut, New Mexico and Texas to obtain their opinions on the proposed legislation. The States were selected on a judgmental basis and included States with high application fees as well as token application fees.

State CSE officials were asked to respond to both the merits of a mandatory \$25 application fee as well as an annual \$25 user fee and whether the option of only charging those applicants with income above 185 percent of the poverty level a \$50 fee was an option they would seriously consider if the proposed legislation became law. The State CSE officials' responses, along with our analysis of their responses, follow:

Mandatory \$25 Application Fee

State officials from three of the six states we visited endorsed the proposed mandatory application fee, while State officials from the three other States did not. Although the responses varied from State to State as to why officials did not endorse the proposed application fee, the following statements generally summarize the States' concerns.

- The administrative burden associated with the application, along with the collection and accounting for the fee, simply was not worth the effort.
- The fee was seen as a possible impediment to individuals requesting CSE services.
- The States did not wish to turn away anyone needing CSE services just because they could not afford to pay the application fee.
- There was no financial incentive for the State to collect application fees because it was not cost-effective.
- Fees in general take away child support which could be going to the child or the family.

Some of the above concerns appeared to be inconsistent and contradictory since these States were already collecting other types of fees. Furthermore, no State CSE office was able to provide us with a study or other evidence which showed that application fees were not cost-effective to the State, or that such fees actually prevented individuals needing CSE services from obtaining such services.

Mandatory \$25 Annual User Fee

None of the States are currently required to charge an annual user fee. However, two (Arkansas and New Mexico) of the six States which we visited charged, under the cost recovery option, monthly handling or payment processing fees which are similar to annual user fees. Nevertheless, State CSE officials in five of the six States visited endorsed the proposed annual \$25 user fees.

State officials generally believed that since these fees were based upon the collection of child support, these fees did not present the same type of problems presented by the proposed mandatory \$25 application fee. However, officials from one State told us they were opposed to this fee for the same reason they were opposed to the application fee: fees take away funds which could otherwise be available to the child and the family.

Optional \$50 Application and Annual User Fees

None of the CSE officials in the six States visited endorsed the optional \$50 application and annual user fees, which would only be charged in cases in which the applicant's income was above 185 percent of the poverty level. The States' comments were generally as follows:

- Verifying income on an annual basis could be time consuming, and therefore would be an administrative burden, unless some simple method is used such as reviewing an income tax return or pay statement.
- Only a small portion of the population served would be in this category; therefore, it would not generate much revenue.

We recognize that potential administrative problems could be encountered if an elaborate income verification system is required by statute or regulation. For example, a system requiring third party verification might delay services to recipients, need more staff time to request and review third party response and might not guarantee that the third party would respond timely or respond at all. However, the current legislative proposal allows States considerable latitude in this area and does not mandate a specific system. Therefore, we do not view this option as an obstacle to adoption of the proposal. Furthermore, this option would allow States to consider the applicant's ability to pay before charging them for services.

FINANCIAL ABILITY TO PAY PROPOSED NON-AFDC FEES

To determine if individuals have the financial ability to pay the proposed fees for CSE services, we analyzed 1988 and 1989 CPS income data compiled by ASPE. Our analysis showed that a significant number of these individuals have the financial ability to pay the proposed application and annual user fees.

The 1988 CPS data (available for March-April 1988) showed that 61 percent of the identified non-AFDC users of CSE services had incomes of 150 percent or more above the poverty level, and 28 percent of these same users had incomes of 300 percent or more above the poverty level. Using the CPS data and Social Security Administration poverty level income data, we computed the income levels for the non-AFDC users as shown below.

PERCENTAGE OF NON-AFDC USERS (61%)			33%	28%
			MINIMUM INCOME LEVELS	
Family Size	Family Size CPS %	Poverty Level Income	150% Above Poverty Level	300% Above Poverty Level
2	56	\$7,730	\$11,595	\$23,190
3	33	\$9,690	\$14,535	\$29,070
4+	11	\$11,650	\$17,475	\$34,950

As shown above, the minimum income levels for these groups can range from \$11,595 to greater than \$34,950. This data also compared favorably with other 1988 CPS data which showed that 64 percent of nonuser individuals eligible for CSE services had income levels 150 percent or more above the poverty level for similar family sizes. Further, 31 percent of these same individuals had incomes 300 percent or more above the poverty level.

In addition, 1989 CPS data provided by ASPE complimented the 1988 CPS data and showed that 73 percent of the identified voluntary users of CSE services had

incomes 150 percent or more above the poverty level. Thirty-six percent of these same users had incomes 300 percent or more above the poverty level. For the remaining voluntary users of CSE services, 14 percent had income below the poverty level and 13 percent had income from the poverty level income to 149 percent above the poverty level income.

For those individuals who were not using CSE services, the 1989 CPS data showed that 73 percent of eligible nonusers of CSE services had income 150 percent or more above the poverty level. Thirty-nine percent of these same users had incomes 300 percent or more above the poverty level. Information regarding the percentages of these individuals who might have had income below the poverty level or had income from the poverty level up to 149 percent above the poverty level was not included in the ASPE provided data.

Therefore, considering recent income levels, we believe that at least 60 percent of the custodial parents receiving non-AFDC services and those individuals eligible for CSE services have the financial ability to pay the proposed application and annual user fees. Furthermore, we believe that the charging of the proposed fees to non-AFDC users is reasonable compared to the cost of similar services provided through the private sector legal system. These fees will also help to offset the State costs of providing CSE services.

OTHER COST RECOVERY FEES

Child Support Enforcement State plans have shown that 23 States have implemented under current law, the option of charging non-AFDC cases with fees for the cost of certain services (known as cost recovery) such as:

- using the Internal Revenue Service tax intercept service;
- locating absent parents;
- establishing paternity;
- enforcing and collecting child support;
- handling a location-only request; and
- tracking and monitoring support payments.

This cost recovery option which was in effect in 23 States, results in significant differences among the States in the fees charged for similar CSE services. For example, a non-AFDC applicant in New Mexico is required to pay \$25 for Internal Revenue Service tax intercept service and \$60 for parent locator service, while a

non-AFDC applicant in Texas would have received these same services at no charge, with the State paying the application fee. The recovery of such costs can significantly reduce the cost of the CSE program to the Federal Government.

Two of the States we visited, Arkansas and New Mexico, were low per capita income States which were recovering costs for services. State CSE officials provided the following information which demonstrates that even States with low per capita income can generate significant program revenue by using cost recovery. (See **Appendix F** for the fee schedules for services in these States.)

AMOUNT RECOVERED ¹		
STATE	1989	1990
Arkansas	\$685,140	\$673,438
New Mexico	\$287,571	\$374,152

¹ Arkansas' data is by Federal Fiscal Year; New Mexico's data is by Calendar Year.

Since revenue from charges for cost recovery services was treated like the revenue collected from the application fee, this revenue was offset against total State costs before Federal reimbursement was claimed. Therefore, the use of cost recovery reduced Federal costs of the CSE program.

CONCLUSIONS AND RECOMMENDATIONS

The intent of P.L. 98-378 in relation to the anticipated application fee and related revenues was not being met because a majority of States have established token application fees for non-AFDC cases, rather than establish fees at the level originally estimated. Accordingly, the revenues raised by application fees did not meet the estimates envisioned by the CBO. Further, there were differences in the amount of application fees charged by States which resulted in inequities in the financial burden of non-AFDC clients residing in the different States.

Although officials from three of the States we visited expressed opposition to the establishment of mandatory fixed application fees, they did not have any substantive evidence to show such a fee is unreasonable or that its adoption

would hinder the program. However, there is State support for an annual user fee. Therefore, we recommend that the ACF continue to pursue the adoption of its 1992 legislative proposal with Congress in order to:

- ensure that States charge fees as originally intended under current P.L. 98-378 and raise program revenue as initially envisioned by the CBO;
- reduce the large disparity in application fees charged among the States by establishing a mandatory fee of at least \$25; and
- raise additional revenues by imposing a \$25 annual user fee for non-AFDC clients in which there is a collection made.

If ACF is unable to obtain congressional sponsorship for the current legislative proposal, then we suggest that ACF study other revenue raising alternatives such as making fees contingent upon recovery of support payments. The wider use of cost recovery to reduce differences in interstate fees charged and to raise revenues could be an alternative or a supplement to the establishment of mandatory application and annual user fees. However, we believe that this issue needs more study. Therefore, we suggest that ACF consider studying the feasibility of making cost recovery mandatory for non-AFDC cases.

ACF COMMENTS

In a memorandum dated May 28, 1992, the Assistant Secretary for ACF responded to our draft report but did not indicate whether or not she concurred with our recommendations. However, ACF expressed concern that in our analysis of the CPS data, we did not use an income grouping of 185 percent over the poverty level which is the grouping used by ACF in its proposal. Concerning our analysis of the FY 1990 fees and costs collected, ACF stated an analysis of the fees responsible for the bulk of the increase might have shed some light on "...other revenue raising alternatives." The ACF also indicated that FY 1990 fee revenues for: Arkansas was \$674,874 and not \$76 as reported; and California was \$1,764,079 and not \$1,234 as reported. Further, the ACF suggested two editorial changes to the draft report.

OIG RESPONSE

We did not use an income grouping of 185 percent over the poverty level because this data was not readily available at the time of our review. The 150 and 300 percent groupings discussed in the report were derived from CPS data compiled by ASPE. An analysis of the fees responsible for the bulk of the increase in 1990 was not part of our scope. The application fee revenues

contained in the report for Arkansas (\$76) and California (\$1,234) were obtained from State CSE officials. The amounts cited by ACF are total fee revenues which include all fees, not just application fee revenues. We considered but did not make ACF's suggested editorial changes because we did not believe that they were appropriate or supportable revisions.

APPENDICES



DEPARTMENT OF HEALTH, HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
Office of the Assistant Secretary, Suite 600
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

Date: May 28, 1992

To: Richard P. Kusserow
Inspector General

From: *Jeanne B. Barnhart*
Jeanne B. Barnhart
Assistant Secretary
for Children and Families

Subject: Comments on Office of Inspector General Draft
Management Advisory Report, "States' Practices and
Perspectives for Assessing Fees for Child Support
Services to Applicants Not Receiving Aid to Families
with Dependent Children" (A-06-91-00048)

Our specific comments are as follows:

1. We are gratified that your analysis of the 1988 and 1989 Current Population Survey (CPS) and Social Security Administration poverty level income data indicates that "at least 60 percent..." of non-AFDC custodial parents and those eligible to use child support enforcement (CSE) services have the ability to pay the application and user fees contained in our FY 1993 legislative proposal. We are puzzled, however, as to why the income groupings were made at 150 and 300 percent, respectively, of the poverty levels since the legislative proposal uses 185 percent of the poverty level as the cutoff for not charging the fees.
2. While your analysis of the FY 1990 fees and costs collected reveals that a relatively small amount of the over 250 percent increase over FY 1989 is attributable to applications fees, an analysis of the fees responsible for the bulk of the increase might have shed some light on "...other revenue raising alternatives...(such as) cost recovery..." which you recommend for further study.

We are again unclear as to where you came up with the figures cited as application fee revenues for Arkansas and California at the first paragraph, p.9. The fee revenues for Arkansas for FY 1990 were \$674,874, not \$76. The fee revenues for California for FY 1990 were \$1,764,079, not \$1,234.

We suggest the following paragraphs be reworded as follows:

1. Page 5, paragraph 2:
We did not independently verify information received from

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the States or sources other than ACF.

3. Page 14, last paragraph, (as in previous draft):
The wider use of cost recovery to reduce interstate inequities in fees charged...



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

FAMILY SUPPORT ADMINISTRATION
FISCAL YEAR 1992 LEGISLATIVE PROPOSALS

OCSE-92/02

FAMILY SUPPORT ADMINISTRATION
FISCAL YEAR 1992 LEGISLATIVE PROPOSAL

Application and User Fee in Non-AFDC Cases

Replace the Current Non-Aid to Families with Dependent Children Application Fee of up to \$25 with a Mandatory \$25 Fee and Require States to Assess an Annual User Fee of \$25 in Paving Cases

Current Law: Child Support Enforcement (CSE) services for individuals not receiving Aid to Families with Dependent Children (AFDC) benefits are available upon application. The IV-D agency state plan must provide that an application fee will be charged for each of these non-AFDC individuals who apply for services. The state must collect the application fee from the individual applying for IV-D services or pay the fee out of state funds or at state option, subsequently recover the fee from the absent parent. The fee may not exceed \$25, or such higher or lower amount that the Secretary determine necessary to reflect increases or decreases in administrative costs. In addition, states may recover costs in excess of fees charged either from the custodial or absent parent.

Proposal:

- c Replace the fee of up to \$25 charged to non-AFDC applicants with a mandatory \$25 fee. Require states to collect or pay this fee for every valid applicant. Provide states with the option to charge a mandatory \$50 application fee for applicants with incomes above 185 percent of poverty and to waive the fee for all other applicants. Require that state plans indicate which method the state intends to use.

Regardless of the option selected, require that the state pay any mandatory amount not charged the applicant to ensure that the full amount is paid in every non-AFDC case in which there is an application for services. Retain the current provision which prohibits a state from considering any amount it pays an administrative cost under the program; require the state to count the payment as income to the program.

- o Impose a user fee Of \$25 per year for each non-AFDC case in which there is an application for services and in which a collection is made. The fee would be charged and collected, once child support is collected, in the same manner as the application fee. Retain the statutory provision giving states the option to recover costs in excess of fees charged.

FSA 14

As with the application fee, states would have the option of charging a \$50 user fee per year for each non-AFDC case in which there is a collection and the applicant or custodial parent has income which is above 185 percent of poverty. In all other cases the user fee would be waived. state plans must indicate which method they will use prior to imposing the user fee.

Rationale: A mandatory \$25 non-AFDC application fee would not impose an undue burden on applicants, especially if the state is given the authority to share the fee with the applicant and to recover the fee from the absent parent. Under current law, some states absorb the application fee or impose a minuscule fee, such as one dollar, to avoid charging any non-AFDC applicant a fee.

An annual flat "user fee" in paying cases, constructed and charged in the same manner as the application fee, is an administratively simple way to defray costs of providing services in non-AFDC cases. By retaining the current cost recovery provisions in the statute, states could recover costs from absent parents and repay amounts paid by the state or custodial parents. This proposal would also reduce states' motivation to "blanket-in" all child support cases to the IV-D program, thereby refinancing ongoing state or local administrative costs at Federal expense and potentially qualifying for larger non-AFDC incentive payments.

The option of only charging these fees to applicants who have incomes that are 185 percent above poverty allows states to provide services to low income applicants without charging them. This option also charges only applicants who can afford to pay the nominal fees.

This proposal is consistent with the Administration's position of assessing user charges for services rendered.

Effect on Beneficiaries and Families: AFDC recipients would not be affected by this proposal, since no fees would be charged to them. Some lower income non-AFDC families might be required to pay the full application and annual user fees.

Federalism Impact: This proposal would modify current requirements on states but continue to allow states to consider the applicant's ability to pay in charging application fees.

<u>Cost: (in millions)</u>					
	<u>FY 1992</u>	<u>FY 1991</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>
Application					
fee.....	-\$43	-\$47	-\$51	-\$55	-559
Administrative					
costs.....	<u>3</u>	4	4	<u>4</u>	<u>5</u>
Subtotal.....	-540	-\$43	-547	-551	-\$54
User fee.....	-28	-30	-33	-35	-37
Administrative					
Costs.....	<u>2</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>
Subtotal.....	-526	-\$28	-\$30	-\$32	-\$34
TOTAL.....	-\$66	-\$71	-\$77	-\$83	-\$88

LIST OF APPLICATION FEES PER CAPITA INCOME RANK

STATE	PCI RANK	CURRENT APPLICATION FEE	AF PAID BY	SERVICE COST RECOVERY	CR FEES PAID BY
Alabama	40	Sliding Fee - (\$5 or \$25)	CP	No	
Alaska	7	\$1.00	S	No	
Arizona	28	\$.01	S	No	
Arkansas	47	\$.01	S	Yes	CP
California	8	\$.01	S	No	
Colorado	19	\$20.00	CP	Yes	AP
Connecticut	1	Sliding Fee - (\$1 or \$25)	CP/S	No	
D.C.	-	\$5.00	CP	Yes	AP
Delaware	10	\$25.00	CP	Yes	AP
Florida	16	\$.01	S	Yes	AP
Georgia	26	\$1.00	CP	No	
Guam	-	\$1.00	CP	No	
Hawaii	14	\$1.00	S	No	
Idaho	44	\$1.00	CP	Yes	CP
Illinois	11	\$.01	S	No	
Indiana	29	\$5.00	CP	Yes	CP
Iowa	32	\$5.00	CP	Yes	CP
Kansas	21	\$.01	S	Yes	CP
Kentucky	42	Sliding Fee - (\$5 - \$25)	CP	No	
Louisiana	46	\$25.00	CP	Yes	CP
Maine	27	\$1.00	S	No	
Maryland	4	\$20.00	CP	Yes	CP
Massachusetts	3	\$1.00	S	No	
Michigan	17	\$1.00	CP	No	
Minnesota	15	\$5.00	CP	No	
Mississippi	50	\$25.00	CP	Yes	AP
Missouri	24	\$.01	S	No	
Montana	39	\$1.00	S	No	
Nebraska	31	\$1.00	CP	No	
Nevada	12	\$2.00	CP	Yes	CP
New Hampshire	5	\$1.00	S	No	
New Jersey	2	\$5.00	CP	No	
New Mexico	45	\$25.00	CP	Yes	CP
New York	6	\$1.00	S	Yes	CP
N. Carolina	34	\$10.00	CP	No	
N. Dakota	41	\$1.00	S	Yes	CP
Ohio	22	\$1.00	CP	No	
Oklahoma	37	\$25.00	CP	No	
Oregon	30	\$1.00	S	Yes	CP
Pennsylvania	20	\$1.00	S	No	
Puerto Rico	-	\$.01	S	No	
Rhode Island	13	\$20.00	CP	No	
S. Carolina	38	\$1.00	CP	No	
S. Dakota	43	\$5.00	CP	No	
Tennessee	35	\$.01	S	No	
Texas	33	\$.01	S	No	
Utah	48	\$.01	S	Yes	CP
Vermont	25	\$.01	S	Yes	CP
Virginia	9	\$1.00	S	Yes	AP
Virgin Islands	-	\$20.00	CP	Yes	AP
Washington	18	\$1.00	S	No	
West Virginia	49	\$1.00	CP	No	
Wisconsin	23	\$10.00	CP	Yes	CP
Wyoming	36	\$20.00	CP	Yes	CP

LEGEND:

Per capita income (PCI) rankings based on 1988 income data.

AF - Application Fee

AP - Absent Parent

CP - Custodial Parent

CR - Cost Recovery

S - State

**LISTING OF THE STATES CONTACTED AND RELATED FINANCIAL
INFORMATION RELATING TO FY 1990**

STATE	TOTAL FEES FY 1989	TOTAL FEES FY 1990	INCREASE (DECREASE)	FY 1990 APPLICATION FEES
STATES WITH SIGNIFICANT FEE INCREASES AND DECREASES				
California	\$2,503,518.	\$ 1,764,079.	(\$ 739,439.)	\$ 1,234.
Colorado	\$ 153,210.	\$ 280,106.	\$ 126,896.	\$ 239,481.
Maryland	\$ 278,923.	\$ 885,122.	\$ 606,199.	\$ 474,240.
Michigan	\$ 28,107.	\$ 6,317,204.	\$ 6,289,097.	\$ 27,928.
Minnesota	\$ 89,946.	\$ 348,798.	\$ 258,852.	\$ 66,000.
New Mexico	\$ 205,128.	\$ 363,917.	\$ 158,789.	\$ 24,825.
Ohio	\$ 0.	\$ 8,490,879.	\$ 8,490,879.	\$ 26,957.
Texas	\$ 317,660.	\$ 252,102.	(\$ 65,558).	\$ 154,443.
TOTALS	<u>\$3,576,492.</u>	<u>\$18,702,207.</u>	<u>\$15,125,715.</u>	<u>\$1,015,108</u>
STATES WITH ZERO OR NEGATIVE FEE REVENUES				
Montana	\$ 0.	\$ 0.	\$ 0.	\$ 18.
Utah	\$ 171.	\$ 0.	\$ (171.)	\$ 100.
Virginia	(\$ 310.)	\$		\$ 13,321.
TOTALS	<u>(\$ 139.)</u>	<u>(\$ 977.)</u>	<u>(\$ 838.)</u>	<u>\$ 13,439.</u>
GRAND TOTALS	<u>\$3,576,353.</u>	<u>\$18,701,230.</u>	<u>\$15,124,877.</u>	<u>\$1,028,547.</u>

ARKANSAS NON-AFDC CASE FEE SCHEDULE

TYPE	AMOUNT
Application Fee	\$0.01
Base Cost (Overhead Costs) Per Month	\$9.00 - \$15.00
Initiation of Court Action	\$40.00
Completion of Court Action	\$50.00
In Court Settlement	\$75.00
Trial	\$125.00
Miscellaneous (Legal Preparation) Per Hour	\$50.00
Transcripts	Actual Cost
Depositions	Actual Cost
HLA Chemical Tests	Actual Cost
IRS Full Collection Service	Actual Cost
Filing Fees	Actual Cost
IRS Tax Intercept Service	\$25.00
Uninitiated Telephone Calls	\$5.00

NEW MEXICO NON-AFDC CASE FEE SCHEDULE

TYPE	AMOUNT
Non-AFDC Application Fee	\$25.00
Location	\$60.00
Establishment of Support Obligation and/or Paternity	\$150.00
Modifications	\$150.00
Enforcement	\$250.00
Filing Fee	Actual Cost
Witness Fees	Actual Cost
Blood Tests	Actual Cost
Service of Process	Actual Cost
Expert Witness Fees	Actual Cost
Court Costs	Actual Cost
IRS Full Collection Service	Actual Cost
IRS Tax Intercept Service	\$25.00
TRD Tax Intercept Service	\$20.00
Handling Fee (Per Payment)	\$4.00