

**Memorandum**

Date AUG 4 1995

From June Gibbs Brown
Inspector General *June G. Brown*

Subject Audit of the California Department of Social Services
Federal Tax Refund Offset Program (A-09-93-00083)

To Mary Jo Bane
Assistant Secretary
for Children and Families

This memorandum is to alert you to the issuance on August 7, 1995 of our final audit report. A copy is attached.

The objective of our audit was to evaluate California's procedures for ensuring that collections of delinquent child support payments were effectively being made under the Federal Tax Refund Offset Program (Program). We also reviewed California's procedures for crediting the Federal Government for interest earned on collections held and invested by the State for short periods of time before disbursement to the counties.

We found that the State's procedures were generally adequate for ensuring that offsets were being made against available Federal tax refunds under the Program. We did find that the State could increase the number of cases accepted by the Internal Revenue Service (IRS) for offsets if it used available procedures for correcting Social Security numbers (SSN). We estimate that an additional \$2.9 million could have been recovered by California if available procedures for SSN corrections had been used during the 2-year period that we reviewed.

Additionally, the State earned \$2.1 million (Federal share \$1.4 million) of interest on child support monies received from the IRS from May 1986 through December 1993 and did not report the interest earned as program income as required by Federal regulations. The program income should have been offset against administrative costs claimed for Federal reimbursement.

We are recommending that the State: (1) use available procedures for correcting SSNs prior to final submission for offset against Federal tax refunds; and (2) establish procedures for calculating and reporting as program income interest earned on child support collections received through Federal tax refund offsets, and refund the \$1.4 million to the Federal Government.

Page 2 - Mary Jo Bane

The State concurred with our first recommendation, but did not concur with our second recommendation. The State asserted that interest earned was offset by counties that substituted their funds to finance the Aid to Families with Dependent Children program when estimated child support collections used for Federal drawdowns of cash fell short. The State has not presented written evidence to document its position that counties substituted their own funds, and in the absence of such evidence we consider the findings and recommendations to be appropriate.

If you have any questions, 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**

**AUDIT OF THE CALIFORNIA
DEPARTMENT OF SOCIAL SERVICES
FEDERAL TAX REFUND
OFFSET PROGRAM**



**JUNE GIBBS BROWN
Inspector General**

**AUGUST 1995
A-09-93-00083**



Region IX
Office of Audit Services
50 United Nations Plaza
San Francisco, CA 94102

CIN: A-09-93-00083

Eloise Anderson, Director
California Department of Social Services
744 P Street, Mail Station 1711
Sacramento, California 95814

Dear Ms. Anderson:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services (OAS) report entitled "Audit of the California Department of Social Services Federal Tax Refund Offset Program." A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-09-93-00083 in all correspondence relating to this report.

Sincerely,

Lawrence Frelot
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:
Sharon M. Fujii, Regional Administrator
Administration for Children and Families, HHS
50 United Nations Plaza, Room 351
San Francisco, CA 94102

EXECUTIVE SUMMARY

BACKGROUND

This report presents the results of our audit of the Federal Tax Refund Offset Program (Program) in California, as funded under Title IV-D of the Social Security Act. Title IV-D provides for administrative procedures and financial incentives to improve State child support enforcement activities. In California, the Department of Social Services (State) is responsible for overall supervision of the Program, with the counties providing administration at the local level.

The period of our audit for reviewing the State's procedures under the Program covered primarily the State's fiscal year that ended June 30, 1993. For the calculation of interest earned on child support collections, our audit period was May 1, 1986 through December 31, 1993. The Office of Child Support Enforcement (OCSE) has reported that California collections under the Program have increased from \$49 million in Fiscal Year (FY) 1988 to over \$62 million in FY 1993.

OBJECTIVES

The primary objective of our audit was to evaluate the State's procedures for ensuring that collections of delinquent child support payments were effectively being made under the Program. Our audit also included a review of State procedures for crediting the Program for interest earned on amounts collected which were invested by the State for short periods of time pending disbursement to the counties.

SUMMARY OF FINDINGS

We found that the State's procedures were generally adequate for ensuring that offsets were being made against available Federal tax refunds under the Program. However, there were two areas where there was a need for improvement or corrective action as summarized below.

Correcting Social Security Numbers

The State could increase the number of child support cases accepted by the Internal Revenue Service (IRS) for offset against income tax refunds if the State used available procedures for correcting erroneous social security numbers (SSNs). We estimate that for Federal income tax years 1993 and 1994, additional collections of \$1.6 million and \$1.3 million, or a total of \$2.9 million, could have been obtained under the Program if the available SSN correction procedures were used. We are making recommendations that the State analyze and use available procedures for correcting SSNs before submitting for offset against Federal tax refunds. (See recommendations on Page 6.)

In response to the draft audit report, the State concurred with our recommendations. The State comments contained specific actions that will be taken to more efficiently correct SSNs.

Reporting Interest Earned on Child Support Collections

The State earned interest on child support monies collected by the IRS and distributed to the State and did not report the interest earned as program income although it was required to do so by Federal regulations. On the funds collected by the IRS during the period May 1, 1986 through December 31, 1993, the State earned over \$2.1 million in interest on child support monies that was not credited to the Program. The Federal share of the interest is \$1.4 million. We are recommending that the State establish procedures for calculating and reporting interest earned on child support funds collected after our audit period, and refund the \$1.4 million in interest earnings identified in our audit. (See recommendations on Page 9.)

The State did not agree with our recommendations, asserting that the interest earned was offset by counties that substituted their funds to finance the Aid to Families with Dependent Children (AFDC) program when estimated child support collections used for Federal drawdowns of cash fell short. The State has not presented written evidence to support its position, and in the absence of such evidence we consider the findings and recommendations to be appropriate.

Abbreviations

ACF	Administration for Children and Families
Act	Social Security Act
AFDC	Aid to Families with Dependent Children
CSE	Child Support Enforcement
DAB	Departmental Appeals Board
EVS	Enumeration Validation System
FFP	Federal financial participation
FY	Fiscal Year
GAB	Grant Appeals Board
HHS	Health and Human Services
IRS	Internal Revenue Service
IV-D agency	State agency responsible for administering the program
OCSE	Office of Child Support Enforcement
Program	Federal Tax Refund Offset Program
SSN	Social Security Number
Title IV-D	Child Support Enforcement Program

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INTRODUCTION

BACKGROUND

The Social Security Act (Act), as amended in January 1975 by Public Law 93-647, placed specific requirements on States to address the problem of desertion and nonsupport of children. These amendments, entitled "Child Support and Establishment of Paternity," were incorporated into the Act as Part D to Title IV. Known as the Child Support Enforcement Program, Title IV-D provides for administrative procedures and financial incentives to improve State child support enforcement activities.

On August 13, 1981, the Program was enacted by Congress. Its purpose is to assist families in obtaining child support from absent parents by having the IRS intercept Federal income tax refunds of parents who are delinquent in paying child support. The Program involves the interaction of all State agencies responsible for administering the program (IV-D agencies), and two Federal agencies, the OCSE and the IRS.

The OCSE considers the Program to be one of the most effective components of the child support enforcement program. According to an OCSE report to the Congress for the fiscal year that ended September 30, 1993, the collections of delinquent payments by IRS totaled over \$636 million for the year. This represented about 6.4 percent of delinquent payments collected through all child support enforcement tax and wage intercept methods. For California, OCSE has reported that collections under the Program have increased from \$49 million in FY 1988 to over \$62 million in FY 1993.

SCOPE

We performed our audit in accordance with generally accepted government auditing standards. The objective of our audit was to evaluate the State's procedures for ensuring that collections of delinquent child support payments were effectively being made under the Program. Our audit also included a review of State procedures for crediting the Program for interest earned on amounts collected which were invested by the State for short periods of time pending disbursement to the counties. Our review of the Program primarily covered operations for the State's fiscal year that ended June 30, 1993. For selected issues, we extended our audit to cover procedures in effect during the State's fiscal year that ended June 30, 1994.

In our calculation of interest earned on child support monies collected, our audit covered the period May 1, 1986 through December 31, 1993. We did not calculate the interest earned prior to May 1, 1986 because the State Treasurer did not retain records needed to determine interest earned prior to that date.

The audit was performed at the California Department of Social Services, the State Treasurer's office and the State Controller's office, all located in Sacramento, California. We also made site visits to 6 of the 58 counties in California, which accounted for 36 percent of all cases that the State submitted for IRS offset for the 1993 Federal income tax year. The counties were Los Angeles, Orange, Riverside, Sacramento, San Bernardino and San Francisco. At the counties, we reviewed the procedures to: (i) identify and submit cases to the State for processing under the Program, (ii) follow up on cases returned by the IRS, and (iii) distribute the amounts collected under the Program. The audit field work was performed during the period July 1993 through January 1995.

FINDINGS AND RECOMMENDATIONS

CORRECTION OF SOCIAL SECURITY NUMBERS

The State could improve on the number of child support cases accepted by the IRS for offset against Federal income tax refunds if it used procedures that are available for correcting erroneous SSNs. Nationwide, a significant number of cases submitted to the IRS for offset against income tax returns are rejected by the IRS because of problems involving the validity of SSNs. The number of cases rejected could be reduced if erroneous SSNs were corrected prior to the final submittal of the cases to IRS for offset. Although OCSE has procedures available for correcting a significant portion of the erroneous SSNs, the State did not make the corrections in time to make offsets against income tax returns for 1993 or 1994. We estimate that offsets against 1993 and 1994 income tax returns could have been increased by approximately \$1.6 million and \$1.3 million, respectively, if the corrections had been made in time.

Background

The OCSE procedures require States to submit test tapes to OCSE with the names, SSNs, addresses and arrearage amounts for individuals from whom offsets are sought. This is done around June or early July for offsets against income tax returns for that year, which are usually filed between January 1 and April 15 of the following year. This is well in advance of the date that OCSE needs to send final case file information to the IRS, which is in December of the tax year from which offsets are to be made.

The OCSE sends the test tapes to the IRS, which matches the information against its tax records. For those cases which do not match with IRS information, the IRS provides the following information:

1. Address corrections.
2. A listing of cases, designated by the IRS as "unaccountable" cases, which are:
 - a. Cases with SSNs that are not on file at the IRS.
 - b. Cases with names that do not exactly match with IRS records, but are close. These cases need to be researched by the States and corrected.
 - c. Cases with an invalid combination of SSN and name.¹

In May 1993, OCSE advised States of a procedure for correcting some cases with invalid combinations of SSNs and names through the Social Security Administration's Enumeration Validation System (EVS). In the memorandum, OCSE provided guidelines for using the procedure. The EVS is able to provide correct SSNs for those that contain transposition errors or, in some cases, other relatively minor errors.

The May 1993 notice to States presented the results of a pilot project for using the EVS to provide corrected SSNs for child support cases that were being submitted to the IRS for offset against income tax returns. The pilot project involved 328,505 cases that had been previously submitted to IRS for offset against income tax returns for the 1992 tax year and rejected because of invalid combinations of SSNs and names (item 2.c. above). The cases were processed through EVS with the result that 71,849 SSNs were corrected. The results of the pilot project were then conveyed to the States so that the SSNs in the States' records could be corrected.

Based on the success of the pilot project, OCSE implemented a procedure to routinely match the cases submitted to the IRS on the test tapes that are rejected because of invalid SSN and name combinations. In its instructions to the States, OCSE strongly recommended that States submit test tapes early so that cases with invalid SSN and name combinations can be processed through EVS and corrected before the final tapes are sent to the IRS.

¹This category also includes cases for which the IRS will not release any information, such as cases under investigation. They do not all represent invalid SSN/name combinations.

State Procedures

The State has not used the information from EVS to correct erroneous SSNs before final tapes were sent to IRS for the income tax refund offset. The State sent the test tapes to OCSE for the 1993 and 1994 tax years on a timely basis. In turn, the OCSE provided the EVS results to the State for the 2 years on August 18, 1993 and August 12, 1994. However, according to State representatives, the State did not use this information to correct the erroneous SSNs prior to submitting the final tapes for the IRS offset because of time constraints related to a self-imposed early deadline for submitting the final tapes.

State Establishment of Early Deadline. According to State officials, they established an early deadline for submitting the final tapes to OCSE which did not allow sufficient time to use the EVS results to make corrections prior to submitting the tapes. Priority was given to correcting addresses and submitting the final tape to OCSE as early as possible in order for California to be given priority over other States that were attempting to have offsets taken against the same delinquent parents. For liable delinquent parents with child support cases in more than one State, OCSE has a practice of assigning first priority to the State which is first to submit its final tape.

Illustration of Procedures Followed. To illustrate the procedures followed, the State sent its test tape for Federal tax year 1993 to OCSE prior to the OCSE deadline of July 10, 1993. On August 18, 1993, OCSE returned the results of processing the cases which were identified by the IRS as having invalid combinations of SSNs and names. The data provided by OCSE showed the following for California:

Number of cases processed through EVS	51,207
Number of cases with SSNs corrected	10,053

The receipt of the corrected SSNs in August 1993 allowed more than 3 months for the State to correct its records for the 10,053 cases before it needed to submit the final tape to OCSE for later delivery to the IRS (the due date to OCSE was December 4, 1993). However, because the State wanted to be assigned priority over other States in multiple State child support cases, it established a deadline of September 8 for sending in the final tape to OCSE. And, since the State needed to obtain the data for the final tapes from the 58 counties, it set a deadline of August 20 for county submissions of the child support data.

Thus, the State was not able to make corrections to the 10,053 cases with invalid SSN and name combinations prior to submittal of the final tapes. The same situation occurred for the 1994 tax year. For that year, based on processing 53,468 California cases through EVS, 5,869 SSNs were corrected and the information was sent to the State so that its records could be corrected before submittal of the final tape for offset. However, because of the State's objective of sending the final tape in early to gain priority over other States in multiple State

child support cases, it was not able to make the corrections before the final tape was sent to OCSE.

Estimate of Additional Offsets Achievable. We estimate that if the State had made the corrections to the SSNs based on the information provided through EVS, additional offsets against Federal income tax returns could have been obtained amounting to \$1.6 million for the 1993 tax year, and \$1.3 million for the 1994 tax year. The estimates are based on the average offset of \$734 per case for 1993 and \$710 per case for 1994.

For California, 21.66 percent of the cases submitted for offset for the 1993 tax year actually resulted in offsets being available from the income tax returns and taken by the IRS. The computation of the estimated additional offsets achievable is as follows:

10,053 cases x 21.66 percent x \$734 = about \$1.6 million

Using the same methodology for the 1994 tax year, we estimated that additional offsets of about \$1.3 million could have been obtained if the EVS data had been used to correct the SSNs prior to submittal of the final tape.

Benefits of Early Submittal of Tapes over Correcting SSNs. In our audit, we attempted to determine whether the State had information demonstrating whether the amount of offsets obtained as a result of the early submittal of final tapes exceeded the additional offsets that could be obtained by using the EVS data to correct SSNs prior to submitting the final tapes. In response to our inquiry, the State indicated that this information was not available. Accordingly, we believe that the State should make an analysis to determine whether current procedures are more effective than correcting the SSNs prior to submission of the final tapes, and if appropriate, change its procedures to use the EVS data for correcting SSNs prior to the final submission of the tapes.

Alternative Procedures for Using EVS Procedures. We were informed by OCSE that alternative procedures are available for using EVS to correct SSNs that would enable the State to continue its practice of submitting the final tapes earlier than required by OCSE if the State finds that it is to its financial advantage. The OCSE advised us that access to the EVS is available throughout the year and is not limited to the use of test tape data required under the Federal Tax Refund Offset Program. An OCSE Action Transmittal (OCSE-AT-92-07) dated September 29, 1992, provides instructions for submitting requests to EVS through OCSE. Accordingly, if the State continues its current practice of early submission of final tapes, we recommend that alternative procedures be established for validating the SSNs of child support cases through EVS prior to submission of the final tapes for IRS offset against Federal income tax returns.

Recommendations

We recommend that the State:

1. Make an analysis to determine whether current procedures are more effective than correcting the SSNs prior to submission of the final tapes, and if prior appropriate, change its procedures to use the EVS data for correcting SSNs to the submission of the final tapes.
2. Establish alternative procedures for validating the SSNs of child support cases through EVS prior to submission of the final tapes for IRS offset against Federal income tax returns if the State continues its current practice of early submission of final tapes.

State Comments

The State concurred with our recommendations. The State commented that its Statewide Automated Child Support System currently under development should allow the State to analyze statistical data to determine whether the current procedure of early submittal is more effective than correcting the SSNs prior to submission on the final tapes. The system will also allow for all SSNs entered on the system to be forwarded automatically to EVS for verification.

The State comments are attached as Appendix A to this report.

INTEREST EARNED ON CHILD SUPPORT COLLECTIONS

The State does not have procedures in place to calculate interest earned on child support monies collected by the IRS and to ensure that interest is reported as program income and deducted from administrative costs claimed under the Child Support Enforcement (CSE) program as required by Federal regulations. We estimate conservatively that, during the period May 1, 1986 through December 31, 1993, the State earned interest of at least \$2,125,579 on funds received under the Program. The funds were invested temporarily pending disbursement to California counties, which made subsequent payments to or on behalf of the families involved. The Federal share of the interest was \$1,429,837. We recommend that the State establish procedures for calculating interest earned on the amounts collected by the IRS and returned to the State, and for reporting the earnings as program income for credit to the CSE program. We also recommend that the State refund the \$1,429,837 Federal share of interest earned identified in our audit.

Background

Federal regulations for the CSE program (45 CFR 304.50) state:

The IV-D agency must exclude from its quarterly expenditure claims an amount equal to:

* * *

(b) All interest and other income earned during the quarter resulting from services provided under the IV-D State plan.

These regulations implement section 455(a) of the Social Security Act.

Receipt and Investment of Funds Collected

Prior to January 1988, the money collected by the IRS was received by the State in the form of Treasury checks and deposited into a bank account at a commercial bank. Beginning in 1988 and continuing to the present time, the child support funds collected by the IRS under the Program were sent directly by the IRS to a State account at a commercial bank. Each day, the State removed the money from the commercial bank accounts and deposited it into the State's Pooled Money Investment Account.

The money remained in the Pooled Money Investment Account pending disbursement to the counties by State warrants. The length of time between the date the money was received from the IRS to the dates the warrants were cashed by the counties varied significantly, but was seldom less than 10 days. During some periods, the elapsed time was most frequently between 10 to 20 days; during other periods, the most frequent elapsed time was much higher. And, from the date the money was received from the IRS and deposited in the bank until the date the warrants were cashed by the counties, the State earned interest on the funds.

Determination of Interest Earned on Child Support Funds. In our audit, we determined the amount of interest earned on child support funds collected by the IRS under the Program from May 1, 1986 through December 31, 1993. The May 1, 1986 starting date was selected because that was the earliest date the State Treasurer had records available for making the interest calculations.

To compute the amount of interest earned by the State, we determined the number of days in which interest was earned on the child support monies deposited in the State's Pooled Money Investment Account. For the starting date, we used the date on the deposit statements for the banks which received the money from the IRS. For the ending date, we used the date stamped by the State Treasurer's office on the back of the warrant indicating the payment of the warrant. We made a separate interest calculation for every warrant written by the State to the counties against the funds collected by the IRS for the 7-year 8-month period shown above.

Except for holidays and weekends, the interest earnings rate on the Pooled Money Investment Account fluctuated daily, although the amount of fluctuations was usually extremely small. In our audit, we used the lowest daily rate of return earned by the account for each outstanding warrant during the time period that the warrant was outstanding. For example, in the December 1993 interest computation for Alameda County, the interest rate fluctuated between a high of 4.286 percent and a low of 4.192 percent. Accordingly, we used the lowest daily rate of 4.192 percent in our computation.

Using the above procedures, we determined that the total interest earned on the child support money collected by the IRS from May 1, 1986 to December 31, 1993 was at least \$2,125,579. We applied the appropriate Federal financial participation (FFP) rate and determined that the Federal share was \$1,429,837, which we are recommending that the State refund to the Federal Government. During our audit period, the FFP ranged from a high of 70 percent to a low of 64.846 percent. The current rate is 66 percent and has been in effect since October 1990.

Prior ACF Review of Interest Earned. On April 26, 1991, the Administration for Children and Families (ACF), Region IX, issued a report to the California Department of Social Services on a review that it had made of interest/investment income earned on child support funds collected by the IRS under the Program. The report stated that the State of California was not reporting the interest on the Quarterly Report of Expenditures as deductions to Title IV-D administrative costs. The OCSE report questioned \$428,915 for the period February 1988 through December 1990.

On July 23, 1991, the State responded to the ACF report and disagreed with the findings and recommendations. The ACF did not accept the State's basis for disagreement and on October 11, 1991, ACF issued a final report to the State formally disallowing the \$428,915 and recommending procedural changes to appropriately account for the interest earned in future periods. The State appealed the findings to the Departmental Appeals Board (DAB) of the Department of Health and Human Services on November 12, 1991.

It is our understanding that a final DAB decision was not rendered on the appeal and the matter was taken off the DAB's calendar without prejudice to its reinstatement before the DAB at a future date. An attorney in the Office of the Regional Counsel, Region IX, has advised us that the matter of the prior ACF review is being held in abeyance pending further examination of the State's position. He informed us of his understanding that the issue of obtaining a refund from the State for interest earnings on child support funds collected by the IRS would be revisited after issuance of our final audit report. It is noted that the period of time covered by the ACF review was also included in our audit. Accordingly, the \$428,915 questioned by the ACF review is included in our recommended refund of \$1,429,837.

Recommendations

We recommend that the State:

1. Establish procedures for calculating interest earned on the amounts collected by the IRS and returned to the State, and for reporting the earnings as program income for credit to the CSE program.
2. Refund the \$1,429,837 Federal share of interest earned identified in our audit.
3. For child support funds collected by the IRS from January 1, 1994 to the present time, calculate the interest earned on the funds and refund that amount to the Federal Government.

State Comments

The State did not concur with our recommendations. In a letter dated March 24, 1995 (see Appendix A) responding to our draft audit report, the State said that its position remains unchanged from its July 23, 1991 response (see Appendix B) to the April 26, 1991 ACF letter which is referenced in this audit report. The ACF letter recommended that the State refund \$428,915 in interest earned on child support collections and also make certain procedural changes to account for the interest. The State also requested that the recommended refund of \$1,429,837 in this report be considered for resolution along with the previous disallowance taken by ACF.

In its July 23, 1991 response, the State agreed that it had earned interest on the child support collections and did not directly deduct the interest income from the Title IV-D administrative costs. However, the State contended that the AFDC-related income was offset by an acceptable "substitution" methodology related to financing the federally assisted AFDC program. Under this methodology, it was asserted that counties were either using support collections directly to replace Federal and State funding for the AFDC program, or substituting an equivalent amount of county funds. The State indicated that its position was in accordance with Grant Appeals Board² decisions involving the States of New York and Utah, and that its methodology was similar to the substitution methodology proposed by the State of New York in GAB Decision No. 794.

With respect to the ACF recommendations for procedural changes to account for the interest earned in child support collections, the State responded that California counties began reporting all interest on the collections since early in 1989.

²The Grant Appeals Board was subsequently renamed the Departmental Appeals Board which is referred to elsewhere in this report.

OIG Response

In its July 23, 1991 response to the ACF report, the State provided information relating to the handling of child support collections at the county level. Our audit pertains to the retention and investment of the funds at the State level prior to payments to the counties, and the July 23, 1991 letter does not address this issue. According to HHS Regional Counsel, the State has discussed the State level issue on various occasions between 1991 and 1995, but has not presented written evidence to address the issue.

Further, in the GAB decisions cited by California in the July 23, 1991 letter, the burden was placed on the State to provide actual evidence and not a "general conceptual allegation" that the substitution of child support collection funds with State and county funds had occurred. Neither New York nor Utah ever submitted actual evidence to support the existence of a substitution methodology. In the absence of such evidence from California, ACF formally issued its disallowance report on October 11, 1991. Similarly, the State has not presented any actual evidence to us to document the existence of an allowable substitution methodology.

In addition, although the State has indicated that counties in California have been accounting for interest on child support collections since early 1989, no such procedures exist at the State level for funds collected at the State level for funds collected and returned to the State by the IRS.

Accordingly, we consider our recommendations to refund \$1,429,837 and to establish procedures to credit the CSE program for interest earned on amounts collected by the IRS and returned to the State to be appropriate.

DEPARTMENT OF SOCIAL SERVICES
P.O. Box 244245, Sacramento, CA 94244-2450



March 24, 1995

Mr. Lawrence Frelot
Regional Inspector General
for Audit Services
Region IX
50 United Nations Plaza
San Francisco, California 94102

Dear Mr. Frelot:

CALIFORNIA DEPARTMENT OF SOCIAL SERVICES (CDSS) RESPONSE TO
DEPARTMENT OF HEALTH AND HUMAN SERVICES, OFFICE OF INSPECTOR
GENERAL'S (OIG) DRAFT AUDIT REPORT CIN: A-09-93-00083

Thank you for the opportunity to respond to the CIN: A-09-93-00083. We agree with recommendations for correction of social security numbers and disagree with those regarding interest earned on child support collections.

Attached is a detail response to each recommendation in the draft report. I hope this information has been helpful to you.

Sincerely,

Leslie L. Frye
Leslie L. Frye, Chief
Office of Child Support

Attachment

CDSS RESPONSE TO U.S. DHHS AUDIT OF FEDERAL TAX
REFUND OFFSET PROGRAM

The following is California Department of Social Services' (CDSS) response to the Office of Inspector General (OIG) audit report related to the Federal Tax Refund Offset Program.

RECOMMENDATION:

1. Make an analysis to determine whether current procedures are more effective than correcting the Social Security Numbers (SSNs) prior to submission of the final tapes, and if appropriate change its procedures to use the EVS data for correcting SSNs prior to the submission of the final tapes.

CDSS RESPONSE:

We concur with the recommendation. The Statewide Automated Child Support System (SACSS) that is currently under development will provide us with the statistical data necessary to analyze whether the current procedure of early submittal is more effective than correcting the SSNs and submitting a tape in December. Pre-conversion instructions were forwarded to all counties on January 13, 1995 transmitting procedures to verify all SSNs by matching against the Medi-Cal Eligibility Data System and, where warranted, sending files directly to the Social Security Administration (SSA).

RECOMMENDATION:

2. Establish alternative procedures for validating the SSNs of child support cases through EVS prior to submission of the final tapes for IRS offset against Federal income tax returns if the state continues its current practice of early submission of final tapes.

CDSS RESPONSE:

We concur with this recommendation. As part of initial case processing on SACSS, all SSNs entered on the system will automatically be forwarded to SSA for verification and correction. Multiple SSNs will also be provided via this interface. Any additional SSNs provided during the life of the case will be processed through SSA.

RECOMMENDATIONS:

3. Establish procedures for calculating interest earned on the amounts collected by the IRS and returned to the state, and for reporting the earnings as program income for credit to the CSE program.

4. Refund the \$1,429,837 Federal share of interest earned identified in our audit.

5. For child support funds collected by the IRS from January 1, 1994 to the present time, calculate the interest earned on the funds and refund that amount to the Federal government.

CDSS RESPONSE:

We disagree with these recommendations. Our position remains unchanged from our July 23, 1991 response to Sharon Fujii regarding the Family Support Administration's review of the IRS Child Support Intercepts processed by CDSS. Also, we want the \$1,429,893 rolled into the previous audit that had been appealed on November 12, 1991. As stated in the narrative of your draft, a decision has not been rendered on the appeal.

STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

DEPARTMENT OF SOCIAL SERVICES
744 P Street, Sacramento, CA 95814



July 23, 1991

Sharon M. Fujii
Regional Administrator
Family Support Administration
Dept. of Health & Human Services
50 United Nations Plaza, Room 351
San Francisco, CA 94102

Dear Ms. Fujii:

This is in response to your letter of April 26, 1991 regarding the Family Support Administration's (FSA) review of Internal Revenue Service (IRS) Child Support Intercepts processed by the State Department of Social Services (SDSS).

First, I would like to extend my appreciation to you for extending the timeframe for the SDSS to submit this response.

With regard to the findings of the above-cited review, while it is true that the State of California does earn interest on IRS Child Support Intercept monies and while it may be true that the State does not directly deduct the interest income from the Title IV-D administrative costs, the State has previously established that the costs are offset by an acceptable "substitution" method. This "substitution" method, is in accordance with Grant Appeals Board (GAB) decisions involving the States of New York and Utah. In its decision (GAB Decision No. 794) related to the New York appeal, the GAB stated as follows:

"...The State implied that this system resulted in the County either using the AFDC support collections directly to replace Federal and State funding, or substituting an equivalent amount of county funds. However, New York provided only a general conceptual allegation that this occurred, not actual documentary evidence of any such disposition."

Based on GAB Decision No. 794, the State filed an appeal to a prior \$10.5 million IV-D interest audit review. It is my understanding that final details of a solution need to be decided upon. A December 14, 1989 letter (copy attached) from John K. Van De Kamp, California State Attorney General, to Charles P. Gillet, Assistant Regional Counsel, DHHS, details the pending issues. Since I strongly believe that the final outcome:

of that issue has a direct impact on the findings of the April 26, 1991 review (as it is a like issue), I urge you to suspend any corrective action until such time that a decision is reached on the appeal.


If you have any questions or concerns, please contact me at (916) 445-4622 or James L. Miller, of the Accounting and Systems Bureau, at (916) 445-0686.

Sincerely,

o/s by

ROBERT L. GARCIA
Deputy Director
Administration

Attachment

 W. I. VAN DE KAMP
Attorney General

State of California
DEPARTMENT OF JUSTICE



440 HALLIDAY STREET, ROOM 6000
SAN FRANCISCO 94102
(415) 557-3444

December 14, 1989

(415) 557-4125

Charles P. Gillet
Assistant Regional Counsel
Department of Health & Human Services
50 United Nations Plaza, Room 420
San Francisco, CA 94102

Dear Chuck:

Re: Title IV-D Collections

Enclosed please find the proposal of the Department of Social Services and supporting documentation concerning the audits of Title IV-D collections.

Exhibits 1 through 3 are graphic presentations demonstrating the flow of funds. Exhibit 4 is a chronological presentation of events as they actually occurred for the quarter of July through September 1987, with supporting documents as Exhibits 4A through 4J. Exhibit 5 is a graphic presentation of the fiscal data for the entire state and San Bernardino County in particular.

In a nutshell, our proposal is that all the current appeals be remanded back to OCSE, each bi-weekly Title IV-A drawn down over the audited period be analyzed for each county to determine to what extent a particular drawdown was reduced by a particular county advancing funds and whether any subsequent IV-D collections exceeded these advances. What is demonstrated for the quarter submitted is that each bi-weekly drawn down against the IV-A letter of credit was reduced by the amount of estimated IV-D collections to be made by San Bernardino County in the particular bi-weekly period, and San Bernardino substituted its own funds to cover this shortfall. In each of the periods involved, IV-D collections did not equal or exceed the amounts substituted by San Bernardino. There may very well be other periods when there will be interest earned that should have been reported, but ~~what is clear is that the current audits did not apply the principles recognized in the Utah and New York DCAB cases and now promulgated in P10-88~~

Our proposal accepts accountability of interest for non-AFDC collections. The audits, however, did not break out AFDC versus non-AFDC collections; and we will have to come to an agreement on such amount.

Charles P. Gillet
December 14, 1989
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Finally, the counties began reporting all interest on IV-D collections earlier this year, regardless of whether funds were substituted for IV-A purposes. It is our proposal that this process be modified to conform to the historical analysis.

Please call me as soon as it is convenient. It is our desire to have a meeting and review the proposal. Thank you for your courtesy and cooperation.

Very truly yours,

JOHN K. VAN DE KAMP
Attorney General

Ralph M. Johnson
R.L.
RALPH M. JOHNSON
Deputy Attorney General

RMJ:nr

Enclosure

cc: Bill Lewis, Staff Counsel
Department of Social Services