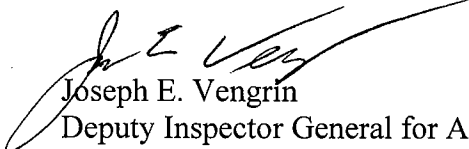




FEB -4 2009

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

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

SUBJECT: Review of Undistributable Child Support Collections in Tennessee From
October 1, 1998, Through December 31, 2007 (A-04-08-03521)

Attached is an advance copy of our final report on undistributable child support collections in Tennessee from October 1, 1998, through December 31, 2007. We will issue this report to the Tennessee Department of Human Services (the State agency) within 5 business days.

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

From October 1, 1998, through December 31, 2007, the State agency recognized and reported \$907,012 in program income from undistributable child support collections. However, the State agency did not recognize and report as program income \$8,739,762 (\$5,768,243 Federal share) in undistributable child support collections that met the State's definition of abandoned property. In addition, the State agency reported incorrect amounts for undistributed collections on its quarterly report of collections (Form OCSE-34A) for December 31, 2007.

The State agency did not recognize and report program income for undistributable child support collections primarily because it had not developed and implemented adequate policies and procedures to comply with State and Federal requirements for treatment of undistributable collections. The State agency's quarterly report was not accurate because the agency had not (1) adjusted its recordkeeping and support documentation to account for ACF's recent modifications to the Form OCSE-34A or (2) properly accounted for child support payments collected on behalf of children in the State's Foster Care program.

The State agency appropriately recognized and reported program income for interest earned on child support collections.

We recommend that the State agency:

- transfer to the State treasurer and report as program income undistributable child support collections totaling \$8,739,762 (\$5,768,243 Federal share) in accordance with State requirements,
- ensure future compliance with State laws regarding abandoned property by developing and implementing adequate policies and procedures to recognize and report as program income child support collections that meet the State’s definition of abandoned property, and
- correct reporting errors on the next quarterly filing of its Form OCSE-34A and provide ACF with documentation supporting the corrections.

In written comments on our draft report, the State agency concurred with our findings and said that it would implement our recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at Lori.Pilcher@oig.hhs.gov or Peter J. Barbera, Regional Inspector General for Audit Services, Region IV, at (404) 562-7750 or through e-mail at Peter.Barbera@oig.hhs.gov. Please refer to report number A-04-08-03521.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

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

FEB -9 2009

Report Number: A-04-08-03521

Mr. Michael L. Adams
Assistant Commissioner for Child Support Enforcement
Tennessee Department of Human Services
400 Deaderick Street, 15th Floor
Nashville, Tennessee 37243-4700

Dear Mr. Adams:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Undistributable Child Support Collections in Tennessee From October 1, 1998, Through December 31, 2007." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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

If you have any questions or comments about this report, please do not hesitate to call me, or contact John Drake, Audit Manager, at (404) 562-7755 or through e-mail at John.Drake@oig.hhs.gov. Please refer to report number A-04-08-03521 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "Peter J. Barbera".

Peter J. Barbera
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF UNDISTRIBUTABLE
CHILD SUPPORT COLLECTIONS
IN TENNESSEE FROM
OCTOBER 1, 1998, THROUGH
DECEMBER 31, 2007**



Daniel R. Levinson
Inspector General

February 2009
A-04-08-03521

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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

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

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Notices

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

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Child Support Enforcement program is a Federal, State, and local partnership established in 1975 under Title IV-D of the Social Security Act to collect child support payments from noncustodial parents for distribution to custodial parents. Within the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), the Office of Child Support Enforcement (OCSE) provides Federal oversight. In Tennessee, the Department of Human Services (the State agency), Division of Child Support Services, administers the program.

OCSE requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from undistributable child support collections and interest earned on child support collections. OCSE defines undistributable collections as those that are considered abandoned under State law. Tennessee's Uniform Disposition of Unclaimed Property Act defines abandoned property and establishes holding period requirements based on the property type. Tennessee Code section 66-29-113 requires the State agency to report to the State treasurer any presumed abandoned property in its possession, and section 66-29-115(a) requires the State agency to transfer the property to the State treasurer at the time of filing, with exceptions that are not applicable.

OBJECTIVE

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

SUMMARY OF FINDINGS

From October 1, 1998, through December 31, 2007, the State agency recognized and reported \$907,012 in program income from undistributable child support collections. However, the State agency did not recognize and report as program income \$8,739,762 (\$5,768,243 Federal share) in undistributable child support collections that met the State's definition of abandoned property. In addition, the State agency reported incorrect amounts for undistributed collections on its quarterly report of collections (Form OCSE-34A) for December 31, 2007.

The State agency did not recognize and report program income for undistributable child support collections primarily because it had not developed and implemented adequate policies and procedures to comply with State and Federal requirements for treatment of undistributable collections. The State agency's quarterly report was not accurate because the agency had not (1) adjusted its recordkeeping and support documentation to account for ACF's recent modifications to the Form OCSE-34A or (2) properly accounted for child support payments collected on behalf of children in the State's Foster Care program.

The State agency appropriately recognized and reported program income for interest earned on child support collections.

RECOMMENDATIONS

We recommend that the State agency:

- transfer to the State treasurer and report as program income undistributable child support collections totaling \$8,739,762 (\$5,768,243 Federal share) in accordance with State requirements,
- ensure future compliance with State laws regarding abandoned property by developing and implementing adequate policies and procedures to recognize and report as program income child support collections that meet the State's definition of abandoned property, and
- correct reporting errors on the next quarterly filing of its Form OCSE-34A and provide ACF with documentation supporting the corrections.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our findings and said that it would implement our recommendations. The State agency's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

Child Support Enforcement Program

The Child Support Enforcement program is a Federal, State, and local partnership established in 1975 under Title IV-D of the Social Security Act to collect child support payments from noncustodial parents for distribution to custodial parents. Within the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), the Office of Child Support Enforcement (OCSE) provides Federal oversight.

OCSE requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from undistributable child support collections and interest earned on child support collections. OCSE defines undistributable collections as those that are considered abandoned under State law. States are required to report undistributable collections and program income quarterly on Federal Forms OCSE-34A, "Child Support Enforcement Program Quarterly Report of Collections," and OCSE-396A, "Child Support Enforcement Program Financial Report," respectively.

Tennessee's Child Support Enforcement Program

In Tennessee, the Department of Human Services (the State agency), Division of Child Support Services, administers the program. Tennessee's program is administered through contracts with district attorneys, juvenile courts, and private contractors. The State agency contracts with Tier Technology, Inc. (Tier Technology), to serve as the focal point for the receipt of child support payments and to help individuals and businesses comply with child support policies and procedures. Child support payments are recorded in the automated Tennessee Child Support Enforcement System. The State agency distributes the payments through direct deposit, debit cards, and State-issued checks.

Undistributable child support collections are subject to Tennessee's Uniform Disposition of Unclaimed Property Act (Unclaimed Property Act). All identified but undistributable child support collections (unclaimed property) held by the State agency that have remained unclaimed for 1 year should be presumed abandoned and transferred to the State treasurer. All unidentifiable child support collections (miscellaneous property) held by the State agency that have remained unclaimed for 5 years should be presumed abandoned and transferred to the State treasurer.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

We reviewed undistributable child support collections and interest earned on child support collections for the period October 1, 1998, through December 31, 2007. We limited our review of the State agency's internal control structure to those controls specific to recognizing and reporting undistributable child support collections and interest earned on child support collections. We also reviewed and evaluated internal controls over receiving and recording child support collections at Tier Technology.

We performed fieldwork at the State agency and Tier Technology in Nashville, Tennessee, from April through July 2008.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal and State laws and guidance, including OCSE program and policy announcements;
- interviewed State agency officials to identify the State agency's policies and procedures for recognizing and reporting program income pertaining to undistributable collections and interest earned on child support collections;
- evaluated policies and procedures for recognizing and reporting program income pertaining to undistributable collections and interest earned on child support collections;
- reviewed contracts and SAS 70 (Report on the Processing of Transactions by Service Organizations) reports, interviewed personnel, and observed operations at Tier Technology;
- reviewed Forms OCSE-34A and OCSE-396A to identify the undistributable collections and program income that the State agency reported for the quarters ended December 1998 to December 2007;
- reviewed undistributable child support collections in State accounts that met the State's definition of abandoned property;
- obtained detailed records of undistributable child support collections and analyzed the time period of the collections to determine the applicability of the Tennessee abandoned property law;
- compared the originally filed itemized undistributed collections attachment for Form OCSE-34A with supporting detail to identify any reporting discrepancies; and
- determined whether the State agency appropriately reported the interest earned on child support collections.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

From October 1, 1998, through December 31, 2007, the State agency recognized and reported \$907,012 in program income from undistributable child support collections. However, the State agency did not recognize and report as program income \$8,739,762 (\$5,768,243 Federal share) in undistributable child support collections that met the State's definition of abandoned property. In addition, the State agency reported incorrect amounts for undistributed collections on its quarterly report of collections (Form OCSE-34A) for December 31, 2007.

The State agency did not recognize and report program income for undistributable child support collections primarily because it had not developed and implemented adequate policies and procedures to comply with State and Federal requirements for treatment of undistributable collections. The State agency's quarterly report was not accurate because the agency had not (1) adjusted its recordkeeping and support documentation to account for ACF's recent modifications to the Form OCSE-34A or (2) properly accounted for child support payments collected on behalf of children in the State's Foster Care program.

The State agency appropriately recognized and reported program income for interest earned on child support collections.

UNDISTRIBUTABLE COLLECTIONS

Federal Requirements

The OCSE Policy Interpretation Question (PIQ)-88-7 and OCSE-PIQ-90-02 require States to offset Child Support Enforcement program costs by recognizing and reporting program income from undistributable child support collections when the funds are considered abandoned.

OCSE-PIQ-88-7 states:

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

OCSE-PIQ-90-02 states: "Every State has statutes and regulations governing the handling of unclaimed or abandoned property left in its care. OCSE-PIQ-88-7 . . . recognizes this fact and

encourages each State to utilize these individual State procedures to report undistributable or uncashed title IV-D collections as title IV-D program income.”

OCSE requires States to report program income for undistributable collections when State law considers them abandoned. Instructions for line 9a of Form OCSE-34A define undistributable collections as “the portion of collections reported on Line 9 that, despite numerous attempts, the State has determined it will be unable to distribute in accordance with the provision of Section 457 of the Social Security Act and unable to return to the non-custodial parent. Under State law, these amounts are considered to be ‘abandoned property.’ ”

State Requirements

Tennessee’s Unclaimed Property Act (Tennessee Code §§ 66-29-110 and 66-29-112) establishes requirements for the disposition of two types of abandoned property: unclaimed property, which is subject to a 1-year holding period, and miscellaneous property, which is subject to a 5-year holding period.

Section 66-29-102(9) defines property as “tangible personalty located in [Tennessee] and all intangible personalty.” Section 66-29-102(4) defines a holder as “any person in possession of property subject to [the Abandoned or Unclaimed Property chapter of the Unclaimed Property Act] belonging to another” Section 66-29-102(8) defines a person as “any . . . government or political subdivision, public corporation, [or] public authority” The State agency is a governmental subdivision or public authority under this definition, and the child support collections held by the State agency fall squarely within the definition of intangible personal property.

Section 66-29-103 states that, unless otherwise provided in this part or by other Tennessee statute, intangible property is subject to the custody of the State as unclaimed property if the conditions described in sections 66-29-110 and 66-29-112 are satisfied. The Tennessee Code is silent as to the handling of undistributable or unidentifiable child support collections; therefore, section 66-29-103 applies, and such collections are subject to Tennessee’s abandoned property laws.

Section 66-29-110 provides that “property held for the owner by any . . . public authority or agency, or public officer, or a political subdivision, including, but not limited to, the state of Tennessee or any of its departments or agencies, that has remained unclaimed by the owner for more than one (1) year is presumed abandoned” Section 66-29-112 provides that all miscellaneous property not otherwise covered by this part “that is held or owing in the ordinary course of the holder’s business and has remained unclaimed by the owner for more than five (5) years after it became payable or distributable is presumed abandoned.”

Section 66-29-113 requires the State agency to report to the State treasurer any presumed abandoned property in its possession, and section 66-29-115(a) requires the State agency to transfer such property to the State treasurer at the time of filing, with exceptions that are not applicable. Pursuant to the State treasurer’s regulations that implement the Unclaimed Property

Act, under section 1700-2-1-.18, “unidentified remittances” and “miscellaneous outstanding checks” are considered “miscellaneous property held for another person.”

Child Support Collections Not Recognized as Abandoned and Not Reported as Program Income

From October 1, 1998, through December 31, 2007, the State agency did not recognize and report as program income \$8,739,762 (\$5,768,243 Federal share) in undistributable child support collections that met the State’s definition of abandoned property, nor did the State agency transfer those funds to the State treasurer as required by State law. Of the \$5,768,243 Federal share, \$5,742,699 was subject to the Unclaimed Property Act’s 1-year holding period, and the remaining \$25,544 was subject to the Unclaimed Property Act’s 5-year holding period.

The State agency did not recognize and report program income for undistributable child support collections primarily because it did not have adequate policies and procedures to comply with State and Federal requirements for treatment of undistributable collections. In addition, the State agency said that it preferred to retain undistributable child support collections beyond the Unclaimed Property Act’s holding period in hopes of identifying the appropriate payee.

Undistributed Child Support Collections Not Reported Accurately

The State agency’s Form OCSE-34A and its attachment, the “Itemized Undistributed Collections” (UDC), for the quarter ended December 31, 2007, were inaccurate. On the Form OCSE-34A, five of the nine lines in sections A and B were incorrect. For example, section A, line 1, “Balance Remaining Undistributed From Previous Quarter,” was reported as \$10,628,588 but should have been reported as \$15,967,079, and section B, line 9b, “Net Undistributed Collections,” was reported as \$6,432,235 but should have been reported as \$12,685,451. Nineteen of the twenty lines on the UDC were incorrect.

The quarterly report was inaccurate because the State agency had not (1) adjusted its recordkeeping to account for ACF’s recent modifications to the Form OCSE-34A or (2) properly accounted for child support payments that were collected on behalf of children in the State’s Foster Care program.

During our audit, the State agency was working to correct these reporting errors.

RECOMMENDATIONS

We recommend that the State agency:

- transfer to the State treasurer and report as program income undistributable child support collections totaling \$8,739,762 (\$5,768,243 Federal share) in accordance with State requirements,
- ensure future compliance with State laws regarding abandoned property by developing and implementing adequate policies and procedures to recognize and report as program

income child support collections that meet the State's definition of abandoned property, and

- correct reporting errors on the next quarterly filing of its Form OCSE-34A and provide ACF with documentation supporting the corrections.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our findings and said that it would implement our recommendations. The State agency's comments are included in their entirety as the Appendix.

APPENDIX



STATE OF TENNESSEE
DEPARTMENT OF HUMAN SERVICES

CITIZENS PLAZA BUILDING
400 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1403

TELEPHONE: 615-313-4700 FAX: 615-741-4165
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www.state.tn.us/humanserv/

PHIL BREDESEN
GOVERNOR

VIRGINIA T. LODGE
COMMISSIONER

December 8, 2008

Peter J. Barbera
Regional Inspector General for audit Services
Region IV
61 Forsyth Street S.W., Suite 3T41
Atlanta, Georgia 30303

RE: Report Number A-04-08-03521

Dear Mr. Barbera:

This letter is to respond to your Audit Report Number A-04-08-03521 transmitted to me by your letter dated November 12, 2008. I have reviewed the findings and recommendations of that report. I concur with those findings and we will implement the recommendations made.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Adams".

Michael L. Adams
Assistant Commissioner for Child Support Services

MLA:RLP:kv