PERFORMANCE AUDIT

DEPARTMENT OF ECONOMIC SECURITY
DIVISION OF CHILD SUPPORT ENFORCEMENT
Payments and Distribution Function

Report to the Arizona Legislature
By the Auditor General
July 1995
Report #95-2

DOUGLAS R. NORTON, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
DEPUTY AUDITOR GENERAL

July 5, 1995

Members of the Arizona Legislature

The Honorable Fife Symington, Governor

Dr. Linda J. Blessing, Director
Department of Economic Security

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Department of Economic Security, Division of Child Support Enforcement, payments and distribution function. This report is in response to a May 5, 1993, resolution of the Joint Legislative Audit Committee. The performance audit is a follow-up of our December 1992 review and was conducted as part of the sunset review set forth in A.R.S. §§41-2951 through 41-2957.

We found the current system for collecting and processing child support payments is fragmented, unnecessarily exposing the State to financial risks and preventing it from gaining processing efficiencies available through economies of scale. Presently, child support payments are collected and processed at 15 different state- and county-run locations. Other states have moved to centralize their processing into one state-run location. This has not only allowed several states to provide more efficient and consistent service, but has allowed them to privatize their functions. We recommend Arizona also move to centralize this function. We also recommend that DES take additional steps to improve the accuracy of calculation and documentation of child support debts owed by noncustodial parents. DES has made progress in this area, but more remains to be done.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on July 6, 1995.

Sincerely,

Douglas R. Norton
Auditor General

2910 NORTH 44TH STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (DES), Division of Child Support Enforcement, payments and distribution function, pursuant to a May 5, 1993, resolution of the Joint Legislative Audit Committee. This performance audit follows a December 1992, review of the Division of Child Support Enforcement (DCSE) and is also part of the Sunset Review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957.

The Division of Child Support Enforcement (DCSE) is responsible for administering the federal child support enforcement program, outlined in Title IV-D of the Social Security Act. This program enables states to offset Aid to Families with Dependent Children (AFDC) program costs by recovering from responsible parents, part or all of the amount paid in AFDC through the collection of child support payments. To collect child support, DES must locate absent parents, determine paternity, establish support orders, and enforce compliance for support orders. Moving cases quickly through this process allows DES to ensure that custodial parents, their children, and the state receive timely and accurate court ordered payments.

During the Auditor General's previous review of DCSE, the payments and distribution function was identified as an area for further audit work. Limited work at the time disclosed potential control weaknesses and distribution errors. For example, we found:

- Access to the payments and distribution system was not adequately controlled;
- Accounts were not sufficiently reconciled; and
- Errors were made in some payment amounts — both over- and underpayments.

Because of limited time and because DES was in the midst of converting this function from its old computer system to a new one, we were unable to perform detailed audit work. Therefore, our 1992 review recommended, and the Joint Legislative Audit Committee approved, that the payments and distributions function be the focus of a follow-up performance audit.

The Payments and Distribution Function Should Be Centralized (See pages 7 through 14)

To reduce the potential financial risk to the State and more efficiently operate the child support collections and distribution system, the Legislature should centralize this function. Currently, approximately 62,000 Title IV-D child support payments with totals averaging $7.5 to $8 million per month are collected and processed at 15 different state- and county-run locations throughout Arizona, following procedures that often vary from office to office. Fragmentation of the child support payment processing function has yielded numerous problems. These problems include inadequate segregation of duties, inconsistent written and actual policies and procedures across the State, and inappropriate access to the Arizona Tracking and Locating Automated System (ATLAS).[1] Additionally, untimely reconciliation of transactions and inadequate compensating controls heighten financial risk to the State. For example, approximately $5,000 in child support payments was allegedly embezzled from a small, rural office over a 14-month period.

Centralization can help management address these problems by reducing the number of sites where payments are collected and processed. Through centralization, DCSE can more easily foster appropriate segregation of duties and system access, adequate supervision, and timely reconciliations. Other states, such as New York and Colorado, have established centralized systems and realized additional benefits including improved efficiency, increased collections, and enhanced productivity. Centralized payment processing may also reduce costs because the higher volume of transactions may justify the use of the same processing technologies — such as high-speed check sorters — routinely used in the financial services sector. Additionally, a move toward centralization appears consistent with the national and federal direction regarding child support collections.

DCSE Should Do More To Ensure Accurate Distribution of Child Support Payments (See pages 15 through 20)

Despite DCSE efforts to ensure the accurate calculation and system documentation of debts, which affect distribution of child support payments, problems persist. Case debts reflect child support paid and amounts owed by noncustodial parents to custodial parents. For cases where the custodial parent receives or received Aid to Families with Dependent Children (AFDC), debt calculations also reflect amounts retained by and owed

---

(1) ATLAS is the State's automated system for child support case management and enforcement. It also tracks the receipt and distribution of child support payments.

to the State by the noncustodial parent. Thus, accurate calculation of debts is critical to the accurate disbursement of child support payments.

We identified three problems that contribute to inaccurate debt calculation and system documentation:

- Incorrect and inconsistent policies and procedures, and calculation errors – partly resulting from poor management oversight – impeded Maximus, a consulting firm, from accurately calculating and converting case debt information to ATLAS.

- The limited qualifications, insufficient training, and inadequate monitoring of debt team staff which affects their ability to accurately calculate debts.

- System-related problems that further hinder accurate debt determination. For example, at the time of our audit, the ATLAS system could not automatically capture a change in AFDC status, thus requiring a manual change. DCSE often performed this manual change in an untimely manner, resulting in erroneous debt amounts and distribution of child support payments.

Debt accuracy will become increasingly significant as DCSE increases the number of cases with child support orders, increase collections to potentially $108.5 million in fiscal year 1994-95, and more fully automates the distribution process. As a result, DCSE should systematically review debt calculations and system records for accuracy. Otherwise, efforts to increase collections may be undermined by distribution errors.

Table of Contents

Page

Introduction and Background 1

Finding I: The Payments and Distribution Function Should Be Centralized 7

Current Fragmented System Increases Risk 7

Centralization Eliminates Fragmentation and Provides Benefits 10

Statutes Require Clarification 12

Recommendations 14

Finding II: DCSE Should Do More To Ensure Accurate Distribution Of Child Support Payments 15

DCSE Has Addressed Some Historical Debt Problems 16

Problems Still Affect Accuracy of Debt Calculations and System Records 17

Recommendations 20

Tables

Page

Table 1 Revenues for Child Support Enforcement for Fiscal Years 1992-93 through 1994-95 (Unaudited) 4

Table 2 Child Support Payment Processing Statewide for December 1994 (Unaudited) 8

INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (DES), Division of Child Support Enforcement, payments and distribution function, pursuant to a May 5, 1993, resolution of the Joint Legislative Audit Committee. This performance audit follows a December 1992 review of the Division of Child Support Enforcement and is also part of the Sunset Review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957.

The Division of Child Support Enforcement (DCSE) is responsible for administering the federal child support enforcement program, outlined in Title IV-D of the Social Security Act. This program enables states to offset Aid to Families with Dependent Children (AFDC) program costs by recovering from responsible parents part or all of the amount paid in AFDC through the collection of child support payments. The Title IV-D program not only ensures that children and their custodial parents receive court-ordered payments, but also works to enable AFDC recipients to leave that program. Additionally, individuals who do not receive public assistance, but wish to have the State pursue their case, can also apply to receive Title IV-D services.

Previous Audit Identified Problems

The Auditor General completed a performance audit of the Division culminating in a report issued in December 1992. During the period of review, the audit and subsequent report noted several weaknesses.

- Overwhelmed by its workload and understaffed, DCSE had been unable to adequately service most of its cases. The agency was far behind in moving most of its cases through the establishment and enforcement process. In fact, only 25 percent of its approximately 275,000 cases had child support orders established, and only 3 percent of all cases received regular child support payments.

  The report noted that DCSE would have difficulty in processing its workload due to insufficient staff. At the time of the report, the workload was distributed among DCSE legal assistants at about 3,000 cases per worker.

- DES lacked control over the program and leverage over the other agencies involved, including the Attorney General's Office, county attorneys, and clerks of the Superior Court. For this reason, DES experienced considerable difficulty administering the program. Turf battles erupted due to different priorities among the different agencies.

- DCSE needed to improve its operational efficiency by adopting new approaches or operational methods that have been effective elsewhere. The report specifically recommended privatizing some child support functions, including collections and paternity establishment.

In addition to these findings, the report also recommended that the payments and distributions function be reviewed further. The 1992 review noted problems with incorrect payment amounts, inadequate controls over access to the computer system, and a failure to reconcile accounts. However, we were unable to fully pursue this issue due to time constraints and because DES was in the midst of converting this function to a new computer system.

Division Has Made Improvements In Its Performance

Since publication of our 1992 report, the Division has undertaken concerted efforts to improve its performance. Over the past three years, child support collections, which serve as the bottom line measure for every child support enforcement program, have increased from approximately $52.4 million in fiscal year 1991-92 to $90.4 million in fiscal year 1993-94. In addition to improved collections, the Division reported other improvements and important steps they have taken to enhance productivity:

- DCSE is collecting child support for 9 percent of its total caseload, compared to 3 percent as reported in 1992.

- The staff-to-caseload ratio has been reduced from approximately 3,000:1 as reported in 1992 to 1,192:1 in 1994. This ratio reduction has occurred while total workload has risen.

- The Division has pursued privatization to a limited extent. DCSE contracted with private collection agencies to assist in collecting delinquent accounts and with a private vendor to provide the full array of child support enforcement services in Yavapai and Santa Cruz Counties.

- The relationship between agencies involved in child support enforcement has improved greatly. DCSE assumed a leadership role within the program and actively involved all stakeholders (Attorney General, counties, and other parties) in policy discussions and improvement efforts. Our discussions with many stakeholders confirmed improved relations and a high level of trust and confidence in DCSE efforts and direction.

- Finally, Arizona is 1 of approximately 10 to 15 states in the country that is expected to meet the October 1, 1995, deadline for federal certification of states' child support enforcement automated systems. Arizona's system, Arizona Tracking and Location Automated System (ATLAS) Phase II, is on schedule to meet the approximately 300 certification requirements outlined by the federal government.

As a result of these efforts, Arizona was recently recognized by the National Child Support Enforcement Association as the Most Improved State in the country for 1994. Additionally, the Division received the 1994 Exemplary State and Local Award from the National Center for Public Productivity at Rutgers University, which recognizes significant achievement and innovation in state and local government. Finally, the U.S. Office of Child Support Enforcement has recognized the Division for its improvements in collections.

Budget and Personnel

Funding for child support enforcement programs in Arizona has increased dramatically over the past few years. Revenues have increased from approximately $34.8 million in fiscal year 1992-93 to an estimated $61.3 million in fiscal year 1994-95 (see Table 1, page 4). Both the federal government and State provide these revenues, with the federal government providing 66 percent of revenues and the State or county (if the county contracts to provide services) providing the remainder. The State also retains its share of AFDC collections while remitting the federal AFDC contribution to the federal government. However, the federal government rewards states for cost-effective programs by providing incentives based on AFDC and non-AFDC collections. In turn, the state passes on appropriate shares to the participating counties.

Table 1

Revenues for Child Support Enforcement for Fiscal Years 1992-93 through 1994-95 (Unaudited)

	Fiscal Year 1992-93	Fiscal Year 1993-94	Fiscal Year 1994-95(est.)
Federal Share			
Federal Match	$23,727,600	$29,048,700	$44,344,400
Federal Incentives	2,632,700	4,784,600	5,101,900
State Share			
Appropriations	2,649,800	2,743,400	3,737,400
Retained Collections	4,592,200	4,797,200	5,334,700
County Share			
Appropriations	757,100	1,102,100	2,032,600
Retained Collections	475,100	671,100	774,800
Total Revenue	$34,834,500(a)	$43,147,100(a)	$61,325,800(a)
Collections	$75,027,842	$90,402,195	$108,500,000

(a) For each fiscal year, revenues slightly surpass or equal the costs of administering the program. In fiscal years 1992-93 and 1993-94, DCSE transferred $500,000 and $1 million to the AFDC program, respectively. DCSE does not expect surplus funds enabling a transfer to the AFDC program in fiscal year 1994-95.

Source: DCSE Legislative Expenditure and Revenue and Projected vs. Actual Collections status reports for Fiscal Years 1992-1993, 1993-94, and 1994-95.

Arizona's program has approached, but not yet attained, self-sufficiency. In fiscal year 1990-91, state appropriations accounted for 12.6 percent of total revenues. By contrast, state appropriations will comprise an estimated 6.1 percent of total revenues in fiscal year 1994-95. This decrease in state appropriations, as a percentage of total revenue, directly results from increased collections.

Statewide, 1,056 employees work in child support enforcement. Of these employees, DES has 639 positions for fiscal year 1994-95. The remaining staff includes: 118 from the Attorney General's Office, 162 from county attorneys' offices, 106 from the clerks of the court, and 31 additional staff, including deputy sheriffs and family law commissioners.

These staffing levels represent an approximate 31.6 percent increase from those reported in the December 1992 Auditor General report (Report No. 92-7).

Scope and Methodology

This audit, which follows the December 1992 audit of the Division, focuses on DCSE's ability to process and distribute child support payments in an accurate and timely manner. Our work included a review of internal controls, ATLAS system access, child support debt establishment and recalculation, and accurate receipt and distribution of child support payments. In addition, we reviewed pertinent federal regulations and contacted other states regarding child support enforcement program operations.

Our report presents findings and recommendations in two areas:

- The Legislature should consider centralizing the processing of child support payments, which would offer greater control and efficiency,
- The Division should take additional steps to ensure that child support payments are accurately distributed to both custodial parents and the State.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Director of the Department of Economic Security, the Assistant Director of the Division of Child Support Enforcement, and their staff for their cooperation and assistance throughout the audit.

FINDING I

THE PAYMENTS AND DISTRIBUTION FUNCTION SHOULD BE CENTRALIZED

The Legislature should consider centralizing the processing of child support payments received from noncustodial parents. Currently, Arizona operates a fragmented, decentralized system exposing the State to potential fraud and undetected errors. Centralization would reduce this risk and produce efficiencies that can result in increased collections, more timely processing, and reduced costs. While centralization appears consistent with the national direction regarding child support collections, implementation of a centralized system in Arizona may require statutory clarification.

Current Fragmented System Increases Risk

Arizona's fragmented and decentralized system for processing child support payments exposes the State to unnecessary financial risks and errors. Currently, payments collected from noncustodial parents are processed at 15 different locations statewide; however, only the DCSE clearinghouse produces and sends checks to custodial parents reflecting their monthly child support (see Table 2, page 8). The financial risks associated with Arizona's system result from inadequate segregation of duties, inconsistent policies and procedures, and inappropriate ATLAS system access. Additionally, untimely reconciliations and a lack of supervisory review of transactions may allow errors or fraud to go undetected.

Poor internal controls unnecessarily expose the State to financial risk — Arizona's decentralized payments system exhibits many control weaknesses. During site visits to several locations, we noted the following:[1]

- ***Inadequate segregation of duties*** — As shown in Table 2 (see page 8), eight counties have three staff or fewer, which often results in an inadequate separation of the cash-handling and recording functions. Six of the 11 sites visited (5 of which were clerk of the court offices) employed inadequate segregation of duties. At these sites, the same staff receive, process, deposit, and post payments. This increases the risk of possible theft or misappropriation since other staff are not involved in the process. Additionally, 4 of the 11 sites visited allowed people without payment processing responsibilities access to cash.

---

(1) Auditor General staff visited eight of nine clerks of the court, three of five DCSE offices, and the DCSE clearinghouse.

Table 2

Child Support Payment Processing Statewide for December 1994 (Unaudited)

Location	County(ies) Served	Operated By(a)	Dollar Amount Received and Posted	Number of Payments Received and Posted	Number of Staff
St. Johns	Apache	County	$ 40,580	255	3
Bisbee	Cochise	County	$ 177,630	1,290	2
Flagstaff	Coconino	County	$ 176,604	1,046	3
Globe	Gila	County	$ 126,102	885	4
Safford	Graham Greenlee	State	0	0	4
Parker	La Paz	State	0	0	2
Phoenix	Maricopa	County	$ 4,754,463	32,683	10
Kingman	Mohave	State	0	0	3
Holbrook	Navajo	County	$ 132,380	886	3
Tucson	Pima	County	$ 1,574,824	12,272	6
Florence	Pinal	County	$ 392,681	3,798	7
Nogales	Santa Cruz	County	$ 31,559	274	2.5
Prescott	Yavapai	State	0	0	2
Yuma	Yuma	State	0	0	4
Clearinghouse in Phoenix		State	$ 798,492	9,257	5

(a) County Clerks of the Superior Court receive, process, deposit, and post payments to appropriate cases on ATLAS. State DCSE offices receive and deposit over-the-counter payments into designated bank accounts, but do not post payments. In the state-operated counties, courts direct noncustodial parents to send payments to the DCSE clearinghouse, which then performs all of the processing functions. The clearinghouse also posts to ATLAS any payments received by the five state DCSE offices. For these two reasons, state-operated counties will show no payments processed, but will designate staff to receive and deposit the small number of payments received over-the-counter. However, only the clearinghouse writes and sends checks to custodial parents.

Source: ATLAS 052 report — Daily Collections and Distribution Report, ATLAS ad hoc report detailing number of items posted by each location, and clearinghouse reported staffing totals for each location.

The dangers of failing to separate the cash-handling and recording functions were evidenced in a recent incident at a small, rural office. From October 1992 to January 1994, almost $5,000 was allegedly embezzled from the Yuma office. Although a subsequent investigation by DES' internal audit group could not substantiate the allegation of embezzlement, the $5,000 was never recovered. Inadequate segregation of duties and untimely reconciliations permitted this theft to go undetected for 18 months. Detection finally occurred upon completion of bank reconciliations for this time period in April 1994.

- ***Inconsistent policies and procedures*** — DCSE has established policies and procedures for processing child support payments that county clerks of the court and DCSE offices agreed to follow. However, the actual policies and procedures followed vary significantly by location. For example, some offices use prenumbered receipts and some do not. Prenumbered receipts assist in the reconciliation process by establishing accountability for transactions.

- ***Inappropriate system access*** — Unnecessarily broad access to case, payment, and debt information also exposes the State to the potential for fraud. During site visits, both county and DCSE staff demonstrated their ability to manipulate ATLAS information. In one test case, a staff member exhibited the ability to: 1) access her own child support case, 2) change case data including current support and debt amounts, and 3) post payments that would result in a check being distributed in error. This level of access exists after DCSE acknowledged access problems and revised its security profiles. However, approximately 200 employees continue to have inappropriate access to the system.

Error detection lacking — Compounding the control weaknesses identified, untimely reconciliations and the lack of compensating controls limit DCSE's ability to detect errors and fraud. Currently, DCSE relies on comparisons between bank statements and records of payments received and posted to determine if any errors or discrepancies have occurred. However, DCSE has not performed reconciliations in a timely manner.

DCSE has historically experienced problems performing reconciliations in a timely manner. During a financial audit of DES, the Auditor General noted that the Division had not performed monthly bank reconciliations during fiscal year 1992-93 as required by the *Arizona Accounting Manual*. Recognizing this problem prior to the release of the Auditor General's financial audit report, DCSE contracted with Andersen Consulting to reconcile its bank accounts for the past several years through April 30, 1994. However, DCSE quickly fell behind again in performing its reconciliations until, with the assistance of DES Internal Audit, it developed a corrective action plan and procedures for catching up and remaining current with reconciliations. Currently, five of the Division's seven bank accounts are reconciled.

Additionally, most of the locations do not use other basic control procedures such as:

- A supervisory review of transactions and documents used in processing. Such a review would require the supervisor or manager to scrutinize the documents prepared during processing. This individual would typically initial the documents, indicating performance of a review. The Graham/Greenlee DCSE office currently employs this control effectively.

- A user review of computer-generated exception reports. Exception reports typically include transactions processed in excess of predefined dollar amounts, unusual and frequently occurring items like payments posted to the same account several days in a row, and/or excessive numbers of transactions processed by one user.

Centralization Eliminates Fragmentation and Provides Benefits

Rather than addressing control weaknesses in a piecemeal fashion by individual location, we recommend that DCSE and the Legislature consider centralizing the payments and distribution system. Centralization would allow the Division to address the internal control problems that currently exist. Additionally, other states reported improved payment processing efficiency and cost savings. Also, centralization allowed these states to privatize their payment processing operation and achieve additional benefits.

Centralization addresses internal control weaknesses — Centralizing the State's payment processing operation would help management address several control problems by consolidating the sites where processing occurs. DCSE could reduce the number of processing locations from 15 to 1. One payment processing site would facilitate the establishment of consistent policies and procedures, ensure sufficient staff for adequate segregation of duties, and foster appropriate supervision and monitoring.

We contacted several states that have implemented or partially-implemented a centralized payment processing system. These states include New York, Colorado, Massachusetts, and Minnesota. Los Angeles County also implemented a centralized system. These states and Los Angeles County experienced similar control problems, but resolved them through centralization. Specifically, these states found the following:

- Processing payments at one location more easily allows the organization to assign specific tasks to staff, permitting proper segregation of duties. Achieving appropriate system access in relation to specific job responsibilities is also more easily accomplished and monitored.

- Reducing the number of Post Office boxes, bank accounts, and cash windows used in a payment processing operation limits access to cash.

- The organization can draft, implement, and monitor compliance with a single set of policies and procedures. Monitoring is simplified as only one location requires inspection.

- Fewer bank accounts and better access to needed documentation generated by only one location increase the likelihood of timely reconciliations.

- One location fosters clean audit trails and increases accountability.

These benefits do not have to come at the expense of customer service. Colorado established toll-free telephone access where custodial and noncustodial parents can obtain case and payment information. Similarly, DCSE has recently established an Interactive Voice Response System. Through a toll-free 800 number, custodial and noncustodial parents can now obtain information on their case from anywhere in the State.

Centralization also should improve efficiency — In addition to addressing internal control problems, other states improved payment processing efficiency and expect to realize cost savings. Studies conducted in New York and Colorado tout the benefits of centralization indicating increased collections, cost savings, better information and reporting, increased system security, and more timely processing. Centralized systems eliminate duplication and functional redundancies that occur when independent organizations operate the same types of programs. Currently, Arizona operates 10 redundant operations processing approximately 62,000 Title IV-D payments each month.

Centralization may also promote economies of scale by making it cost-effective for DCSE to use modern technology routinely employed by the financial services sector such as: high-speed check-processing equipment, automated mail and postal procedures, and automated billing and statement processing. Colorado and New York both report realizing benefits from these efficiencies.

- Colorado increased child support collections by $5,460,000 annually. The increase in collections resulted from reallocating 78,000 man-hours previously used for processing payments to collection activities.

- Colorado also reduced their operating costs by over 50 percent. Processing costs were reduced from approximately $1.1 million to $540,000 annually.

- New York estimated that implementing a statewide centralized collections and disbursements child support system will result in annual savings of $1.1 million.

Centralization provides option to privatize — Another benefit of centralizing the child support payment processing function is that contracting the function to a private vendor becomes a viable option. The states and county we contacted, which had centralized their functions, subsequently privatized or contracted out their payment processing

operation. New York, Colorado, Massachusetts, and Los Angeles County employ Lockheed Information Management Systems (IMS) to operate their centralized systems. Minnesota contracts with its Department of Revenue to collect and process child support. According to officials in New York, the contractor:

- Guarantees 99.8 percent processing accuracy,
- Maintains its own internal quality control department and performs more extensive monitoring than previously performed by the state, and
- Reduces the need for manual operations by using sophisticated automated equipment such as scanning and mail sorting machines.

Additionally, privatization allows states to avoid building and equipment costs typically associated with creating a processing center. In fact, the evaluation performed of New York's operation revealed that a state-run system would cost 46 percent more than one operated by a private vendor. States can also reallocate resources previously involved in payment processing to case management areas.

Statutes Require Clarification

Implementing a centralized child support payment processing system in Arizona is consistent with the national direction regarding child support collections, but will require legislative action. Prior to pursuing centralization, the Legislature would need to clarify statutory roles for the State and counties, and address some additional county concerns.

National direction — A move towards centralization appears consistent with the national direction for child support collections. Two separate pieces of legislation are currently pending before Congress that contain requirements for states to adopt a centralized system for processing child support payments. Similar federal legislation was also considered in 1994.

Legislature should consider revising statutes — Before attempting to centralize payment processing, however, the Legislature should revise current statutes to provide DES clear authority to process all Title IV-D child support payments. Historically, county clerks of the court have held primary authority for all child support payment processing. A.R.S. §46-441 grants counties primary authority to process Title IV-D child support payments, even though some counties have deferred this function to the State.

County concerns — The Legislature may also want to address some additional issues that the counties have raised. The clerks of the court who process child support payments

for DCSE want to retain their own operations. They have expressed two main concerns about centralization:

- DES' ability to adequately serve the needs of the clients receiving child support payments. Officials from both Maricopa and Pima Counties cited DES' history of poor performance as the basis for their concerns.

- The remaining need for the counties to process non-Title IV-D cases (non-DCSE cases).[1] These cases constitute more than 50 percent of all child support cases in Arizona. Some county clerks of the court maintain that since they already have the systems in place to process both Title IV-D and non-Title IV-D child support payments, they should retain their operations.

We believe DES' ability to serve the needs of clients receiving child support payments has markedly improved in the past two years with the implementation of ATLAS and process improvements made within the Division. Further improvements should occur as DES continues to enhance the ATLAS system and improve DCSE's internal procedures.

Ideally, centralization could include both Title IV-D and non-Title IV-D payments. When New York and Los Angeles County centralized their payment processing, they included *all* child support payments. Such an action would allow counties to enjoy the benefits of centralization and reduce their costs and workload. However, both DCSE management and those court officials willing to consider centralization believe such a move needs further study regarding costs and steps necessary to implement. Therefore, the Legislature might consider centralizing only Title IV-D payment processing at this time and referring the issue of centralizing all child support payments to the Coordinating Council for Child Support for further study. This council is composed of legislators, DES management, parents, representatives from the Governor's Office and Attorney General's Office, county attorneys, court officials, and a Clerk of the Superior Court. In the meantime, with Title IV-D payment processing centralized, the Legislature and other stakeholders would have an opportunity to evaluate the benefits of centralization and DES' ability to perform.

---

(1) Non-Title IV-D cases refer to cases that do not receive public assistance in the form of AFDC payments or have not made application to DCSE for assistance with their case. County clerks of the court process child support payments made for non-Title IV-D cases that reside in their county.

RECOMMENDATIONS

1. The Legislature should consider centralizing the processing of all Title IV-D child support payments. However, the Legislature would need to first revise A.R.S. §46-441 and related statutes to provide DES clear authority for processing all Title IV-D child support payments.

2. The Legislature should consider referring the issue of centralizing the collection of non-Title IV-D child support payments to the Coordinating Council for Child Support for further study.

3. DCSE should address the current control weaknesses regardless of the centralization issue. Therefore, DCSE management should:

   - Employ adequate segregation of duties and proper supervisory review of processing transactions at all locations,

   - Increase efforts to bring reconciliations to a current status,

   - Reduce the number of people with access to cash and the payment processing screens on ATLAS, and

   - Implement additional controls designed to detect and correct errors and irregularities such as the generation and review of exception reports.

FINDING II

DCSE SHOULD DO MORE TO ENSURE ACCURATE DISTRIBUTION OF CHILD SUPPORT PAYMENTS

DCSE should review and ensure the accuracy of case debt calculations and system records, which determine the distribution of child support payments. While DCSE has undertaken some efforts to address historical problems with the accuracy of debts, current problems such as underqualified staff, inadequate training, and information system limitations undermine these efforts. As collections increase and distribution becomes increasingly automated, more debt problems will likely surface and distribution errors will occur. Hence, DCSE needs to determine the accuracy of debts and address identified problems to ensure the accurate distribution of an estimated $108.5 million in child support payments in fiscal year 1994-95.

Debts refer to monies owed by noncustodial parents to custodial parents for child support. In addition, for cases where the custodial parent receives Aid to Families with Dependent Children (AFDC), debts also reflect amounts owed to the State by the noncustodial parent to offset AFDC payments. Many cases contain both debts representing amounts owed to the custodial parent and debts owed to the state.

Debts critical to distribution and collection accuracy — Accurate debts are critical to the accurate collection and distribution of child support payments. Debts on the ATLAS system affect:

- ***The distribution of child support payments*** — If a debt reflecting an amount owed to the State is overstated, the State may receive money that should go to the custodial parent. This will occur because payments made in excess of the monthly court-ordered support amount are distributed to the State before the custodial parent.

- ***The accurate retainment of child support by the State*** — Once the debt owed to the custodial parent has been satisfied, inaccurate information can also cause the State to retain insufficient or too much child support. Thus, noncustodial parents may not reimburse the State for the correct amount.

- ***The accurate collection of support from noncustodial parents*** — Due to inaccurate debt information, DCSE may also incorrectly believe that noncustodial parents owe money they do not actually owe. As a result, DCSE might wrongfully intercept noncustodial parents' federal and state tax refunds in order to collect on incorrect amounts. This has occurred in the past.

Accurate debts are a central focus of the child support enforcement program. As a regional supervisor explained, *"everything we do revolves around debts. We work at establishing paternity and support orders so we can set up debts. We work at enforcing support orders so we can collect on the debts. And we collect payments and send out payments according to what the debts say."*

DCSE Has Addressed Some Historical Debt Problems

DCSE has taken steps to resolve historical problems associated with accurate debt calculation. During case conversion to ATLAS, many problems occurred pertaining to the accurate calculation and the subsequent entry of debts on the automated system. As a result, the Division contracted to correct thousands of erroneously calculated debts. Additionally, DCSE later formed in-house staff teams that specialize in debt calculations.

Debt calculation during ATLAS conversion plagued with problems — Mistakes and poor management hindered accurate debt calculations during case conversion to the statewide automated child support system from 1991 to 1993. At that time, DCSE contracted with Maximus, a consulting firm, to convert case and payment information previously contained in case files onto ATLAS. Additionally, DCSE contracted with Maximus to convert payment information and court orders into amounts owed (debts) by noncustodial parents. However, notwithstanding DCSE claims to the contrary, mistakes were made during this effort[1]. After completion of case conversion, experienced DCSE legal assistants sampled 113 Maricopa County cases (the last county to have its debts converted) in 1993 and determined that 39 percent of these cases had incorrect debts. Sample results indicated that Maximus made many mistakes, including wrongfully interpreting court orders and making mathematical errors. Interviews with DCSE, county, and former Maximus staff indicate that poor instructions from the State and Maximus supervisors, and inexperienced staff, contributed to these errors.

DCSE contributed to and exacerbated debt calculation problems by producing incorrect, incomplete, and evolving policies and procedures regarding debt calculations. For example, procedures incorrectly stated that support payments received during periods when a custodial parent was on public assistance should reduce the debt owed to the custodial parent rather than the State. DCSE procedures also failed to enforce a consistent policy for the treatment of payments made directly by the noncustodial to the custodial parent.

DCSE has taken measures to improve debt accuracy — Facing high error rates, incomplete policies and procedures, and a deluge of calls from disgruntled parents, DCSE undertook actions to clean up and ensure debt accuracy.

---

(1) DCSE maintains that its own quality control team and a third party, Lockheed IMS Corporation, verified that Maximus achieved a 98 percent accuracy rate in its debt calculation and case conversion effort. However, our analysis of these quality control efforts indicates that Maximus achieved significantly less than a 98 percent accuracy rate in debt related data fields.

- ***DCSE hired staff to correct debt accuracy*** — After improving their debt policies and procedures in 1993, DCSE hired experienced staff to correct debt calculations. DCSE recontracted with Maximus to recalculate or rework 32,278 cases in Maricopa County and six other counties. DCSE also funded Pima County's effort to hire and train its own staff to recalculate the debts for an additional 3,700 cases.

- ***Specialized teams were created to calculate and correct debt calculations*** — After Maximus and Pima County debt recalculations were completed by July 1994, DCSE formed specialized teams in six counties, including Maricopa County, just as Pima County had done earlier. The teams devote their time to calculating the initial debt amounts for cases with new court orders. The teams also recalculate debts when modifications of support orders occur or debt accuracy is questioned. These teams allow the Division to quickly review and resolve debt disputes, and ensure the consistent application of procedures.

While these efforts contributed to improved debt accuracy, DCSE only contracted to correct the debt calculations in 8 of 15 counties, including Maricopa and Pima. In the remaining seven counties, county officials declined to submit case debts for review and/or correction to DCSE. Additionally, the contract work performed to correct debts in the eight counties did not identify and correct all erroneous case debts. Debt team staff report that they continue to receive case debts calculated during conversion that need correction and Pima County has decided to review all case debts calculated during conversion for accuracy.

Problems Still Affect Accuracy of Debt Calculations and System Records

While DCSE efforts have improved overall debt accuracy, several noteworthy problems remain. Even though DCSE established specialized debt teams, their qualifications are questionable and training is inadequate. In addition, problems resulting from ATLAS system limitations affect debt accuracy. As a result, DCSE is unable to ensure the accuracy of 80,116 cases with debts. Finally, because DCSE has never determined the overall accuracy of debts statewide, it cannot ensure the accurate distribution of child support payments.

Debt team problems affect debt accuracy — Despite the potential benefits of debt teams, several factors affect the Maricopa County debt teams' ability to calculate debts accurately.[1] Such factors include:

---

(1) While the finding focuses on problems noted with the Maricopa County debt teams, auditors also visited teams in Pima and Coconino Counties. However, auditors focused on Maricopa County since 59 percent of cases with court-ordered debts reside in this county and reports from clearinghouse staff indicated problems with the debt teams.

- *Limited qualifications* — The debt team staff in Maricopa County lack appropriate qualifications. No math skills or accounting experience are required, even though the debt teams must perform and record complicated financial computations. Instead, minimum qualifications simply require that debt team members have two years' collection or investigation work experience or one year's experience as a file clerk. These qualifications markedly differ from those proposed by the Division's own process improvement team and former Assistant Director, who both proposed that the position require accounting skills. Pima County requires its debt team members to have mathematical calculation skills.

- *Inadequate monitoring* — Even though required by DCSE management, some debt team supervisors do not randomly review debt calculations. For two of the three debt teams interviewed, supervisors were either not checking, or were not detecting, errors in the staff's work.

- *Insufficient training* — Ten of 14 (71 percent) debt team members interviewed commented on the inadequacy of debt team training. Debt team members noted that they received only five days of debt-related training before starting. Debt team members also indicated that the quality of training could be improved. Eleven staff commented that they received incomplete instructions during training due in part to incorrect or incomplete DCSE procedures.

Systems-related problems hinder accuracy — The ATLAS system and the AFDC automated system, Arizona Technical Eligibility Computer System (AZTECS), with which it interfaces, cause further problems that affect amounts owed and distributed. These problems include:

Missing Information

- *Lack of AFDC payment information* — The absence of accurate, summarized AFDC payment and date information prevents accurate calculation of debts. AZTECS only provides monthly amounts for the past 13 months, rather than summarizing all AFDC expended on an individual.[1] As a result, Arizona sometimes retains too much or too little from child support payments to recover monies expended by the State. A total of 40,334 cases where a custodial parent received AFDC are potentially affected.

- *Lack of child support payment information* — Some cases lack information on child support payments made before 1986. DCSE eliminated this payment information when it attempted to consolidate payment information through a system program. As a result, noncustodial parents, in 823 cases, may appear to owe more money than they actually owe.

---

(1) AFDC information back to 1987 is available on-line by request, but AFDC information prior to 1987 must generally be researched on microfiche since such information pre-dates AZTECS.

System-Related Limitations

- ***Changed status cases*** — Custodial parents can move on and off AFDC frequently. At the time of the audit, the ATLAS system did not automatically change the status of public assistance cases, and manual changes were not performed in a timely manner. As a result, incorrect payments and debt inaccuracies occurred. An undetermined number of 20,685 cases that move back and forth between public assistance and nonpublic assistance status could be affected.

- ***Former AFDC cases receiving medical assistance*** – The ATLAS and AZTECS systems do not distinguish current AFDC cases from cases where former AFDC recipients subsequently receive medical assistance. Accordingly, the system accrues payments and amounts owed under a debt reflecting amounts owed the State rather than a debt reflecting amounts owed the custodial parent. This problem potentially affects 36,716 medical assistance cases.

ATLAS Phase II, if implemented as planned, should resolve the indicated system-related problems.[1] The Phase II changes will allow the automated system to automatically change the status of public assistance cases and recognize the special status of former AFDC cases now receiving medical assistance. However, ATLAS Phase II will only process information more accurately, not correct inaccurate information that currently exists within the system. Additionally, the system will not address the issues regarding missing information.

DCSE needs to ensure debt accuracy —The importance of accurate debt calculations will grow as DCSE increases the number of cases with child support orders and collections activity. In an effort to reach its $108.5 million collection goal, the Division hopes this year to increase by 20 percent the number of cases which have an initial debt calculated.

Debt accuracy will also become more critical in the future as ATLAS Phase II will distribute most payments automatically without interruption. Thus, manual case-by-case debt review to ensure debt accuracy, which currently occurs for some cases, will occur less often. For example, DCSE currently interrupts child support distribution in cases where debt amounts appear inaccurate or questions exist regarding payment distribution. The interruption allows DCSE to research the case information and ensure its accuracy. However, even though DCSE anticipates improved information in Phase II and a diminished need for manual research, current inaccurate debt information might remain.

DCSE should systematically review existing debt calculations to ensure their accuracy. This systematic review should begin with a statewide sampling effort similar to DCSE's previous sampling effort in Maricopa County. By sampling for debt accuracy, DCSE can ensure that debts calculated during conversion are corrected. Additionally, sampling

---

(1) Phase II refers to the requirements of the operational automated system (e.g. ATLAS) that each state must meet by October 1995 in accordance with the federal Family Support Act of 1988.

will reveal the pervasiveness of system-related problems and debt team errors. By sampling debts, DCSE can determine where inaccuracies exist and devote staffing resources appropriately.

RECOMMENDATIONS

1. DCSE should request that DOA Personnel readdress the minimum qualifications of debt team members to require accounting experience and/or math skills.

2. The Division should ensure that debt team staff receive accurate, ongoing training. In addition, DCSE should review course materials and content to ensure that it is adequate.

3. DCSE should ensure that debt calculations performed by debt teams and contracting counties are monitored for accuracy.

4. DCSE should systematically review debts for accuracy. This review should begin with a statewide sampling effort to determine the pervasiveness of and reasons for debt problems. DCSE should then correct inaccurate debts by devoting staffing resources appropriately.

Agency Reponse

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Fife Symington
Governor

Linda J. Blessing, DPA
Director

JUN 28 1995

Douglas R. Norton, Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Mr. Norton:

Thank you for the opportunity to review the draft report of the performance audit of the Department of Economic Security (DES), Division of Child Support Enforcement (DCSE), payments and distribution function. We particularly appreciate your acknowledgment of the substantial progress we have made and the recognition we have received for those improvements.

The Department agrees with the findings and conclusions of the report. Our specific comments are attached.

If approved by the Legislature, the centralization of the payments and distribution function will enable streamlining of procedures and tightening of controls. The Department will study the privatization of the payments and distribution function which would be made possible under a centralized payments and distribution model. The Division has strengthened controls of cash handling within our existing authority. Exception reports are already scheduled to come on line as a part of the Arizona Tracking and Location Automated System (ATLAS) Phase II upgrade this October.

Significant improvements to the integrity of the debt calculation data contained in ATLAS have been realized since the conversion to the Phase I system was completed two and one half years ago. DCSE has already begun implementing the recommendations suggested in the audit, as well as other improvements.

If you have any questions, please contact me at 542-5678, or Nancy Mendoza, Assistant Director, Division of Child Support Enforcement at 274-7646.

Sincerely,

Linda J. Blessing

Linda J. Blessing

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL PERFORMANCE AUDIT: DIVISION OF CHILD SUPPORT ENFORCEMENT PAYMENTS AND DISTRIBUTION FUNCTION

June 27, 1995

FINDING I: The Payments and Distribution Function Should Be Centralized.

The Department agrees with the finding. Significant streamlining of processes could be achieved in a centralized payments and distribution system. The risks inherent in the current fragmented payments and distribution design can be eliminated most cost efficiently by centralizing the system. The Department will study the privatization of the payments and distribution function, which could be implemented under a centralized payments and distribution model.

RECOMMENDATIONS

1. The Legislature should consider centralizing the processing of all Title IV-D child support payments. However, the Legislature would need to first revise ARS §46-441 and related statutes to provide DES clear authority for processing all Title IV-D child support payments.

The Department agrees with the recommendation. While centralization would reduce the overall cost of the payment and distribution function, the state share of costs would increase. Maintaining current service levels would require a new annual appropriation from the Legislature. Presently, certain counties pay the non-federal share of the payment and distribution function, which is approximately $1,100,000 per year.

2. The Legislature should consider referring the issue of centralizing the collection of non-Title IV-D child support payments to the Coordinating Council for Child Support for further study.

The Department agrees with the recommendation. The issue of having all child support payments made through the IV-D Clearinghouse is complex. A related question is whether all Arizona child support cases should be added to the DES child support caseload by operation of law. Several states with high cost effectiveness ratios have laws which provide for processing of all child support cases by the state child support agency.

The policy and cost ramifications of these questions require intensive study. The Child Support Coordinating Council is an appropriate forum for sponsorship of such a study.

3. DCSE should address the current control weaknesses regardless of the centralization issue. Therefore, DCSE management should:

- ***Employ adequate segregation of duties and proper supervisory review of processing transactions at all locations.***

  Cash handling duties have been segregated at all DCSE locations for payments received at counters. Supervision of cash handling will continue to be monitored at clerk of court offices, particularly those with a limited number of child support payment staff.

- ***Increase efforts to bring reconciliations to a current status.***

  With the assistance of the DES Office of Internal Audit, procedures for DCSE staff to maintain monthly reconciliation of accounts are in place and are being followed.

- ***Reduce the number of people with access to cash and the payment processing screens on ATLAS.***

  The number of people with access to cash in DES offices has been reduced to the minimum number required. To the extent possible, DCSE will limit the number of people with access to cash in the county superior court clerks' offices, which handle cash from a variety of programs.

  All ATLAS users currently have security access profiles which provide them access only to the ATLAS screens necessitated by the performance of their job duties.

- ***Implement additional controls designed to detect and correct errors and irregularities such as the generation and review of exception reports.***

  Ten different exception reports relating to reconciliation of accounts and other fiscal controls have been included in the ATLAS Phase II system, which will be implemented in October, 1995. DCSE will explore the addition of further error and irregularity detection enhancements to the system.

*FINDING II: **DCSE should do more to ensure accurate distribution of child support payments***

The Department agrees with the finding. Significant improvement to the accuracy of debts has been achieved since January, 1993, when the ATLAS Phase I system was fully introduced to the state. Additional improvements to data integrity are planned.

RECOMMENDATIONS:

1. DCSE should request that DOA Personnel readdress the minimum qualifications of debt team members to require accounting experience and/or math skills.

The Department agrees with the recommendation. DCSE and DOA staff have agreed on the additional math skills which will be included in revised minimum qualifications for debt team members. These will be implemented within the next two months.

2. The Division should ensure that debt team staff receive accurate, ongoing training. In addition, DCSE should review course materials and content to ensure that it is adequate.

The Department agrees with the recommendation. Additional training for debt teams has been held monthly for the past several months. This training will continue on an ongoing basis, covering topics of concern identified by debt team supervisors as a result of their review of the debt work product.

3. DCSE should ensure that debt calculations performed by debt teams and contracting counties are monitored for accuracy.

The Department agrees with the recommendation. All debt team supervisors now review and approve all debts calculated by the debt teams. DCSE will initiate a process for review of debts produced by contracting counties.

4. DCSE should systematically review debts for accuracy. This review should begin with a statewide sampling effort to determine the pervasiveness of and reasons for debt problems. DCSE should then correct inaccurate debts by devoting staffing resources appropriately.

The Department agrees with the recommendation. DCSE will initiate a statewide sampling of debt accuracy, and will develop a corrective action plan to address the concerns determined through sampling.

LJB:NMM:pfh/auditcv/6-27-95