

# Key Points Of Report

## Office of the Attorney General 1994 Statewide Financial and Compliance Audit

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April 1995

### Key Facts And Findings

The Office of the Attorney General has not fully complied with all federal requirements related to the Child Support Enforcement Program. Control weaknesses were noted in the child support collection/distribution functions and cash reconciliation processes. In addition, we noted compliance exceptions not exceeding an 11.6 percent error rate affecting case file processing.

The agency has not properly accounted for all transactions, cleared old reconciling items, and reported the Child Support Enforcement Trust Fund's cash position. Unresolved reconciling items totaled over \$1.9 million as of October 1994. This amount consists mainly of \$1.2 million in unrecovered overpayments to custodial parents over the past 20 years. However, offsets of daily deposits, returned warrants, and suspense items prevent the Trust Fund from being overdrawn. Over \$406.4 million flowed through the child support system during fiscal year 1994.

Continued delays in the implementation of the new Texas Child Support Enforcement System (TXCSES) decrease the agency's ability to effectively address conditions identified in this report. Current plans are for the system to be operational by October 1995. Management is relying on TXCSES to help resolve most of the outstanding issues. Four of the findings in this report have been outstanding since 1991.

### Related Report

The federal Office of Child Support Enforcement, Division of Audit, recently reported on the results of its audit of the *Child Support Enforcement Program* for the period January 1, 1992 through December 31, 1992. The findings and recommendations are addressed in a report titled "Program Results/Performance Measurements Audit, State of Texas, Report No. TX-93-PR/PM."

# Key Points Of Report

## Key Findings

- The Office of the Attorney General has not taken appropriate action to properly account for all transactions, clear old reconciling items, or ensure accurate information about its cash position in the Child Support Enforcement Trust Fund. Unresolved reconciling items totaled over \$1.9 million as of October 1994. This amount consists mainly of \$1.2 million in unrecovered overpayments to custodial parents over the past 20 years.
- Monthly reconciliations of child support collections to distributions are not performed. In fiscal year 1994 over \$406.4 million in child support collections were processed through the Child Support Enforcement Program. (Prior Audit Issue)
- The agency has not used all information at its disposal to take timely and appropriate action to process child support cases. (Prior Audit Issue)
- Procedures are not in place to properly account for discrepancies in deposits made by counties through the Office of the Attorney General's Collection Automation Project (CAP).

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## Internal Control Issues

Internal Control Issue 1:

### **Take Action To Accurately Reflect Cash Position In The Child Support Enforcement Program Trust Fund**

The Office of the Attorney General has not taken action to properly account for all transactions, clear old reconciling items, or ensure accurate information about its cash position in the Child Support Enforcement Trust Fund (Trust Fund). This results in a deficit of over \$1.9 million as of October 31, 1994, which is not reflected in the accounting records. Over \$1.2 million of the total fund deficit represents a 20-year accumulation of child support collections overpaid to custodial parents. The Trust Fund's purpose is to receive child support payments and distribute them to the custodial parents.

Although the cash reconciliation identifies the deficit amount, the Trust Fund does not report a negative cash balance on the accounting records. The deficit fund balance is offset by daily deposits, returned warrants, and suspense items which prevent the Trust Fund from being overdrawn. During fiscal year 1994, over \$406.4 million flowed through the system for the *Child Support Enforcement Program* (CFDA 93.563).

The specific conditions and effects related to the deficit are as follows:

- Unrecovered overpayment to custodial parents that are made from the Trust Fund are not reimbursed by the operating funds for the *Child Support Enforcement Program*. These actions result in using undisbursed funds to cover overpayments and refunds.

Overpayments and refunds usually result from the situations discussed below:

- Some IRS refunds intercepted from the non-custodial parent for payment of delinquent child support obligations resulted in overpayment to the custodial parent. A portion of these refunds should have been returned to the non-custodial parent after the delinquency was satisfied, or to the Federal Government due to amended tax returns.
- Non-custodial parents paid child support with checks, which were later returned by the bank for non-sufficient funds. These payments were deposited into the State Treasury, and warrants for the child support payments had already been sent to the custodial parents when the "bad" checks were identified.
- Calculation errors in arrearage balances, coding errors, mailing errors, and employers' failure to modify wage withholding amounts also results in overpayments and refunds.
- Items identified in the reconciliation process are not disposed of in a timely manner. For example, \$126,663 of warrants voided by the State Treasury in fiscal year 1989 still appear as a reconciling item. The agency has not taken action on this item, which would reduce the deficit amount.

- The data bases that track voided and canceled warrants and undisbursed child support collections are not accurate. Policies and procedures are not consistently followed to maintain the accuracy of the databases. Without accurate information, the actual cash position of the Trust Fund cannot be precisely determined.

The deficit balance was identified by the agency's Internal Audit Department in October 1991 (Report #IA91-45). In February 1994, the retained collections<sup>1</sup> amount in the Trust Fund designated for transfer to the General Fund was decreased by \$44,729 in order to reduce part of the Trust Fund deficit. This amount was netted against the designated transfer, resulting in a reduction of the State's share of operating funds. The \$44,729 was not appropriately recorded on the accounting records.

Recommendation: We recommend that management take action to accurately reflect the cash position and reduce the fund deficit in the Child Support Enforcement Trust Fund by:

- Allocating operating funds to reduce the fund deficit and recognizing this expense through the use of proper accounting entries.
- Resolving old reconciling items and establishing procedures to ensure that all reconciling items are disposed of in a timely manner.
- Reviewing the subsidiary ledger data bases for accuracy and ensuring that established policies and procedures are followed to improve the accuracy of these amounts.

These actions should be taken in conjunction with the implementation of the new child support automated system to help ensure the accuracy of information in the new system.

The Internal Audit Department, which brought the issue of the deficit to the attention of management in its October 1991 report, should work with Child Support personnel to resolve this and remaining issues. Management should monitor actions taken to resolve the fund deficit and related conditions.

*Management's Response: The Child Support Enforcement Trust Fund is solvent. The fund does not have a cash or fund balance deficit. Over the last ten years, the fund distributed nearly \$2.0 billion to custodial parents. Most of the \$1.9 million in the audit finding stems from IRS offsets of tax refunds to non-custodial parents.*

*The IRS intercept program created recoupment problems when amended federal tax returns resulted in a reduction of payments from the federal government after funds had been disbursed to the custodial parent. The federal government withholds such amounts from subsequent offset payments to the State without prior notice.*

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<sup>1</sup> The Retained Collections account in the State Treasury was created to include both the state share of funds collected by the Office of the Attorney General, which were previously paid by the State as *Aid to Families with Dependent Children (AFDC)* payments, and all incentive payments received from the Federal Government for both AFDC and non-AFDC collections.

*The OAG will ensure that reconciling items are disposed of in a timely manner. The OAG Collections and Distribution Section has verified, by warrant, the information on voided and canceled warrants in the PC database. The Section has policies and procedures in place to reconcile this database daily until TXCSES implementation, at which time the function becomes on-line.*

*Collections and distribution initiated and worked with New System staff to design an on-line warrant tracking system that will eliminate problems associated with the PC-based tracking system. TXCSES's returned warrants design will record, track, reconcile, balance to the vault, and automatically cancel warrants. It will also report and balance to the general ledger, reissue warrants, and track returned warrants for abandoned property reporting. The design for the returned warrants function has been completed and is now in New System test. Collections and Distribution will keep all warrants reconciled on a manual basis until TXCSES is implemented.*

*The \$44,729 "write-off" mentioned in the finding was recorded in the agency's general ledger according to the existing agency policies and procedures related to the bad debt. The entry established the accounts receivable and offset the bad debt to the state share. Representatives of the OAG and the SAO have already met and discussed a more definitive method for recording these transactions, and the agency will implement new processes in conjunction with TXCSES implementation. Although the entries will result in more detailed accounting transactions, the net effect on the state's share of operating funds and the Child Support Trust Fund will be the same.*

Internal Control Issue 2:

### **Reconcile Monthly Collections To Distributions**

(Prior Audit Issue)

Monthly reconciliations of child support collections to distributions are not performed. During fiscal year 1994, over \$406.4 million flowed through the system for the *Child Support Enforcement Program* (CFDA 93.563).

Management is aware of *the* need for monthly reconciliations and believes this issue will be resolved when the new Texas Child Support Enforcement System (TXCSES) is implemented. Some progress has been made by reconciling collections to supporting documentation, a key aspect of the monthly reconciliation process. However, a comprehensive system to reconcile child support collections to distributions has not yet been implemented.

*Timely* and accurate reconciliations help ensure that financial reports will not contain significant errors or omissions. They also serve as a control measure to detect errors and irregularities involving cash. Differences between monthly collections and distributions could go undetected when reconciliations are not performed.

Recommendation: We recommend that management ensure that procedures are in place and a monthly reconciliation of collections to distributions is performed once the new automated system has been implemented.

*Management's Response: We concur. The program has made significant progress in achieving reconciliation objectives over the last year. The OAG has also created a Financial section within the Child Support Division to coordinate and monitor all child support financial issues.*

*Also, the OAG has devoted staff to reconcile cash on the child support case level to the general ledger in the current system. This reconciliation was completed in February 1995.*

*In addition, the OAG has included in the Texas Child Support Enforcement System (TXCSES) design, the capability of reconciling cash, as well as collections to disbursements on a daily basis. Detailed financial reports have been designed and specific procedures for performing reconciliations have been written. These items are being tested in the TXCSES and specific staff assignments for performing TXCSES reconciliations have been made.*

Internal Control Issue 3:

### **Establish Procedures To Properly Account For Discrepancies In Deposits Made By Counties**

Procedures are not in place to properly account for discrepancies in deposits made by counties through the Office of the Attorney General's Collection Automation Project (CAP). The lack of shared responsibility at the local level does not provide assurance that child support payments reported through CAP are properly accounted for and transferred to the Child Support Enforcement Trust Fund (Trust Fund). CAP was designed to reduce the agency's processing volume by providing a means to collect child support payments from counties, large employers, and the agency's field offices through electronic fund transfers.

The agency identified existing problems, but the following weaknesses persist which create the risk that errors or irregularities could occur and not be detected in a timely manner:

- Responsibility for deposit shortages is not shared with county offices participating in CAP. As a result, the Child Support Enforcement Trust Fund (Trust Fund) is absorbing unresolved shortages, further contributing to the Trust Fund deficit.
- The agency's accounting records do not reflect the differences between deposit amounts reported by the county and amounts actually deposited into the State Treasury's concentration account. Shortages are netted against any existing overage or balances in the State Treasury's concentration accounts, creating a net amount that is transferred to the Trust Fund.
- Deposit differences exist in the concentration accounts, dating back to January 1993, which have not been investigated or resolved by the agency.

In instances where shortages exist, non-custodial parents get credit for child support payments that were not received by the agency. Conversely, non-custodial parents may not receive credit for making child support payments when deposit overages exist.

Almost \$156 million (38 percent) of the total child support collections (\$406.4 million) processed during fiscal year 1994 were received through electronic fund transfers from CAP participants. Child support payments are deposited into State Treasury concentration accounts by CAP participants for transfer to the Trust Fund.

Recommendation: We recommend that management establish procedures to properly account for discrepancies in deposits made by counties through the Office of the Attorney General's Collection Automation Project (CAP) as follows:

- Guidelines should be developed to resolve discrepancies in deposits initiated at the county level. These guidelines should also include specific responsibilities of CAP participants and the Office of the Attorney General. Repeated errors in deposits submitted by counties could indicate weaknesses in controls at the local level and should be reported to the County Auditor.
- The agency's accounting records should properly reflect the differences in deposit amounts. Overage amounts should be transferred to the Suspense Account for subsequent identification of the child support payment. The operating funds for the *Child Support Enforcement Program* (CFDA 93.563) should be used to replenish shortages until the funds can be recovered from the appropriate party.
- Discrepancies in concentration accounts should be investigated and resolved in a timely manner.

Management's Response: *Deposit discrepancies in electronic fund transfers (EFT) net to less than one percent of the \$156 million EFT payments processed in fiscal year 1994. Even so, we concur that improved practices and procedures should be developed in coordination with the State Treasury and counties to handle the collections involving State Treasury accounts using EFT.*

*Through EFT, the Office of the Attorney General expedites almost two million payments per year to families by a factor of seven to fourteen days, and saves the state significant operating costs through automated processing of these collections. On the other hand, the process is largely dependent on Treasury banking procedures, as well as the voluntary cooperation of participating counties, at no great benefit to them and minimal cost to the State.*

*However, we recognize that reporting and deposit procedures within the existing system could be improved. Actions taken and planned include the following:*

- *Daily logs to ensure balancing of deposit vouchers with payment details will be converted to a mainframe reconciliation process in the New System.*
- *Collections & Distribution have requested more frequent than monthly statements from the State Treasury. (However, since these accounts are not*

established by the OAG or the county, we are limited to modifications in procedures that the State Treasury will be able to accommodate.)

- *Representatives of the Collections & Distributions and Recoupment sections of Client Services, Accounting, and New System staff will continue to meet with the Treasury to look into more effective alternatives for handling county e.f.t. funds and to establish procedures that can be incorporated into the overall recoupment process. Collections and Distributions has already held a working-level meeting with the State Treasury staff to identify potential areas for more timely information exchange.*
- *OAG staff are developing policies and procedures for notifying counties of deposit discrepancies and will provide copies to the county auditor when warranted. The notification procedures should be in place by April 1995.*

## Federal Compliance Issues

Recommendations addressed in other sections of this report could impact controls over federal funds for the *Child Support Enforcement Program* (CFDA 93.563).

The Office of the Attorney General's most significant federal program, the *Child Support Enforcement Program*, is administered by the U.S. Department of Health and Human Services through the U.S. Office of Administration for Children and Families. The agency collected and distributed approximately \$406 million in child support payments during fiscal year 1994 and received \$97.2 million to administer the program.

Federal Compliance Issue 1:

### **Take Timely And Appropriate Action To Process Child Support Cases**

(Prior Audit Issue)

The Office of the Attorney General has not used all information at its disposal to take timely and appropriate action to process child support cases in the *Child Support Enforcement Program* (CFDA 93.563). Federal regulations require the agency to diligently pursue certain actions to establish and enforce child support collections. The following exceptions for case file processing were found during fiscal year 1994:

Federal Requirements	No. of Cases Tested	Exceptions Noted	Error Rate
Paternity	43	5	11.6%
Locate	221	23	10.4%
Support	36	3	8.3%
Enforcement	38	3	7.9%
Eligibility	297	1	0.3%

At the direction of the Division of Audit of the federal Office of Child Support Enforcement, different audit criteria and methodology were used during the fiscal year 1994 audit as compared to past audits. Application of this criteria resulted in significantly lower error rates than those reported in prior years.

Federal guidelines contained in *Code of Federal Regulations (CFR), Title 45, Section 305*, use a 25 percent error rate to determine substantial compliance with program requirements. However, the effectiveness of child support services is reduced unless all opportunities are taken to fully process the cases.

Recommendations: We recommend the agency take timely and appropriate action to process child support cases using all sources of available information. All attempts to process child support cases should be documented in the case files. The Internal Audit Division, together with the program monitoring function, should identify the causes for the types of errors noted and continue to provide feedback to management on the effectiveness of child support services.

Management's Response: *Achieving compliance with federal requirements for processing child support cases has been and remains a top priority for the Office of the Attorney General. In addition, results of the latest audit by the U.S. Department of Health and Human Services indicated that the OAG is in compliance with audit criteria established by the federal Office of the Child Support Enforcement (OCSE). Efficiency rates for selected functions as noted in the report, were as follows:*

<i>Establishing Paternity</i>	<i>84%</i>
<i>Support Obligations</i>	<i>87%</i>
<i>Enforcement of Support Obligation</i>	<i>97%</i>

Auditor Clarification: The *audit* results noted in the response above are for the period January 1 through December 1992. Also, program auditors used efficiency (compliance) rates in their report instead of error rates. Error rates for the selected functions noted in the response above are as follows:

Establishing Paternity	16 percent
Support Obligations	13 percent
Enforcement of Support Obligations	3 percent

Federal Compliance Issue 2:

### **Ensure Accuracy Of Child Support Arrearage Balances**

(Prior Audit Issue)

The Office of the Attorney General does not maintain accurate records of child support arrearage balances. Of the 26 arrearage balances tested, 8 contained errors, resulting in a 31 percent error rate. This error rate increased from the 20 percent noted in the prior year audit.

The following conditions contribute to the inaccuracy of these balances:

- Incorrect payment amounts are recorded.
- Inaccurate payment start and *end* dates are reflected.

The accuracy and documentation of recorded child support arrearage balances is necessary to ensure the proper payment and distribution of child support collections. Over \$406.4 million flowed through the system for the *Child Support Enforcement Program* (93.563) in fiscal year 1994.

Recommendations: We recommend the agency ensure the accuracy of the arrearage balances. Arrearage amounts entered on the data base should be verified against the manual calculations. Procedures should be developed to review case file data when it is entered, modified, or deleted in order to minimize errors. The Internal Audit Division and the Program Monitoring Section should continue to review arrearage calculations to identify problems and recommend corrective action.

Management's Response: *We concur with the auditor's recommendations. The Child Support Division of the Office of the Attorney General has undertaken efforts to ensure the accuracy of data entry relating to child support arrearages. We will continue to pursue efforts to ensure the accuracy of this information. Such efforts include:*

- *To reduce errors and promote uniformity, specific training on calculating arrearage balances was developed. Staff who successfully complete the training are designated as "Certified Arrears Calculators." These staff are delegated the responsibility of ensuring the accuracy of arrears information.*
- *We will review possible recertification of these arrears calculation experts to ensure that their reviews of the child support cases regarding arrears calculations are being conducted properly. We will ensure that these calculation reviews are limited to staff that have been recertified so as to better control the quality of the reviews conducted by these staff.*
- *The ability to change arrears information on the database has been restricted so that only authorized staff have the capacity to update arrearage information. Authorized staff are issued unique identification codes which are required to access update screens for arrearage balances in the database. The only staff having this authorization are those who have been certified as arrears calculators and have been identified to the database as such.*
- *Increase the number of field reviews and audits of child support cases from a quarterly basis to a monthly basis. These reviews are to be conducted at the area level by the area staff "Case Readers" who are specifically trained to perform the task.*
- *Continue efforts of the child support staff and in particular our Program Monitoring Section to perform quarterly control reviews of our case purification and conversion efforts. These reviews will have a more narrowly-defined purpose (arrears information).*

- Develop a critical elements list which identifies those elements which are required to be reviewed to ensure the accuracy in calculating arrears and for conversion purposes as well.
- Develop a procedure for updating arrears balances in order to establish some uniformity for particular types of cases which need to be updated.
- Form a focus group to review all negative arrears cases and develop procedures for correcting cases with true negative arrearages.

These efforts, which are either on-going or expected to be completed by Fall 1995, should reduce the arrearage error rates. The OAG will continue all efforts to ensure the accuracy of data elements for the caseload of more than 650,000.

In addition, Internal Audit has begun to develop a new approach for future arrearage audits. Rather than simply testing and reporting on arrearage balances, Internal Audit will attempt to pinpoint the main cause(s) of inaccurate balances and controls over input, and make constructive control recommendations to alleviate those cause(s).

Federal Compliance Issue 3:

### **Revise "Bad" Check Collection Procedures To Comply With Federal Regulations And Minimize Losses**

One of the mechanisms used by the agency to recover child support payments made with "bad" checks does not comply with federal regulations. These child support payments were already disbursed to the custodial parents before the "bad" check status was discovered. Over the last two fiscal years, over \$540,000 of the total \$1 million in "bad" checks from non-custodial parents has been recovered by withholding subsequent child support payments to the custodial parents without their voluntary consent.

Child support payments must be distributed in accordance with federal regulations of the *Child Support Enforcement Program* (CFDA 93.563). The federal Office of Child Support Enforcement informed the agency that deviations from the distribution requirements can occur if voluntary consent is obtained from the custodial parent. The amount recovered for "bad" checks could decrease since the agency must change its procedures to comply with federal regulations.

Recommendation: Since notification regarding the federal regulations, the agency has been reviewing procedures for recovering "bad checks." We recommend that management comply with federal regulations by revising its procedures for recovering child support payments made with "bad" checks. In addition, the following procedures should be implemented:

- Request custodial parents to sign an *authorization* allowing subsequent child support payments to be used to recover money for "bad" checks.
- Accounts should be flagged when non-custodial parents make two child support payments with "bad" checks. The requirement for *these* non-custodial parents to submit cash, money orders, or cashier checks to meet the child

support obligation should be enforced. Alternatively, personal checks from these non-custodial parents should be held by the agency for ten days before the child support payment is distributed to the custodial parent.

- The agency should more aggressively pursue recovery of "bad" checks. Non-custodial parents should be reported to local law enforcement officials when repeated violations occur, and enforcement action to garnish their wages should be considered.

Management's Response: We agree with these findings and recommendations. In summary,

- *TXCSES is designed to be in line with federal regulations regarding recoupment of collections.*
- *TXCSES is designed to assist in identifying and dealing with cases where we have received multiple insufficient checks. The Remittance Processing Device (RPD) will also be programmed to provide the same support for checks processed with a coupon.*
- *The agency is pursuing recovery of "bad checks" through a special project to locate and make contact with non-custodial parents on "old" non-sufficient funds (NSF) checks where current case information is insufficient to pursue collection. The Recoupment Section anticipates collecting over \$10,000 with its first efforts at locating non-custodial parents on these old NSF checks. In addition, TXCSES design is being finalized to include automated letters, and the Recoupment Section will increase personal collections of debts when system efforts are unsuccessful at collection.*
- *The Recoupment Section is looking statewide at which counties will pursue recovery of "bad checks," and coordinating with the Special Enforcement Officers to develop recoupment procedures with local law enforcement officials when this option is available in the counties. We plan to finalize these procedures by June 1995.*
- *The Child Support Division has established specific procedures for checks of more than \$800. In such cases, the Collections Processing supervisor contacts the bank and verifies that there are sufficient funds in the account. Exceptions to this procedure include employer checks for multiple employees, cashiers' checks, money orders, and District Clerks' checks.*

*If the bank verifies that funds are available to cover the check, the payment is posted to the record. If funds are not available, the check is deposited into the Suspense Fund, and the bank is called again (within three days) to determine whether the check is cleared.*
- *The OAG is pursuing changes to federal regulations to allow the use of cost effective methods for recoupment purposes.*

Federal Compliance Issue 4:

## **Comply With All Subrecipient Monitoring Requirements**

(Prior Audit Issue)

The Office of the Attorney General did not comply with all federal regulations for subrecipient monitoring. One subrecipient for the *Child Support Enforcement Program* (CFDA 93.563) did not submit an audit report, which results in \$44,756 in questioned costs.

*Office of Management and Budget (OMB) Circular A-128* requires subrecipients to submit audit reports within 13 months of their fiscal year end. These audit reports ensure proper spending of federal funds.

**Recommendation:** We recommend that the Office of the Attorney General continue efforts to obtain the late report in order to fully comply with all subrecipient monitoring requirements.

**Management's Response:** *OAG management acknowledges the continued improvement it has made in its subrecipient monitoring system. OAG management concurs with the auditor's recommendation that the Office of the Attorney General comply with all subrecipient monitoring requirements.*

*The finding identifies one subrecipient for not submitting their required annual audit. The subrecipient in question is in fact a county political subdivision. The OAG was aware of the issue in advance of this finding, and had attempted to acquire the report. Unfortunately, factors contributing to publication of this county's report were outside the OAG's control.*

*Receipt of the report is anticipated in the near future and it is also believed that the report will not contain any material or immaterial findings of misuse, fraud, or abuse of Title IV-D funds which passed through the Office of the Attorney General to this subrecipient.*

## **Audit Scope**

Our audit primarily focused on the federal requirements of the *Child Support Enforcement Program* (CFDA 93.563) and related internal accounting and administrative controls. We gained an understanding of the internal control structure, including the general control environment, as well as controls over receipt and disbursement of child support payments, cash management, federal financial reports, administrative requirements, allowability of costs, and subrecipient monitoring. Specific procedures were used to test compliance with the major federal program. In fiscal year 1994, over \$406.4 million in child support payments were processed through the Child Support Enforcement Trust Fund. Federal expenditures to administer the program totaled \$97.2 million during the same period.