Audit Report

Department of Human Resources
Child Support Enforcement Administration

October 2008

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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October 7, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Child Support Enforcement Administration (CSEA) of the Department of Human Resources for the period beginning March 10, 2004 and ending August 31, 2007.

Our audit disclosed that CSEA needs to continue efforts to ensure that certain available enforcement tools are used to maximize the collection of delinquent child support. According to CSEA records, as of September 30, 2007, unpaid child support totaled approximately $1.57 billion. CSEA did not request State licensing authorities (such as the Department of Health and Mental Hygiene) to suspend occupational licenses of delinquent obligors as permitted and did not fully use available automated techniques to identify and seize funds in bank accounts of delinquent obligors.

In addition, CSEA needs to improve its monitoring of the account collection activities of the local child support offices and the private contractor that performs these functions in two jurisdictions. For example, CSEA did not ensure that the local offices were following up on reports of obligors with missing social security numbers, which hinders the effectiveness of automated collection tools. Also, insufficient collection efforts were identified at certain jurisdictions.

Our audit also disclosed that child support payments in excess of $300,000 were made to deceased individuals for extended periods because CSEA lacked a comprehensive process to detect such payments. We also noted that funds in excess of $1 million that had not been disbursed for over four years were not submitted to the Comptroller of the Treasury as abandoned property, as required. In addition, CSEA did not determine the appropriateness of retaining certain funds transferred from a local child support office's bank account that had not been used for over seven years.

Finally, internal control and procedural deficiencies existed in several areas including cash receipts and access to the automated Child Support Enforcement System.

In our preceding audit report dated May 17, 2005, we reported that CSEA's accountability and compliance level was unsatisfactory in accordance with the rating system we established in conformity with State law. Based on the results of this audit, we have concluded that CSEA has improved its fiscal and compliance operations and, accordingly, CSEA's accountability and compliance level is no longer unsatisfactory.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

Executive Summary 5

Background Information 7
Agency Responsibilities 7
Status of Findings From Preceding Audit Report 8

Findings and Recommendations 9

Enforcement Procedures
Finding 1 – CSEA Did Not Request Licensing Authorities to Suspend Occupational Licenses and the State Lottery Match Was Not Always Effective 9
* Finding 2 – Social Security Numbers of Obligors Were Not Always Obtained and Recorded in the Automated Child Support System 10
* Finding 3 – Seizure of Delinquent Obligor Bank Accounts Was Not Effectively Used as a Collection Tool 11
Finding 4 – Documentation of Enforcement of Medical Support Orders Was Lacking 12
* Finding 5 – Driver's License Suspension Referrals Rejected by MVA Were Not Adequately Investigated 13
* Finding 6 – CSEA Did Not Ensure That a Local Office's Follow-up with Delinquent Obligors Was Timely 14

Payments to Deceased Individuals
Finding 7 – Effective Procedures Were Not In Place to Detect Child Support Payments Being Issued to Deceased Individuals 15

Undisbursed Funds
* Finding 8 – Undisbursed Funds Were Not Sent to the Comptroller of the Treasury as Required by Law 16

* **Denotes item repeated in full or part from preceding audit report**

Bank Accounts

Finding 9 – CSEA Did Not Analyze the Proper Disposition of $2.4 Million That Was Transferred to Its Central Bank Account from a Local Child Support Office Account 16

Finding 10 – CSEA Was Unable to Substantiate the Propriety of an $825,000 Reconciling Adjustment 17

Cash Receipts

* Finding 11 – CSEA Could Not Document That Adequate Controls Were Established by the Central Receipt and Processing Contractor 18

Contracts

* Finding 12 – CSEA Did Not Verify Billings or Take Appropriate Action When Contractors Were Not Performing in Accordance with Established Goals 19

Finding 13 – CSEA Did Not Take Sufficient Actions to Address Contractor Noncompliance with Certain Contract Requirements 20

Automated Child Support Enforcement System

* Finding 14 – CSEA Had Not Established Adequate Controls to Prevent or Detect Unauthorized Changes to Critical Data 21

Accounts Receivable

* Finding 15 – CSEA Did Not Always Perform Adequate Collection Efforts on Certain Accounts Receivable 22

Audit Scope, Objectives, and Methodology 25

Agency Response Appendix

* **Denotes item repeated in full or part from preceding audit report**

Executive Summary

Legislative Audit Report on the Department of Human Resources
Child Support Enforcement Administration (CSEA)
October 2008

- **CSEA did not use occupational license suspension as an enforcement tool for delinquent child support obligors. Our match of CSEA obligors to 16 licensing units identified 5,283 individuals with occupational licenses that owed child support payments totaling $47 million.**

  CSEA should use information from other State agencies to maximize collections.

- **CSEA did not take all appropriate actions to obtain valid social security numbers and record the numbers in the automated records for each obligor. Valid social security numbers are essential for collection and enforcement efforts and are used to help identify obligors in various automated processes, such as the identification of delinquent obligor's wages which could be withheld.**

  CSEA should ensure that social security numbers are obtained and recorded in the automated records for each obligor.

- **CSEA did not fully use available automated techniques to identify and seize certain obligor bank accounts to satisfy unpaid child support balances. For example, effective July 2005, CSEA ceased identifying obligor bank accounts in Maryland-chartered financial institutions. Consequently, obligor bank accounts in the over 200 Maryland-chartered financial institutions were not subject to seizure.**

  CSEA should use automated procedures to identify and seize obligor bank accounts to satisfy unpaid child support balances.

- **CSEA did not always document enforcement of medical support court orders. For example, our test of 10 cases where court orders required the non-custodial parent to provide medical support found in 7 cases that, although CSEA was required by law to issue medical support orders and CSEA was aware of the non-custodial parents' employers, there was no documentation that CSEA issued medical support orders to the employers.**

CSEA should comply with the law to enforce and accurately record medical support orders.

- **CSEA did not adequately investigate driver's license suspension referrals rejected by the Motor Vehicle Administration (MVA) due to system edits. There were 14,751 rejected referrals during fiscal year 2007.**

  CSEA should adequately investigate driver's license suspension referrals that were rejected by the MVA.

- **CSEA did not have effective procedures to detect child support payments that were issued to deceased individuals, who were generally custodial parents. In this regard, we matched CSEA's file of payments to death records maintained by the Division of Vital Records of the Department of Health and Mental Hygiene. This match disclosed payments totaling $331,972 during fiscal years 2006 and 2007 to 576 deceased individuals 30 days or more after the payee's date of death.**

  CSEA should conduct periodic computer matches to detect child support payments that are being issued to deceased individuals.

- **CSEA did not forward certain undisbursed funds to the Comptroller of the Treasury as required by State law. As of August 2007, CSEA was holding $1.1 million in undisbursed funds that had been collected over four years ago.**

  CSEA should identify and forward funds to the Comptroller of the Treasury as required by State law.

- **CSEA did not analyze the proper disposition of $2.4 million that was transferred from a local child support office bank account to its central disbursements account.**

  CSEA should conduct an analysis to determine the proper disposition of the funds.

- **Control deficiencies were noted with respect to various areas of CSEA's operations, including cash receipts, contracts, the Child Support Enforcement System, and accounts receivable.**

  CSEA should take the recommended actions to improve control in these areas.

Background Information

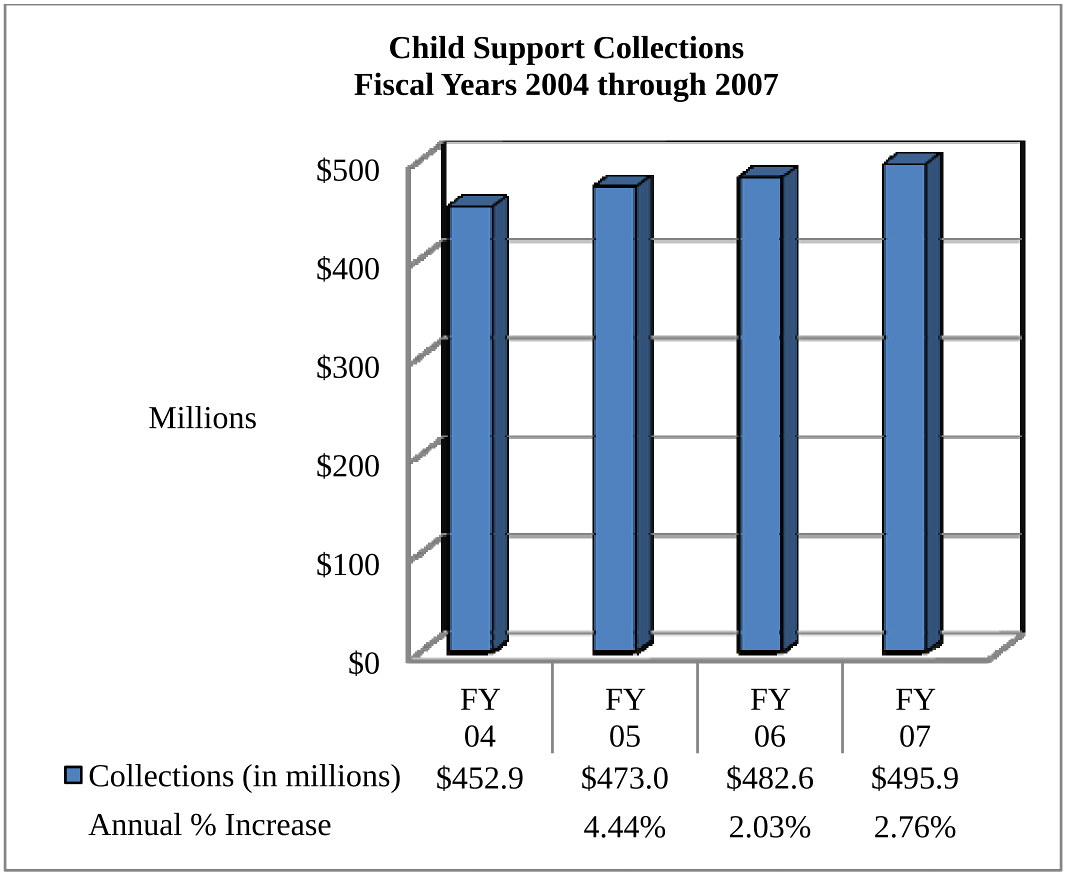
Agency Responsibilities

The Child Support Enforcement Administration (CSEA) is responsible for operating a statewide child support program, which includes the establishment of paternity and child support orders, the collection of support payments, and the distribution of such funds. CSEA distributes funds to the custodial parents unless the custodial parents are receiving benefits under the Temporary Cash Assistance (TCA) program administered by the Department of Human Resources. In these situations, the State and federal governments receive most of the funds. CSEA also helps custodial parents enforce the legal child support obligations of absent parents.

Local offices, other state and local government agencies (for example, State's Attorney's Offices), and a private contractor (in Baltimore City and Queen Anne's County) perform child support services. In addition, CSEA uses the services of a vendor to centrally receive and process incoming child support payments.

CSEA's Child Support Enforcement System (CSES) is used to record child support case information, including enforcement efforts, and to account for the collection and subsequent distribution of support payments. CSES also provides financial and statistical data for management oversight purposes, and has certain automated enforcement features to aid in the collection function.

According to CSEA records, during fiscal year 2007, the statewide child support collections totaled $495.9 million, of which $10.7 million was applicable to TCA clients. As of September 30, 2007, the statewide unpaid child support due from absent parents totaled approximately $1.57 billion and related to 195,256 cases, according to CSEA records. According to the State's records, during fiscal year 2007, CSEA's operating expenditures totaled approximately $81.6 million.



Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 21 findings contained in our preceding audit report dated May 17, 2005. We determined that CSEA satisfactorily addressed 11 of these findings. The remaining 10 findings are repeated in this report as 9 items.

In our preceding audit report, we reported that CSEA's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Based on the results of this audit, we have concluded that CSEA has improved its fiscal compliance operations and accordingly, CSEA's accountability and compliance level is no longer unsatisfactory. Although this audit report contains a number of findings that were also commented upon in preceding report, CSEA had improved its operations in many of these areas.

Findings and Recommendations

Enforcement Procedures

Finding 1
The Child Support Enforcement Administration (CSEA) did not request State licensing authorities to suspend occupational licenses of delinquent obligors and CSEA's match with the State Lottery Agency was not always effective.

Analysis
CSEA did not use all available enforcement tools to help make collections from delinquent child support obligors. Specifically, as permitted by State law, CSEA did not use occupational license suspension as an enforcement tool for delinquent child support obligors. State law requires 14 State licensing authorities, such as the Department of Health and Mental Hygiene (DHMH) and the Maryland State Department of Education, to suspend occupational licenses of delinquent obligors upon requests from CSEA.

To determine the potential impact of this unused enforcement tool, we obtained lists of licensed individuals from 16 licensing units within 8 licensing authorities (such as the State Board of Nursing within DHMH) and matched the lists to CSEA's file of obligors with arrearage balances as of September 2007. This match identified 5,283 individuals with occupational licenses that owed delinquent child support payments totaling $47 million. Our test of 20 of these individuals revealed that 11 individuals had not made any recent payments and had delinquent child support totaling $206,147 that were in arrears for more than 120 days. The remaining 9 individuals were making some payments.

Additionally, CSEA did not report all individuals who owed child support to the Maryland State Lottery Agency (MSLA) for purposes of intercepting any lottery winnings, as allowed by State law. Consequently, certain individuals who owed child support frequently did not have their winnings intercepted. We obtained a file of CSEA obligors as of April 2008 and matched it to a file from MSLA of winners from January 2005 through February 2008 to identify individuals who owed child support and who won lottery prizes. This match produced a list of 625 individuals. Although it is possible that not all 625 of these individuals had an outstanding child support obligation as of the date they had lottery winnings, we tested 11 individuals, who owed a total of $244,000 in child support. While these individuals had outstanding child support obligations at the time they had lottery winnings, we were advised by CSEA personnel that none of those individuals had their lottery winnings, which totaled $29,100, intercepted because of problems with the referrals to MSLA. The Family Law Article of the Annotated Code of Maryland states that CSEA may certify to MSLA obligors in arrears in the amount of $150 or more. The law further states that MSLA is required to withhold lottery winnings of these obligors and pay it toward the obligors' support arrearage. CSEA management advised that approximately $192,000 was collected through MSLA during calendar year 2007.

Recommendation 1
We recommend that CSEA work with other State agencies to effectively use collection methods authorized by State law.

Finding 2
CSEA did not take all appropriate action to ensure that valid social security numbers of obligors were obtained and, when obtained, did not always record the numbers in the automated child support system.

Analysis
CSEA did not take all appropriate action to ensure that valid social security numbers (SSNs) were obtained and recorded in the automated records for each obligor. According to federal regulations, valid SSNs are a required element of CSEA's automated Child Support Enforcement System (CSES) and are used by CSEA to help identify obligors in various automated processes, such as the identification of delinquent obligor's wages which could be withheld. To help ensure the existence of a valid SSN for each obligor, CSEA periodically generated from CSES a report of obligors without SSNs, which was to be reviewed and investigated by each local child support office to determine if a valid SSN could be obtained. However, we found that CSES did not have a process to ensure that these reports were appropriately acted upon. For example, as of December 2007, one local office only investigated 6 percent of the 1,662 obligors on a February 2007 report of obligors without social security numbers. Furthermore, our review of the manual case files for 30 uninvestigated cases on this report, found that 10 of the files contained the obligors' SSNs, but the local office had not recorded the numbers in CSES.

CSEA also did not have a process in place to ensure the accuracy of SSNs recorded in CSES. We tested existing SSNs recorded in CSES for validity and from our review of 30 judgmentally-selected SSNs (SSNs for obligors for whom wage withholding had not occurred), determined that 5 were incorrect according to the federal Social Security Administration.

Similar conditions regarding missing SSNs have been commented upon in our two preceding audit reports.

Recommendation 2
We again recommend that CSEA ensure that valid social security numbers are obtained and recorded for obligors, and that all investigative efforts to obtain SSNs be documented. We also again recommend that CSEA monitor the local child support offices to ensure that the manual case files are reviewed for all cases lacking social security numbers in CSES to ensure that all social security numbers reported to CSEA have been recorded. Finally, we recommend that CSEA develop a process to periodically match the SSNs recorded on CSES with those of the federal government.

Finding 3
Seizure of delinquent obligor bank accounts was not effectively used as a collection tool.

Analysis
CSEA was not identifying or seizing certain obligor bank accounts to satisfy unpaid child support balances. State and federal laws require financial institutions to participate in a process to identify funds owned by obligors with unpaid child support balances. State law further states that CSEA may institute action to seize the funds identified through this process. Matches between delinquent obligors' and account holders' information (supplied by financial institutions) should be forwarded to state child support agencies for follow up. Since October 2002, State law has allowed CSEA to seize such accounts directly without court action. Although the federal child support agency is responsible for periodic matches of obligors and related accounts in federally-charted financial institutions and CSEA may institute action to seize these accounts, CSEA is responsible for identifying obligor accounts in the approximately 230 Maryland-charted financial institutions. CSEA previously had contracted with a vendor to perform matches to identify obligors with accounts at Maryland-chartered banks. However, since the expiration of the contract in July 2005, no such matches have been performed, and CSEA could not adequately explain why the matches were not reinstituted.

Furthermore, our test of 10 obligors with delinquent child support balances and with funds in federally-chartered bank accounts according to the match performed by the federal child support agency disclosed that accounts from 6 individuals with funds available for seizure totaling $139,403 were not seized by CSEA. CSEA could not provide documentation regarding why the bank account information had not been used. A similar condition was commented upon in our preceding audit report.

Recommendation 3
We again recommend that CSEA ensure that delinquent obligor's bank accounts are seized to the extent possible. Specifically, we recommend that CSEA re-institute automated procedures to ensure that obligors with Maryland-chartered bank accounts are identified. We also recommend that the results of all matches of delinquent obligors to bank accounts are used to seize assets.

Finding 4
CSES did not always adequately document enforcement of medical support orders.

Analysis
CSEA did not always document compliance with the law requiring enforcement of medical support court orders. Additionally, our review of certain case records disclosed instances where available documentation did not support the existence of medical benefits as was recorded on CSES. Court-issued child support orders frequently require non-custodial parents to provide health insurance for their children. Based on information reported by CSEA to the federal government, for fiscal year 2007, there were approximately 93,000 cases open in which medical support was ordered. In such cases, the law requires CSEA to notify the non-custodial parents' employers of the support order, and the employer is required to add the non-custodial parents' children to employer provided health insurance. CSEA's policies require documentation of the employer notification and of the insurance being provided (for example, insurer's name and policy number).

Using court-issued child support orders, we selected 10 cases where court orders required the non-custodial parent to provide medical support. In seven cases, there was no documentation (such as a notation in the automated case file) that CSEA informed the non-custodial parents' employer of record of the court order as required. Furthermore, in seven cases (including six of the aforementioned seven), CSES reflected that medical support was being provided, although the required insurance documentation was missing from the case file. In those cases, since CSES noted medical support was being provided, the system did not prompt caseworkers to take any additional action to enforce medical support orders.

Recommendation 4
We recommend that CSEA establish procedures to ensure that notification of medical support orders are issued to employers, as required by law, and that appropriate documentation of medical support provided is obtained and accurately recorded in CSES.

Finding 5
CSEA did not adequately investigate driver's license suspension referrals rejected by the Motor Vehicle Administration (MVA) due to system edits.

Analysis
CSEA did not adequately investigate driver's license suspension referrals rejected by the MVA due to system edits. There were 14,751 rejected referrals during fiscal year 2007. These referrals, which could include multiple referrals for a single individual, were rejected as a result of system edits designed to detect, for example, misspelled names. When the referrals were rejected, the MVA provided CSEA with possible matches (that is, individuals with the same or similar names, individuals with the same birth dates). Although CSEA's policy was to follow up on these matches, we were advised by CSEA management that many matches were not pursued.

We tested 14 rejected referrals of obligors with significant outstanding child support. For nine obligors, owing $120,000 in child support, CSEA did not investigate the rejected referral even though they were identified as possible matches by MVA. In all nine cases, the obligor's social security number, date of birth, and first and last name recorded in CSES all agreed with MVA's records. The referrals were apparently rejected because of insignificant differences between the two agencies' records (such as missing middle name on CSEA's records) and, since the referrals were not re-submitted to MVA, the licenses were not suspended. Consequently, if these were the same individuals, the driver's licenses of these nine obligors owing $120,000 in child support should have been subject to suspension.

CSEA has a Driver's License Suspension Program that generally provides for the suspension of obligors' driver's licenses by MVA when the obligors are at least 60 days delinquent in their child support payments. After automated notification by CSEA of delinquent obligors, the MVA should issue a suspension notice to the obligor. If the debt is not subsequently paid, the MVA should suspend the obligor's Maryland driver's license.

According to CSEA's records, during fiscal year 2007, collections from obligors with suspended licenses totaled approximated $24 million. During fiscal year 2007, 26,829 licenses were suspended under this Program.

We were advised by CSEA management that, in November 2007, improvements to the match with MVA records were implemented, including matching social security numbers on both sets of records. As a result, CSEA is anticipating that there will be less rejected referrals.

A similar comment was included in our preceding two audit reports.

Recommendation 5
We again recommend that CSEA initiate a timely follow-up process for all cases returned by the MVA due to system edits, where MVA has identified possible matches.

Finding 6
CSEA did not ensure that a local office performed timely follow-up of delinquent accounts.

Analysis
CSEA did not ensure that delinquent child support accounts were subject to timely required enforcement measures at the one large State-operated local office tested. We tested cases with delinquent balances at one State-operated local office which, according to CSEA records, accounted for 36 percent of the $899 million in the past due child support owed as of September 30, 2007 in the 22 State-operated jurisdictions. (The child support operations at the two remaining jurisdictions are operated by a contractor.) Our tests of 20 cases with delinquent balances totaling $293,000 disclosed that, for 9 cases with balances totaling $108,000, the case managers did not initiate documented follow-up with the obligors within 30 days of the accounts becoming delinquent, as required by State and federal regulations. Rather, delays in performing appropriate follow-up action (such as contacting the obligor or referring the obligors to the courts) for these 9 cases ranged from 47 to 102 days (or from 17 to 72 days beyond the 30-day requirement). While this condition has been commented upon in our two preceding audit reports, we noted significant improvement in comparison to our preceding report. For example, we noted in our preceding report that delays in performing appropriate follow-up actions ranged from five months to more that three years.

Recommendation 6
We again recommend that CSEA establish a process to ensure that local offices comply with the regulations requiring timely follow-up with delinquent obligors.

Payments to Deceased Individuals

Finding 7
Effective procedures were not in place to detect child support payments that were issued to deceased individuals. Payments totaling more than $300,000 were issued to deceased individuals during fiscal years 2006 and 2007.

Analysis
CSEA did not have effective procedures to detect child support payments that were issued to deceased individuals, who had generally been custodial parents. We were advised that under current procedures case workers relied on notifications from sources associated with the deceased payee, such as the non-custodial parent, to update CSES and stop the payments. However, rather than rely on this notification process, we identified a potential automated process that would be available to CSEA to detect the issuance of these payments and allow CSEA to take more timely action.

Specifically, we matched CSEA's payments file to death records maintained by DHMH's Division of Vital Records (records that DHMH advised are available to CSEA). This match disclosed payments totaling $333,972 during fiscal years 2006 and 2007 to 576 individuals 30 or more days after the payee's date of death. We reviewed payments to 20 of these individuals and found that checks totaling $152,000 to 13 of the individuals were negotiated by unknown individuals from 12 to 96 months after the payee's date of death. In the other 7 cases, the checks generated by CSEA had not been cashed. We also noted that, in 9 of the 13 cases, there was evidence (such as calls from relatives) in the CSES automated case file that the custodial parent had died, but no action was taken to stop the payments to the deceased individuals.

After its review of the 20 cases, CSEA maintained that the checks to the deceased individuals were cashed by appropriate individuals (such as subsequent care takers). However, CSEA lacked evidence that the checks were cashed by individuals who were entitled to the payments.

Recommendation 7
We recommend that CSEA periodically (for example, quarterly) match its records of payees to the Division of Vital Records' death records and cease payments to all identified deceased individuals. We also recommend that CSEA thoroughly investigate instances in which payments were made to deceased individuals and confer with the Office of the Attorney General to

determine what action, if any, should be taken against individuals who cashed State-issued child support checks that were payable to deceased individuals.

Undisbursed Funds

Finding 8
CSEA did not forward funds totaling $1.1 million that were undisbursed for over four years to the Comptroller of the Treasury, as required by State law.

Analysis
CSEA did not send undisbursed funds to the Comptroller of the Treasury, as required by State law. As of August 2007, CSEA was holding approximately $1.1 million in undisbursed funds originally collected over four years ago. Undisbursed funds occur for several reasons, such as when a child support check, representing funds collected from the obligor, is returned to CSEA because the custodial parent moved without providing a forwarding address. According to State law, undisbursed funds that have been outstanding for more than three years should be remitted to the Comptroller of the Treasury as abandoned property and are subject to transfer to the State's General Fund. From fiscal year 2004 to fiscal year 2007, CSEA forwarded funds totaling $306,000 to the State Comptroller. A similar situation was commented on in our preceding audit report.

Recommendation 8
We again recommend that CSEA promptly identify and forward funds representing abandoned property (that is, that have been outstanding for more than three years) to the Comptroller of the Treasury.

Bank Accounts

Finding 9
CSEA did not analyze the proper distribution of $2.4 million that was transferred to its central bank account from a local child support office account.

Analysis
CSEA did not analyze the proper distribution of certain undisbursed funds collected by one local child support office. Specifically, the propriety of retaining $2.4 million that were transferred from a bank account for undisbursed funds

collected by the local child support office prior to 2000 to CSEA's central disbursement account could not be substantiated. In February 2006, CSEA transferred $2.4 million from the bank account containing prior collections of the local office to CSEA's central disbursement account. We were advised by CSEA management that this transfer was justified since subsequent to 1997, disbursements that related to receipts from the local office's account were made from the central disbursement account (even though the local account also included collections from 1998 to 2000).

Neither CSEA nor the local office had readily obtainable records of the detail transactions making up the $2.4 million balance. Furthermore, CSEA did not have any records indicating the extent of disbursements from the central disbursement account made on behalf of local office, nor did CSEA determine whether there was a corresponding cash shortage in the central account before making the transfer. Consequently, it is possible that a portion (or all) of the funds that were transferred to the central disbursement account may not have been previously disbursed from the central disbursement account and, without a composition of the cash balance, there is no assurance that the funds should be retained in the central account. Instead, these funds could be abandoned property and, if so, should be forwarded to the State Comptroller.

Recommendation 9
We recommend that CSEA analyze the specific relationship between the transferred funds and prior payments from the central disbursement account and determine the proper disposition of the funds.

Finding 10
CSEA was unable to substantiate the propriety of an $825,000 bank reconciling adjustment.

Analysis
CSEA was unable to substantiate $825,000 of a $2.1 million reduction to its records of the cash in the central disbursement account. In our preceding audit report, we commented upon CSEA's failure to reconcile its central disbursement account. Our February 22, 2006 follow-up to that report stated that, to bring its records into agreement with the bank's records, CSEA reduced the cash balance on its records by $2.1 million without investigating the reason(s) for the difference.

As a result of our follow-up review, the fiscal year 2007 budget bill withheld $1 million from CSEA's appropriation until CSEA reported to the budget committees on the resolution of the funds. CSEA explained in an October 2006 report to the budget committees that it had resolved the reasons for the reconciling adjustment, and the $1 million appropriation was released. However, our current audit disclosed that, although CSEA subsequently obtained adequate support for approximately $1.3 million of the $2.1 million reduction, it did not have documentation to support the remaining $825,000 of the adjustment.

Recommendation 10
We recommend that CSEA investigate the propriety of the remaining $825,000 adjustment and advise the General Assembly of the results.

Cash Receipts

Finding 11
CSEA could not document it had adequately monitored the contractor that centrally received and processed child support collections.

Analysis
There was insufficient documentation evidencing that CSEA monitored the contractor that centrally received and processed child support collections to determine if the contractor had established adequate controls as required by the contract. While the CSEA employee who was responsible for monitoring the contractor advised us that he observed the contractor's procedures daily, the results of these observations were not documented. A similar condition has been commented upon in our preceding two audit reports.

According to the contract, CSEA is to conduct periodic reviews of the contractor's operations (including processing controls) and contract deliverables to ensure compliance with contract outcomes, federal and state law, and state policy and procedures. Although certain monitoring of deliverables was performed and documented, as a result of the aforementioned conditions, there was a lack of assurance that all receipts were deposited into CSEA's account. Reviews of the contractor's controls are important since, according to CSEA's records, the contractor processed collections totaling approximately $414 million during fiscal year 2007.

CSEA contracted with a company to centrally receive and process incoming child support payments, including related data processing services, for the period from

December 1, 2005 to February 28, 2011 with an option for a two-year extension at a total contract cost of $20.9 million.

Recommendation 11
We again recommend that CSEA perform documented monitoring to ensure that contractor's controls and related procedures are effective and implemented.

Contracts

Finding 12
CSEA did not verify the billings of contract agencies and take appropriate action when these agencies were not performing in accordance with established goals.

Analysis
CSEA did not verify the billings of local government contract agencies and take appropriate action when the agencies were not performing in accordance with established goals. In this regard, CSEA contracted with 36 government agencies to perform child support services, such as the execution of warrants by local sheriffs. However, CSEA did not obtain documentation (such as invoices, payroll records) to verify the propriety of contract agencies' billings (which were generally on a cost-reimbursement basis). Also, a May 2007 federal report on the review of costs paid to three of these contract agencies for the quarter ending March 31, 2006 concluded that federal costs totaling approximately $28,000 were not properly documented and were disallowed, further highlighting the need for oversight.

Additionally, CSEA did not take appropriate action when contract agencies' performance was significantly below established goals. These actions could include allowable financial penalties of up to ten percent of the amount due the contract agency and/or a reduction in stated goals for future years (with a reduction in contract value) to better match past actual deliverables. We reviewed the established goals and actual performance of five contract agencies that were paid approximately $3.3 million for the period July 1, 2005 to September 30, 2006 and noted that, even though each contract agency's performance was well below the established goals, CSEA did not impose any financial penalties, document why penalties were not imposed, or revise the subsequent contracts to reflect lower goals and payment amounts. For example, one contract agency's goal was to execute 10,880 summons and subpoenas, yet the agency only issued

5,466 summons and subpoenas (approximately 50 percent of the goal). The 36 contract agencies were paid a total of approximately $10 million in fiscal year 2007.

Similar conditions were commented on in our preceding audit report.

Recommendation 12
We again recommend that CSEA verify expenditure data, at least on a test basis, submitted by contract agencies for reimbursement. We also again recommend that CSEA impose financial penalties for non-performance when warranted or document its rationale for not assessing permissible penalties. We also recommend that CSEA establish a process for evaluating annual contract agency performance to identify consistently low performance and to reflect more realistic goals and payment amounts in contracts for future years.

Finding 13
CSEA did not take sufficient actions to ensure the contractor hired to provide child support functions in two local jurisdictions complied with certain contract requirements.

Analysis
CSEA did not take sufficient actions to ensure the contractor hired to provide child support functions in two local jurisdictions complied with certain contract requirements. Although, as required by the contract, the contractor hired a firm to periodically assess its compliance with child support enforcement procedures, CSEA did not ensure appropriate contractor compliance. Specifically, while CSEA did review individual cases of noncompliance, CSEA did not require the contractor to prepare a corrective action plan to address the areas of noncompliance on a systemic basis, nor did the contract provide for the imposition of sanctions for contractor noncompliance. We obtained from CSEA the contract monitor’s quarterly reports for one local office for five quarters in 2006 and 2007, and noted that between 67 percent and 80 percent of cases were deemed noncompliant with CSEA collection policies. For the five quarters, the monitor reviewed 4,513 child support cases and found that adequate collection efforts were taken for only 1,188 of the cases. During federal fiscal years 2005 through 2007, the contractor’s collections for this local office, ranged from $82.2 million to $83.2 million.

The privatization contract was awarded in December 2003 with an initial contract period from January 1, 2004 to March 3, 2008 with two one-year renewal options. The estimated cost to CSEA for the services provided under this contract will be $58.6 million if both renewal options are exercised.

Recommendation 13
We recommend that CSEA determine the reasons for the contractor's inadequate performance regarding collection efforts and take appropriate actions such as requiring the preparation of a corrective action plan and providing for fiscal sanctions for noncompliance with requirements in future contracts.

Automated Child Support Enforcement System (CSES)

Finding 14
CSEA had not established adequate controls to prevent or detect unauthorized changes to critical data in CSES.

Analysis
CSEA had not established adequate controls to prevent or detect unauthorized changes to critical CSES data, such as obligor account balances or addresses of custodial parents. Specifically, we noted the following conditions:

- CSEA did not adequately restrict access to critical system data. Our test of 24 individuals with the capability to modify critical account information disclosed that 12 employees (including 5 who were referred to in our prior audit report) had capabilities they did not need to perform their duties. Unnecessary access to critical data has been commented upon in our five preceding audit reports dating back to December 1992.

- Our test of access capabilities of former employees disclosed that, as of December 2007, access for 9 employees (including 3 that could update CSES records) had not been terminated. These employees left CSEA between 2 and 54 months before December 2007. Furthermore, our test of 5 of the 9 employees disclosed that 2 of those employees' CSES accounts were used 7 and 15 months after their departure from CSEA. However, CSEA was unable to provide us with a report of the transactions processed using these accounts so that we could test the propriety of the transactions.

- Five employees could initiate and process manual refunds without independent supervisory approvals. These employees could also add the names of new individuals to CSES. Refund accounts were generally established to return money to an obligor or to an obligor's spouse from intercepted State income tax refunds. For example, an obligor's current spouse could request recovery of a portion of any intercepted tax refund on a jointly-filed tax return. During calendar year 2007, refunds related to State income taxes totaled $180,000. This improper separation of duties over refunds was commented upon in our two preceding audit reports.

Recommendation 14
We again recommend that CSEA use the available security features to restrict access to critical data to only those employees whose job responsibilities require such capabilities. Furthermore, we recommend that CSEA deactivate CSES user accounts as soon as employees terminate their employment and that CSEA investigate the propriety of transactions processed under accounts of ex-employees. We also again recommend that the same employee not have the capability to both initiate and process manual refunds and that employees involved in the refund process not have the capability to add names to CSES.

Accounts Receivable

Finding 15
CSEA did not always perform adequate collection efforts for funds it was owed related to cancelled federal income tax intercepts.

Analysis
CSEA did not always perform adequate collection efforts for funds it was owed related to cancelled federal income tax intercepts. Specifically, obligors' federal income tax refunds are intercepted and passed on to the custodial parents in payment of delinquent child support. However, under certain conditions (such as an obligor's current spouse is entitled to a portion of a joint tax refund that was intercepted), these intercepts may be subsequently canceled by the federal government even though the intercepted funds have already been passed on to the custodial parents. The federal government will offset (reduce) the amount of subsequent intercepted tax refunds sent to CSEA by the amount of funds returned to obligor spouses, and CSEA will establish an accounts receivable from the obligor to obtain reimbursement. Since these debts are not child support, CSEA must collect the debts using tools available to State agencies, such as sending the delinquent accounts to the State's Central Collection Unit.

Our test of the collection efforts on 16 of these accounts, totaling $39,186, that had been established after a obligor's spousal payment by the IRS, disclosed that 14 accounts, totaling $36,928, were delinquent for periods ranging from 1 to 7 years and had not been submitted to the State's Central Collection Unit. State regulations require that debts owed to the State be referred to the Unit within 75 days of the original demands for payment. As of March 31, 2007, the balance of such accounts over 75 days old was approximately $1.4 million.

A similar comment was included in our preceding audit report.

Recommendation 15
We again recommend that delinquent tax recoupment accounts be forwarded to the State Central Collection Unit, as required.

Audit Scope, Objectives, and Methodology

We have audited the Department of Human Resources - Child Support Enforcement Administration (CSEA) for the period beginning March 10, 2004 and ending August 31, 2007. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine CSEA's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of CSEA's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services provided by the Department of Human Resources – Office of the Secretary. These support services (such as processing of disbursements for operating expenses, maintenance of accounting records, and related fiscal functions) are included within the scope of our audits of the Office of the Secretary.

Our audit also did not include an evaluation of internal controls for federal financial assistance programs and an assessment of CSEA's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including CSEA.

CSEA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect CSEA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules or regulations. Other less significant findings were communicated to CSEA that did not warrant inclusion in this report.

In our preceding audit report, we reported that CSEA's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Our current audit disclosed that CSEA has improved its fiscal and compliance operations and, accordingly, CSEA's accountability and compliance level is no longer unsatisfactory. Our rating conclusion has been made solely pursuant to the aforementioned law and rating guidelines approved by the Joint Audit Committee. The rating process is not a practice prescribed by professional auditing standards.

The response to our findings and recommendations from the Department of Human Resources, on behalf of CSEA, is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.

APPENDIX

State of Maryland
Department of Human Resources

Maryland's Human Services Agency

Martin O'Malley
Governor

Anthony Brown
Lt. Governor

Brenda Donald
Secretary

October 6, 2008

Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Myers:

As requested, enclosed is the Department of Human Resources' Child Support Enforcement Administration's response to the Office of Legislative Audits draft audit report covering the period March 10, 2004 through August 31, 2007.

Our response outlines the current status of the corrective actions implemented by the Child Support Enforcement Administration (CSEA) to resolve deficiencies identified in this report. In addition, to ensure that unresolved deficiencies are corrected as indicated in the response, the Department has in place a process for monthly follow-up on the corrective action activity.

I hope the information provided will prove satisfactory. I assure you that prompt resolution of these findings is being given priority and attention. If you have any additional questions or require additional information, please contact Joseph A. Jackins, Executive Director, Child Support Enforcement Administration at 410-767-7065.

Sincerely,

Brenda Donald

Brenda Donald
Secretary

Enclosure:

Cc: Stacy Rodgers, Deputy Secretary, Program, DHR
Brian Wilbon, Deputy Secretary, Operation, DHR
Joseph A. Jackins, Executive Director, CSEA
Fran Johnson, Director, Office of Direct Services, CSEA
William Johnson, Inspector General, DHR

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Department of Human Resources (DHR)
Child Support Enforcement Administration (CSEA)
Response to the Draft Legislative Audit Report
March 10, 2004 to August 31, 2007

Findings, Recommendations and Responses

Enforcement Procedures

Finding 1
The Child Support Enforcement Administration (CSEA) did not request State licensing authorities to suspend occupational licenses of delinquent obligors and CSEA's match with the State Lottery Agency was not always effective.

Recommendation 1
We recommend that CSEA work with other State agencies to effectively use collection methods authorized by State law.

DHR/CSEA Response:
CSEA agrees with this finding. A system analysis has been completed and determined that some child support accounts were bypassed and excluded during the creation of the file to the MSLA. In addition, it was discovered the field on the tape file was too small and any accumulated arrearages for a non custodial parent that exceeded $99,999.00 was truncated.

On August 22, 2008, Child Information System (CIS) 17565 was migrated and both issues were corrected for lottery selection fix and migration.

CSEA have developed policy and placed into the on-line policy manual to ensure that local child support staff follow-up on suspension requests.

CSEA met with Department of Natural Resources, September 24th to discuss the feasibility of setting up an automated match. Next step will be to schedule a conference call with the IT persons from each Department.

Prior to the end of the year, CSEA will contact some of the boards (i.e. Physicians, Nursing, and Pharmacy) within DHMH to discuss setting up an automated match. The cost effectiveness of matching with other agencies will continue to be evaluated.

(Please see attachment # 1 for CIS lottery selection fix and migration Alert and Policy Update on Business, occupational and Professional License)[1]

[1] **Documents received, but excluded for printing purposes.**

Finding 2
CSEA did not take all appropriate action to ensure that valid social security numbers of obligors were obtained and, when obtained, did not always record the numbers in the automated child support system.

Recommendation 2
We again recommend that CSEA ensure that valid social security numbers are obtained and recorded for obligors, and that all investigative efforts to obtain SSNs be documented. We also again recommend that CSEA monitor the local child support offices to ensure that the manual case files are reviewed for all cases lacking social security numbers in CSES to ensure that all social security numbers reported to CSEA have been recorded. Finally, we recommend that CSEA develop a process to periodically match the SSNs recorded on CSES with those of the federal government.

DHR/CSEA Response:
CSEA agrees with the finding. The Administration will ensure that valid social security numbers are obtained and recorded for the obligors by enhancing its' Policy Manual to include information on (1) how to manage cases with missing social security numbers The instructions will include information on tools and reports available from state and federal resources to assist in obtaining a valid social security number. (2) The enhancement of the Administration's Policy will also instruct on how to document all investigative efforts. A Draft of the Policy will be available by January 2009.

The Administration will continuing the process established in Fiscal Year 2005 of monitoring cases with missing social security numbers. This monitoring process includes (1) Mailing the Quarterly Missing Social Security Report to the local offices for review and work. The next Quarterly Missing Social Security Report is tentatively scheduled for December 2008. (2) The Administration will sample completed cases from the Quarterly Social Security Report to determine if the local child support offices complied with the process and recorded the information into CSES. (3) To strengthen the Administration's monitoring plan, tentatively in January 2009, CSEA will institute quarterly field visits to the four metro offices, (Anne Arundel, Baltimore, Montgomery and Prince George Counties) to review hard copy case files to ensure that Social Security Numbers contained in the hard files are recorded in CSES.

Finally, to ensure that Social Security Numbers recorded in its CSES are validated, in Federal Fiscal Year 2008, the Office of Child Support Enforcement (OCSE) upgraded the Federal Case Registry System which provides proactive verification of Social Security Numbers by sending the information to the Social Security Administration. A release of the upgrades was sent to the states in the Spring of 2008. The Administration will analyze it CSES to identify the system upgrades that are necessary for participation in this new release. (Please see attachment # 2)[1].

Finding 3
Seizure of delinquent obligor bank accounts was not effectively used as a collection tool.

Recommendation 3
We again recommend that CSEA ensure that delinquent obligor's bank accounts are seized to the extent possible. Specifically, we recommend that CSEA re-institute automated procedures to ensure that obligors with Maryland-chartered bank accounts are identified. We also recommend that the results of all matches of delinquent obligors to bank accounts are used to seize assets.

DHR/CSEA Response:
CSEA agrees with the finding. As of September 2008, 123 in-state financial institutions are providing data matches for the Financial Institution Data Match (FIDM) program. CSEA is in the process of expanding the contract to have the vendor assist in the development of an automated administrative process to garnish obligors' financial accounts for unpaid child support. CSEA expects this automated administrative garnishment process to be implemented July 1, 2009. (Please see attachment # 3)[1].

Finding 4
CSES did not always adequately document enforcement of medical support orders.

Recommendation 4
We recommend that CSEA establish procedures to ensure that notification of medical support orders are issued to employers, as required by law, and that appropriate documentation of medical support provided is obtained and accurately recorded in CSES.

[1] **Documents received, but excluded for printing purposes.**

DHR/CSEA Response:
CSEA agrees with the finding. However, enforcing medical support orders has been a challenge for all States, and is only possible when it is determined that employer provided health insurance is available and affordable for the obligated parent. Also, health insurance premiums, could negatively impact the child support payment obligation.

Notwithstanding, CSEA has convened a workgroup in January 2008 to develop a medical support enforcement process. Federal regulations were finalized in July 2008. The following activities are in place:

- CSES system changes will migrate in March 2009.
- Training to be provided to local child support staff on the new process in March 2009.
- Procurement is under way to join consortium for vendor management of National Medical Support Management (NMSM) in December 2008
- Case clean-up to begin in Sate Fiscal Year (SFY) 2010
- An update to the online policy manual in February 2009

Finding 5
CSEA did not adequately investigate driver's license suspension referrals rejected by the Motor Vehicle Administration (MVA) due to system edits.

Recommendation 5
We again recommend that CSEA initiate a timely follow-up process for all cases returned by the MVA due to system edits, where MVA has identified possible matches.

DHR/CSEA Response:
CSEA agrees with this finding. While the Administration believe that the improvement were made in the November 2007 matching criteria to address the recommendation, CSEA is currently exploring the possibility of establishing a process that provides central oversight beyond Quality Control Report Tool.

Finding 6
CSEA did not ensure that a local office performed timely follow-up of delinquent accounts.

Recommendation 6
We again recommend that CSEA establish a process to ensure that local offices comply with the regulations requiring timely follow-up with delinquent obligors.

DHR/CSEA Response:
CSEA disagrees with this finding. The Administration believes that it has met the federal and state requirements, by currently sending a billing notice to the noncustodial parent if the payment is thirty (30) days late ((Please see attachment # 6)[1]. CSEA considers this billing notice as the initial enforcement action and contact with the noncustodial parent.

The Administration does agree that the concept of direct contact with these noncustodial parents is ideal, however, staffing levels at CSEA do not permit, the Agency to adopt such a plan. The Administration is currently conducting an early intervention pilot with some of the local jurisdictions, to help ensure timely payments.

Payments to Deceased Individuals

Finding 7
Effective procedures were not in place to detect child support payments that were issued to deceased individuals. Payments totaling more than $300,000 were issued to deceased individuals during fiscal years 2006 and 2007.

Recommendation 7
We recommend that CSEA periodically (for example, quarterly) match its records of payees to the Division of Vital Records' death records and cease payments to all identified deceased individuals. We also recommend that CSEA thoroughly investigate instances in which payments were made to deceased individuals and confer with the Office of the Attorney General to determine what action, if any, should be taken against individuals who cashed State-issued child support checks that were payable to deceased individuals.

DHR/CSEA Response:
CSEA agrees with this finding. CSEA new drafted policy is currently under review. CSEA will modify the matching process to include matching custodial parents against the file of deceased individuals, received from DVR, when IT resources become available.

On July 25, 2008, CSEA forwarded to the Office of the Inspector General (OIG) for investigation, those cases in which payments were sent to the deceased custodian and the checks were cashed.

On June 17 and September 11, 2008, CSEA requested the advice of the Office of Attorney General in determining what action to be taken, if any, against individuals who cashed State-issued child support checks that were payable to deceased individuals.

[1] **Documents received, but excluded for printing purposes.**

Undisbursed Funds

Finding 8
CSEA did not forward funds totaling $1.1 million that were undisbursed for over four years to the Comptroller of the Treasury, as required by State law.

Recommendation 8
We again recommend that CSEA promptly identify and forward funds representing abandoned property (that is, that have been outstanding for more than three years) to the Comptroller of the Treasury.

DHR/CSEA Response:
CSEA agrees with this finding. An Unclaimed/Abandoned Property Workgroup was formed and a Work Plan was developed to identify and transmit funds that have been outstanding for more than three years to the Comptroller of the Treasury. The workgroup has completed Statewide Standard Operating Procedures (SOPs) for identifying funds that have been outstanding for more than three years and are, therefore, deemed to be unclaimed and could be forwarded to the Comptroller of the Treasury.

System enhancement requirements are in the developmental stages that will modify the CSES to process funds that have been outstanding for more than three years to the Comptroller's Unclaimed Property Unit. The Administration has placed this Information Technology initiative in the queue for development to begin in July 2009, with an anticipated migration of March 2010.

Since FY 2000, CSEA has consistently sent out a Monthly Undistributed Collections (UDC) Report to all the 24 Local Child Support Offices to investigate and process funds that have been outstanding for more than three years but can be identified to a child support case for distribution. As a result of these investigations, CSEA, on an annual basis, forwards funds that are considered undeliverable (money orders, postal orders and other financial instruments that have no proper identification) to the Comptroller's Unclaimed Property Unit.

Bank Accounts

Finding 9
CSEA did not analyze the proper distribution of $2.4 million that was transferred to its central bank account from a local child support office account.

Recommendation 9
We recommend that CSEA analyze the specific relationship between the transferred funds and prior payments from the central disbursement account and determine the proper disposition of the funds.

DHR/CSEA Response:
CSEA agrees with this finding. As noted above, neither the Child Support Enforcement Administration (CSEA) nor the local office has sufficient records of the detailed transactions making up the $2.4 million balance. The bank account housing this money was a separate account for the Baltimore City Office of Child Support Enforcement (BCOSE) and was managed first by Lockheed and second by Maximus Inc.

In 1998 the BCOSE transitioned from a stand alone computer system to the central Child Support Enforcement System (CSES) and all future payments were issued through a centralized State Disbursement Unit bank account. At that time cases were transitioned from the old BCOSE system to the new system (CSES) and cases were being paid out of both systems and both bank accounts. The Administration believes that many cases that were paid through the State Disbursement Unit's central disbursement account should have been funded out of this account. It further believes that since all of the payments relating to the cases handled by Baltimore City have been transitioned to CSES and processed through the central disbursement account since 1998, that the cash in the Baltimore City account should have been moved to the central disbursement account at the time of transition.

The administration does not believe that there are sufficient records to analyze the specific relationship between the transferred funds and prior payments from the central disbursement account. Therefore the Administration plans on taking a more global approach involving the entire central disbursement account and all jurisdictions throughout the state. The plan calls for identifying all payments recorded in CSES that are due customers. These payments are either in the pipeline or remain in the account for a number of different reasons including bad address, stale dated checks, inability to locate the payee, etc. The amount of payments due customers will be compared to the central disbursement bank account balance. Any excess cash will be turned over to abandoned property.

Finding 10
CSEA was unable to substantiate the propriety of an $825,000 bank reconciling adjustment.

Recommendation 10
We recommend that CSEA investigate the propriety of the remaining $825,000 adjustment and advise the General Assembly of the results.

DHR/CSEA Response:
CSEA agrees with this finding, however, the Administration has since obtained all the supporting bank records to document the $824,813.38 that were stopped and cancelled by both Wachovia Bank and Bank of America from October 2002 to April 2003 the Bank.

The attached bank records provide the break down of the $825,000 adjustment in the General ledger: From October 2002 to December 2002 the amount of cancelled checks by Wachovia Bank was $433,834.66 (see attached bank records). From October 2002 to December 2002 the amount of checks stopped by Wachovia Bank was $72,260.51 (see attached bank records). From October 2002 to April 2003 the amount of checks cancelled by Bank of America for Wachovia Bank was $29,054.10 (see attached bank records). From October 2002 to April 2003 the amount of checks stopped by Bank of America was $290,050.39 (see attached bank records). Thus, the documentation from the financial institutions verifies the remaining adjustment of $825,205.66, a variance of $392.28. (Please see attachment # 10)[1].

Cash Receipts

Finding 11
CSEA could not document it had adequately monitored the contractor that centrally received and processed child support collections.

Recommendation 11
We again recommend that CSEA perform documented monitoring to ensure that contractor's controls and related procedures are effective and implemented.

DHR/CSEA Response:
CSEA agrees with this finding. Contractor Performance Evaluation was performed in June 2008. After June 2008 the Contractor Performance Evaluation will be performed every six months, then annually after two acceptable reviews after the first review as required by the contract.

A review and analysis of the current contract monitoring plan has been completed. In December 2007 standard operating procedures for the vendor's processes had been developed and implemented. A standard monitoring form for each of the processes was implemented at the same time. Currently MD SDU Contract Monitoring Unit (CMU) staff are completing the monitoring form and reporting both compliance and non-compliance issues.

[1] **Documents received, but excluded for printing purposes.**

A Contract Monitoring Report has been developed and prepared for the quarters ending 12/31/07 & 3/31/08, and 6/30/08. This report presents data on general information, modification, financial data, contractor data, insurance and other requirements, bond, and an overview of vendor performance of contract functions. (Please see attachment # 11)[1].

Contracts

Finding 12
CSEA did not verify the billings of contract agencies and take appropriate action when these agencies were not performing in accordance with established goals.

Recommendation 12
We again recommend that CSEA verify expenditure data, at least on a test basis, submitted by contract agencies for reimbursement. We also again recommend that CSEA impose financial penalties for non-performance when warranted or document its rationale for not assessing permissible penalties. We also recommend that CSEA establish a process for evaluating annual contract agency performance to identify consistently low performance and to reflect more realistic goals and payment amounts in contracts for future years.

DHR/CSEA Response:
CSEA agrees with the finding. However, as of October 1, 2007, the Administration has implemented corrective actions to address the issue of not verifying the billing of contract agencies. Standard Operating Procedures (SOPs) have been developed that require the CRA Agency to attach invoices, purchase orders and other relevant purchase receipts to support equipment expenditures claimed on the invoices. The SOP requires the CRA Agency to provide time sheets and/or employees' paystubs to support wages, salaries and fringe benefits. Also, the SOP requires the CRA Agency to provide supporting documents for travel, supplies and miscellaneous expenditures.

Additionally, the SOP requires that the contract manager must validate the Sheriff's Fee for Service or Combination CRAs' summonses and warrants by using the Quarterly Sheriff's Statistical Report that are generated by the Child Support Enforcement System (CSES).

However, CSEA disagrees with the recommendation to impose **financial penalties when warranted or document the justification for not assessing penalties.** The contract language of the 2006/2007 Cooperative Reimbursement Agreement Terms and Conditions about the conditions for imposing has been revised to provide the necessary clarity.

[1] **Documents received, but excluded for printing purposes.**

CSEA has established and implemented the following procedures to conduct and monitor the CRA contracts through the use of Contract Monitoring Reports (CMR), Corrective Action Requests (CAR) and the associated Corrective Action Plans (CAP), to resolve the finding. At the end of a quarter CSD prepares a Contract Monitoring Report to inform the agency of their performance results. If performance issues arise the report becomes a Corrective Action Request asking the agency to provide an explanation for their performance and a Corrective Action Plan on how they plan to correct the problem and get their production back on track. The agency then performs the analysis and responds with their plans. The Contract Manager reviews the plans and either approves the plans or works with the agency to improve the plans. The resultant outcome is that performance improves to bring the agency into compliance. For the FFY 2009 contract year CSEA has also implemented a CSA Local Liaison position to act as an intermediary in negotiations for services and goal establishment to help insure goals are realistic in view of the needs and expectations of the local office.

CSEA also disagrees with the recommendation to modify the contracts to allow the imposition of progressive **financial penalties commensurate with the level of non-performance. Penalties of this type of contract are not addressed in 45 CFR, Annotated Code of Maryland nor COMAR Title 21.** These Agreements are expressly exempt from COMAR Title 21. Additionally, the issue of performance bonding and retainage is not addressed in reference to Intergovernmental Contracts. However, CSEA has changed the language in the FFY 2009 to provide a fair "Due Process" for the withholding of payments should CSEA deem them necessary. It should be noted that the above referenced "CAP" process recognizes that there are legitimate, unforeseen reasons for not achieving goals. The auditor provided one such example in stating; "**For example, one contract agency's goal was to execute 10,880 summons and subpoenas, yet the agency only issued 5,466 summons and subpoenas (approximately 50 percent of the goal)." The statistic quoted was from a jurisdiction that only received about 8,800 subpoenas during the course of that year. That would make a goal of 10,880 impossible to reach. Goals were established during this period by applying a formula to two quarters' performance figures of the prior year. The liaison process referenced above should make goals more appropriate to the real situations in each local jurisdiction.**

These are Intergovernmental Cooperative Reimbursement Agreement Contracts whose intent is to make Federal funding available to State & Local partner agencies to help defray the cost of performing duties they are mandated to perform with or without the benefit of these contracts. We only reimburse the agency the Federal part of the cost of rendering a service. (Please see attachment # 12)[1].

[1] **Documents received, but excluded for printing purposes.**

Finding 13
CSEA did not take sufficient actions to ensure the contractor hired to provide child support functions in two local jurisdictions complied with certain contract requirements.

Recommendation 13
We recommend that CSEA determine the reasons for the contractor's inadequate performance regarding collection efforts and take appropriate actions such as requiring the preparation of a corrective action plan and providing for fiscal sanctions for noncompliance with requirements in future contracts.

DHR/CSEA Response:
CSEA agrees with this finding, however offers the following considerations.
CSEA has reviewed all performance requirements/functions of the contractor. The requirements in question were established as part of the quality assurance review at the outset of the contract. This quality assurance review focuses on "operational processes" as opposed to the contractor's overall "outcomes". CSEA acknowledges the importance of the quality assurance review process. However, in determining the contractor's effectiveness consideration must be given to the contractor's overall performance.

Since the inception of the contract in 2003 the contractor has consistently exceeded the annual collection goals of the contract by an average of 6%, an increase in total collections from $60.03 million to $86.1 million in Baltimore City; from $2.2 million to $3.6 million in Queen Anne's County. The Contractor has also met or exceeded three of the four Federal performance measurement goals as established within the contract.

To address the audit finding CSEA will work closely with the contractor to assess the appropriateness of the current quality assurance review process, review time frames and measures to determine if modifications are needed for better alignment with the overall performance outcomes of the contract. CSEA Executive Director and contract monitoring staff will meet with the PSI leadership immediately to discuss this issue, and determine the most appropriate corrective action; and quarterly to ensure compliance.

Automated Child Support Enforcement System (CSES)

Finding 14
CSEA had not established adequate controls to prevent or detect unauthorized changes to critical data in CSES.

Recommendation 14

We again recommend that CSEA use the available security features to restrict access to critical data to only those employees whose job responsibilities require such capabilities. Furthermore, we recommend that CSEA deactivate CSES user accounts as soon as employees terminate their employment and that CSEA investigate the propriety of transactions processed under accounts of ex-employees. We also again recommend that the same employee not have the capability to both initiate and process manual refunds and that employees involved in the refund process not have the capability to add names to CSES.

DHR/CSEA Response:

The Child Support Enforcement Administration agrees with the finding to restrict employee access to critical data and in December 2008 the Administration will re-establish procedures to conduct periodic reviews of employee system access to ensure that their level of access is limited by their job duties.

The Administration agrees to deactivate the user account identification numbers (ID's) of the eight (8) employees, identified during the audit, who are no longer employed with the CSEA. The Administration has deactivated three (3) of the eight (8) user account ids and the remaining accounts will be removed by December 2008. The Administration conducted a review of the propriety of transactions processed under these accounts and discovered that six (6) of the eight (8) were "view only" access and a review of the remaining two (2) accounts will be completed by November 2008.

The Administration will ensure that the same employee not have the capability to both initiate and process manual refunds and that employees involved in the refund process will not have the capability to add names to CSES. An analysis of the roles for the five (5) employees identified in the audit (four from the Maryland State Disbursement Unit (MD SDU) and one from the Baltimore County Office of Child Support) has been completed. A request to remove the conflicting roles so that staff can not initiate and process manual refunds has been submitted to the Office of Technology for Human Services (OTHS) for all five CSEA staff members.

At the time of the audit a process was being developed at the MD SDU for supervisory review and approval which is now in place. The process requires that all refund transactions are reviewed and approved by the Assistant Director of the MD SDU and, with the removal of conflicting roles from the five identified CSEA employees, now only ACS/vendor staff can process refunds.

Accounts Receivable

Finding 15
CSEA did not always perform adequate collection efforts for funds it was owed related to cancelled federal income tax intercepts.

Recommendation 15
We again recommend that delinquent tax recoupment accounts be forwarded to the State Central Collection Unit, as required.

DHR/CSEA Response:
CSEA agrees with this finding. A review and analysis of the current administrative debt collection process has been completed.

In 10/07 new standard operating procedures were developed and implemented which clarify the processing of all administrative debts (both current and back log) and the collections and debt referral process. This process involves working with the Internal Revenue Service, the Comptroller's Office, and local offices of child support enforcement to clean up this back log. The MD SDU has developed a strong working relationship with CCU is in contact with that office on a regular basis for information, instruction, and guidance.

Administrative debts, both current and back log, are reviewed daily for the proper documentation for referral to CCU. In some cases this involves requesting information or documentation from the IRS, the Comptroller's Office, or the local child support enforcement office. Once this information is received and verified the debt can be referred to ACS, the MD SDU vendor, for processing. Processes have been developed and implemented for referral to CCU for lack of documentation as well as abatement of debts under $30.00.

Since the inception of the new procedures a total of 137 Federal Tax Intercept debts, 76 State Tax Intercept debts, and 470 misapplied debts have been referred to ACS for collection. The debts referred to ACS, as well as administrative debts processed by a CSEA MD SDU staff member, have been processed and a total of $643,905.11 in administrative debt has been acknowledged as referred to CCU. (Please see attachment # 15)[1].

[1] **Documents received, but excluded for printing purposes.**

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