



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General
Office Of Audit Services

Region II
Jacob K. Javits Federal Building
26 Federal Plaza

February 8, 2008 New York, NY 10278

Report Number: A-02-06-02005

Ms. Alisha Griffin
Assistant Director, Division of Family Development
New Jersey Department of Human Services
P.O. Box 716
Trenton, New Jersey 08625-0716

Dear Ms. Griffin:

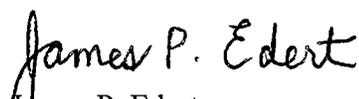
Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Undistributable Child Support Collections in New Jersey From October 1, 1998, Through March 31, 2006." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

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

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact John Madigan, Audit Manager, at (518) 437-9390, extension 224, or through e-mail at John.Madigan@oig.hhs.gov. Please refer to report number A-02-06-02005 in all correspondence.

Sincerely,


James P. Edert
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Clinton McGrane
Grants Officer
Department of Health and Human Services
Administration for Children & Families
26 Federal Plaza, Room 4114
New York, New York 10278

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF UNDISTRIBUTABLE
CHILD SUPPORT COLLECTIONS
IN NEW JERSEY FROM
OCTOBER 1, 1998, THROUGH
MARCH 31, 2006**



Daniel R. Levinson
Inspector General

February 2008
A-02-06-02005

Office of Inspector General

<http://oig.hhs.gov>

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Department of Health and Human Services

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Daniel R. Levinson
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at <http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

The Child Support Enforcement program is a Federal, State, and local partnership established in 1975 under Title IV-D of the Social Security Act to collect child support payments from noncustodial parents for distribution to custodial parents. Within the U.S. Department of Health and Human Services, Administration for Children and Families, the Office of Child Support Enforcement (OCSE) provides Federal oversight. In New Jersey, the Department of Human Services, Division of Family Development (the State agency) administers the child support enforcement program. The State agency and county offices manage child support collection and distribution information using the Automated Child Support Enforcement System (ACSES), which was implemented statewide in 1989.

Undistributable collections result when the State agency receives a child support payment but cannot identify or locate the custodial parent or return the funds to the noncustodial parent. OCSE requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from undistributable child support collections and interest earned on child support collections. OCSE defines undistributable collections as those that are considered abandoned under State law. New Jersey statute states that undistributed collections are presumed abandoned after 1 year. States report to OCSE undistributable collections and program income quarterly on Federal Forms OCSE-34A, "Child Support Enforcement Program Quarterly Report of Collections," and OCSE-396A, "Child Support Enforcement Program Financial Report," respectively. Once the child support payments are considered abandoned, they must be deposited into the Unclaimed Child Support Trust Fund. Federal criteria require these funds be counted as program income and used to reduce Title IV-D program expenditures, which the Federal Government generally reimburses at a rate of 66 percent.

OBJECTIVES

Our objectives were to determine whether the State agency appropriately recognized and reported program income for undistributable child support collections and interest earned on child support collections.

SUMMARY OF FINDINGS

For the period October 1, 1998, through March 31, 2006, the State agency did not recognize or report program income of \$281,990 (\$186,113 Federal share) for undistributable child support collections and related interest. This amount consisted of undistributable child support collections, totaling \$22,122 (\$14,601 Federal share), and interest earned on collections, totaling \$259,868 (\$171,513 Federal share). In addition, during the same period, the State agency did not accurately report undistributable child support collections quarterly on its OCSE-34A to OCSE.

These deficiencies occurred because the State agency did not provide sufficient oversight to ensure that undistributable collections and interest earned on collections were reported as

program income. In addition, the State agency did not verify the child support collection data generated from ACSES when preparing the OCSE 34A report.

RECOMMENDATIONS

We recommend that the State agency:

- report \$281,990 (\$186,113 Federal share) as program income to the Federal Government, and
- provide program oversight and implement procedures and controls to ensure that undistributable collections and interest are identified and accurately reported as program income on Forms OCSE-34A and OCSE 396A.

STATE AGENCY'S COMMENTS

In written comments on our draft report, the State agency concurred with our findings and recommendations. The State agency's comments appear in their entirety as an appendix.

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INTRODUCTION

BACKGROUND

Child Support Enforcement Program

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

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

New Jersey’s Child Support Enforcement Program

In New Jersey, the Department of Human Services, Division of Family Development (the State agency) administers the child support enforcement program. The State agency and county offices manage child support collection and distribution information using the Automated Child Support Enforcement System (ACSES), which was implemented statewide in 1989. Under a cooperative agreement, the New Jersey Administrative Office of the Courts (AOC) processes the State agency’s child support collections. These collections were held in interest- and non-interest-bearing accounts at the State and county level. After one year, pursuant to New Jersey Statutes 46:30B-74(d), abandoned child support payments and accrued interest are transferred to the State Treasurer and deposited into the State’s Unclaimed Child Support Trust Fund.¹

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether the State agency appropriately recognized and reported program income for undistributable child support collections and interest earned on child support collections.

¹Pursuant to New Jersey Statutes 46:30B-74(e)(2), “abandoned child support” means any payments for the support of a child or a child and the custodial parent paid pursuant to a court order that could not be distributed to the payee or returned to the payor within one year of its receipt.

Scope

For the period October 1, 1998, through March 31, 2006, we reviewed \$10,444,166 in undistributed child support collections and interest earned on collections. We were unable to verify that these monies comprised all of the State's undistributed child support collections because the State agency could not provide traceable documentation for all collections made.

We did not review the overall internal control structure of the State agency's operations or financial management. Rather, we evaluated the State agency's controls over undistributable child support collections and interest earned on child support collections.

We performed fieldwork at the State agency's office in Mercerville, NJ; the AOC's offices in Trenton, NJ; and nine county offices² from July 2006 to May 2007.

Methodology

To accomplish our objectives, we:

- reviewed applicable Federal and State laws and regulations;
- reviewed applicable Administration for Children and Families program guidance and policy announcements;
- reviewed State agency and county policies, procedures, and internal controls for recognizing and reporting program income related to undistributable child support collections and interest income earned on program funds;
- compared and reconciled undistributable child support collections data to amounts reported on Forms OCSE-34A and OCSE-396A;
- reviewed data from the nine counties to verify that abandoned child support collections were properly recorded as abandoned property, transferred to the State's Unclaimed Child Support Trust Fund, and reported as program income; and
- determined if interest income earned on child support accounts maintained by the nine counties and the State were reported as program income.

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

²Of the State's 21 counties, these 9 comprised nearly half of the State's child support collections. The nine counties we reviewed were Camden, Cumberland, Essex, Hudson, Mercer, Middlesex, Passaic, Sussex, and Union counties.

FINDINGS AND RECOMMENDATIONS

For the period October 1, 1998, through March 31, 2006, the State agency did not recognize or report program income totaling \$281,990 (\$186,113 Federal share) for undistributable child support collections and interest income earned on child support collections. Specifically, the \$281,990 included:

- \$22,122 (\$14,601 Federal share) for undistributed child support collections, and
- \$259,868 (\$171,513 Federal share) for interest income earned on child support collections.

In addition, during the same period, the State agency did not accurately report undistributable child support collections quarterly on its OCSE-34A to OCSE.

These deficiencies occurred because the State agency did not provide sufficient oversight to ensure that undistributable collections and interest earned were reported as program income, and the State agency did not verify child support collection data generated from ACSES when preparing OCSE-34A reports.

PROGRAM INCOME NOT REPORTED FOR UNDISTRIBUTABLE COLLECTIONS

Federal Requirements

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

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

OCSE-PIQ-90-02 states that: “Every State has statutes and regulations governing the handling of unclaimed or abandoned property left in its care. OCSE-PIQ-88-7 . . . recognizes this fact and encourages each State to utilize these individual State procedures to report undistributable or uncashed title IV-D collections as title IV-D program income.”

Forms OCSE-34A and OCSE-396A require States to report program income for undistributable collections when State law considers them abandoned. Instructions for line 9a of form OCSE-34A define undistributable collections as “[t]he portion of collections reported on Line 9

that, despite numerous attempts, the State has determined it will be unable to distribute in accordance with the provision of Section 457 of the Act and unable to return to the non-custodial parent. Under State law, these amounts are considered to be ‘abandoned property.’”

Undistributable Collections

Pursuant to New Jersey Statutes 46:30B-74(d), all monies received by the State as abandoned child support and the accretions thereon shall be deposited into the State’s Unclaimed Child Support Trust Fund.

Due to minor clerical errors, the State agency did not report \$22,122 (\$14,601 Federal share) of program income in fiscal year 1999 for undistributable child support collections that were held by the State for more than one year.

PROGRAM INCOME NOT REPORTED FOR INTEREST INCOME EARNED ON CHILD SUPPORT COLLECTIONS

Federal Requirements

The OCSE Action Transmittal (AT)-89-16 requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from interest earned on child support collections. Specifically, OCSE-AT-89-16 states: “Although not required by either statute or regulation, many States have chosen to invest or deposit these funds in income-producing accounts. Any amount earned through these activities is considered program income and must be used by States to offset program expenditures.”

OCSE Informational Memorandum (IM) 89-05 encourages States to deposit child support collections in interest-bearing accounts and states: “Child Support Enforcement Agency funds deposited in State or local accounts must have interest accounted for and offset against CSE [Child Support Enforcement] expenditures.”

The OCSE-396A instructions for line 2b, “Interest Earned and Other Program Income . . .,” require that States report:

The total amount of other income to the State used to offset the administrative costs reported on Lines 1a and 1b include: (i) Interest or investment income earned when child support collections, fees or other program income funds are deposited in interest-bearing accounts or used in other investment –type activities; (ii) undistributable child support collections as reported on Line 9a of Form OCSE-34A

Interest Income Earned

The State agency did not report a total of \$259,868 (\$171,513 Federal share) of interest earned on child support collections as program income. This amount includes \$25,732 (\$16,983 Federal share) of county interest income not reported by the State agency and \$234,136 (\$154,530 Federal share) of interest income not reported by four of the nine counties we reviewed, as detailed in the appendix.

In New Jersey, counties report interest income to the State agency on State form WFNJ-215 (Statement of Administrative Account) on a quarterly basis. For four of the nine counties we reviewed, the county did not report interest income from its child support collections account or it reported the interest income on the wrong line of the form WFNJ-215. This occurred because the State agency did not provide sufficient oversight of county offices, which resulted in interest income not being reported to the Federal Government as program income.

INACCURATE REPORTING OF UNDISTRIBUTABLE COLLECTIONS

The State agency underreported its undistributable child support collections by \$1,018,046 on its quarterly OCSE-34As to OCSE during our audit period. For our audit period, the State reported undistributable collections totaling \$934,340 on its quarterly OCSE-34As. However, for the same period, the State reported undistributable collections totaling \$1,952,386 on its OCSE-396As.

The basis of the State's OCSE-34As reports was its ACSES. The basis for the State's OCSE-396As reports was manual reports submitted quarterly by the counties and an annual report submitted by the AOC. The difference of \$1,018,046 was not included on its OCSE-34As because the State used ACSES to automatically generate its OCSE-34A without ensuring the validity of the data reported to OCSE. Despite the reporting error, the understatement on the OCSE-34As did not have a financial impact on Federal funds.

RECOMMENDATIONS

We recommend that the State agency:

- report \$281,990 (\$186,113 Federal share) as program income to the Federal Government and
- provide program oversight and implement procedures and controls to ensure that undistributable collections and interest income are identified and reported as program income on Forms OCSE-34A and OCSE-396A.

STATE AGENCY'S COMMENTS

In its January 29, 2008, comments on our draft report, the State agency concurred with our findings and recommendations. Regarding our first recommendation, the State agency indicated that it will report \$281,990 (\$186,113 Federal share) as program income to the Federal

Government on the OCSE-396A report for the quarter ended March 31, 2008. Regarding our second recommendation, the State agency indicated that it will reissue its policy requiring all interest income earned on child support funds to be reported to the State agency. The State agency further indicated that New Jersey is in the process of developing a new automated system for child support to replace ACSES. Once complete, the new system will generate and validate the amount of undistributable collections reported on Forms OCSE-34A and OCSE-396A.

The State agency's comments appear in their entirety as an appendix.

APPENDIX



State of New Jersey

DEPARTMENT OF HUMAN SERVICES
DIVISION OF FAMILY DEVELOPMENT
PO BOX 716
TRENTON, NJ 08625-0716

JON S. CORZINE
Governor

JENNIFER VELEZ
Commissioner

JEANETTE PAGE-HAWKINS
Director
Tel (609) 588-2000

January 29, 2008

James P. Edert
Regional Inspector General
Jacob K. Javits Federal Building
26 Federal Plaza
New York, New York
10278

Re: Report Number: A-02-06-0225

Dear Mr. Edert,

Enclosed please our responses to the recommendations included in the draft report entitled "Review of Undistributable Child Support Collections in the State of New Jersey for the period October 1, 1998, through March 31, 2006."

Recommendation: State Agency report \$281,990 (\$186,113 Federal Share) as program income to the Federal Government.

Response:

- The Department of Human Services, Division of Family Development concurs with this finding and the \$281,990 (\$186,113 Federal Share) will be reported to the Federal Government on the OCSE-396A report for the quarter ended March 31, 2008.

Recommendation: State Agency provide sufficient oversight over county offices and implement additional controls to ensure that undistributable collections and interest income are identified and reported as program income on Forms OCSE-34A and OCSE 396A.

Response:

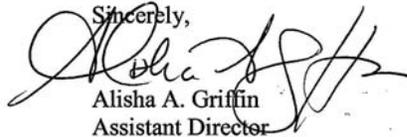
- The Department of Human Services, Division of Family Development will re-issue the policy that states the requirement that all interest income earned on Child Support funds must be reported to the State Agency on WFNJ-215 form

Section E, Line 1b. In addition, we will request that the Department of Human Services, Office of Audit verify that agencies are in compliance with the policy and that the WFNJ-215 Section E Line 1b – Interest on Investments-CSP be verified to the source during their annual audit of each County Welfare Agency (CWA).

- The undistributed collections reported on OCSE-34A, Line 9a is generated from the ACSES automated system. Since the current ACSES automated system is not configured to allow the amount on Line 9a to be validated, New Jersey reports the actual funds escheated to the Department of Treasury on the OCSE-396A Line 2A.
- Currently, New Jersey is in the process of developing a new automated system for child support to replace the existing ACSES. Once completed, the new system, NJKiDS, will generate and validate the amount of undistributable collections determined undistributable and abandoned. Once NJKiDS is completed, New Jersey will use the amount on Line 9a of the OCSE-34A to report program income on the OCSE-396A, Line 2A.

Should you need anything further, please contact Patricia Risch, of my staff at 609-631-2755 or at patricia.risch@dhs.state.nj.us

Sincerely,



Alisha A. Griffin
Assistant Director

AAG:PR:br

cc: Jeanette Page-Hawkins, Director, Division of Family Development
Gerald Suozzo, Director, Program Integrity and Accountability
Steve Gregorowicz, Assistant Director, Office of Budget and Financial Management
William Cutti, Director, Office of Auditing
Nicholas Butkewicz, Administrator, Office of Financial Reporting
Patricia Risch, Manager, Program Compliance Unit