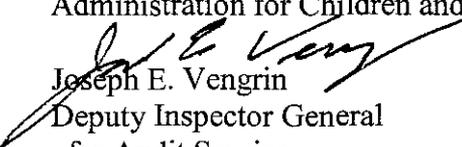




AUG 30 2005

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

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

**SUBJECT:** Review of Undistributable Child Support Collections in Illinois  
From October 1, 1998, Through December 31, 2003 (A-05-04-00039)

The attached report provides the results of our self-initiated review of undistributable child support collections within the Illinois Department of Healthcare and Family Services, Division of Child Support Enforcement (State agency). This report will be issued within 5 business days of the date of the memorandum.

The objectives of our audit were to determine whether the State agency appropriately reported program income for (1) undistributable child support collections and (2) interest earned on program funds.

We found the State agency did not appropriately report program income for undistributable child support collections totaling at least \$1,652,204 (\$1,090,454 Federal share) or the Title IV-D portion of Cook County outstanding checks that met the State's abandoned property law requirements for the quarters ended December 1998 through December 2003. State agency personnel did not report this income because they were unaware of the reporting requirement. We were unable to determine the Title IV-D portion of outstanding checks totaling \$1,742,502 from the Cook County check register that should have been reported as program income. We could not determine the Title IV-D portion because data on the check register were insufficient to link a check to a Title IV-D child support case.

Although the State agency reported program income for interest earned on program funds for our audit period, it recalculated and made adjustments to the reported interest that understated program income, thus overstating net program costs by \$7,005 (\$4,623 Federal share). The understatement occurred because the unapproved recalculation methodology omitted some child support collections.

We recommended that the State agency:

- make the appropriate program income adjustment for Title IV-D undistributable collections estimated to be at least \$1,652,204 (\$1,090,454 Federal share) during the audit period,

- work with OCSE to negotiate the Federal share of program income for Cook County outstanding checks totaling \$1,742,502 that may be attributable to Title IV-D undistributable collections,
- implement adequate policies and procedures and provide training to personnel responsible for preparing the OCSE-34A and OCSE-396A to ensure that undistributable child support collections are recognized as program income,
- make the appropriate program income adjustment of \$7,005 (\$4,623 Federal share) for the understated interest earned during the audit period, and
- obtain the OCSE regional representative’s approval for any revised methodology used to determine and allocate interest earned on Child Support Enforcement program funds.

The Illinois Department of Healthcare and Family Services concurred with all of our recommendations except for working with OCSE to determine the Federal share of program income for Cook County outstanding checks totaling \$1.7 million. The State agency believed that the specific program associated with these checks could not be definitely determined and that, therefore, none of the \$1.7 million in outstanding checks could be attributed to any Title IV-D child support case. The State agency did not respond to our recommendation to work with OCSE in making this determination and did not indicate whether it shared any analysis of the \$1.7 million with OCSE.

The determination of the Federal share of the \$1.7 million is not a unilateral decision to be made by the State agency. We continue to believe that the State agency should work with OCSE to determine the Federal share of program income that may be attributable to Title IV-D undistributable collections.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Donald L. Dille, Assistant Inspector General for Grants and Internal Activities, at (202) 619-1176 or through e-mail at [Donald.Dille@oig.hhs.gov](mailto:Donald.Dille@oig.hhs.gov). To facilitate identification, please refer to report number A-05-04-00039 in all correspondence.

Attachments - as stated



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

AUG 31 2005

Report Number: A-05-04-00039

Mr. Barry S. Maram  
Director  
Illinois Department of Healthcare and Family Services  
201 South Grand Avenue East  
Springfield, Illinois 62763

Dear Mr. Maram:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' report entitled "Review Of Undistributable Child Support Collections In Illinois From October 1, 1998, Through December 31, 2003." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports issued to the department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to report number A-05-04-00039 in all correspondence.

Sincerely yours,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures - as stated

Page 2 – Mr. Barry S. Maram

**Direct Reply to HHS Action Official:**

Regional Administrator  
Administration for Children and Families  
U.S. Department of Health and Human Services  
Region V  
233 North Michigan Avenue  
Suite 400  
Chicago, IL 60601

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF UNDISTRIBUTABLE  
CHILD SUPPORT COLLECTIONS  
IN ILLINOIS FROM  
OCTOBER 1, 1998, THROUGH  
DECEMBER 31, 2003**



**Daniel R. Levinson  
Inspector General**

**August 2005  
A-05-04-00039**

# ***Office of Inspector General***

<http://oig.hhs.gov>

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

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS 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. The Illinois Department of Healthcare and Family Services (State agency) administers the federally mandated program through the Division of Child Support Enforcement. Within Cook County, the Clerk of the Circuit Court (Cook County) also manages the Child Support Enforcement program and maintains records for the county.

OCSE requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from Title IV-D undistributable child support collections and interest earned on program funds. Although OCSE requires States to report program income for Title IV-D undistributable collections when considered abandoned by State law, Illinois Child Support Enforcement program policy permits undistributable collections to be deemed abandoned before the period identified in the State's abandoned property law if all efforts to locate the intended recipient have been exhausted. Recognized undistributable collections and interest earned on collections, fees, recovered costs, or other funds received through program operations should be reported as reductions to program costs.

OCSE also requires States that combine Child Support Enforcement program funds with other State revenues to develop a methodology to determine and allocate interest earned on child support funds. The OCSE regional representative determines whether the State has used a reasonable methodology to allocate interest earned on Child Support Enforcement program funds.

### **OBJECTIVES**

Our objectives were to determine whether the State agency appropriately reported program income for (1) undistributable child support collections and (2) interest earned on program funds.

### **SUMMARY OF FINDINGS**

For the quarters ended December 1998 through December 2003, the State agency did not appropriately report program income for undistributable child support collections totaling at least \$1,652,204 (\$1,090,454 Federal share) or the Title IV-D portion of Cook County outstanding checks that met the State's abandoned property law requirements. Program income for undistributable child support collections included Title IV-D collections of \$701,949 that met the State's abandoned property law requirements and \$950,255 that was deemed abandoned after State agency and Cook County personnel exhausted all efforts to distribute the collections and transferred them to the unclaimed property fund. State agency personnel did not report this

income because they were unaware of the reporting requirement. We were unable to determine the Title IV-D portion of outstanding checks totaling \$1,742,502 from the Cook County check register that should have been reported as program income. Data on the check register were insufficient to link a check to a Title IV-D child support case.

Although the State agency reported program income for interest earned on program funds for our audit period, it recalculated and made adjustments to the reported interest that understated program income, thus overstating net program costs by \$7,005 (\$4,623 Federal share). The understatement occurred because the unapproved recalculation methodology omitted some child support collections.

## **RECOMMENDATIONS**

We recommend that the State agency:

- make the appropriate program income adjustment for Title IV-D undistributable collections estimated to be at least \$1,652,204 (\$1,090,454 Federal share) during the audit period,
- work with OCSE to negotiate the Federal share of program income for Cook County outstanding checks totaling \$1,742,502 that may be attributable to Title IV-D undistributable collections,
- implement adequate policies and procedures and provide training to personnel responsible for preparing the OCSE-34A and OCSE-396A to ensure that undistributable child support collections are recognized as program income,
- make the appropriate program income adjustment of \$7,005 (\$4,623 Federal share) for the understated interest earned during the audit period, and
- obtain the OCSE regional representative's approval for any revised methodology used to determine and allocate interest earned on Child Support Enforcement program funds.

## **STATE AGENCY COMMENTS**

The Illinois Department of Healthcare and Family Services concurred with all of our recommendations except for working with OCSE to negotiate the Federal share of program income for Cook County outstanding checks totaling \$1.7 million. The State agency believed that the specific program associated with these checks could not be definitely determined and that, therefore, none of the \$1.7 million in outstanding checks could be attributed to any Title IV-D child support case. The State agency did not respond to our recommendation to work with OCSE in making this determination and did not indicate whether it shared any analysis of the \$1.7 million with OCSE. The response is summarized in the report and included as an appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

The determination of the Federal share of the \$1.7 million is not a unilateral decision to be made by the State agency. We continue to believe that the State agency should work with OCSE to determine the Federal share of program income that may be attributable to Title IV-D undistributable collections.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Child Support Enforcement Program**

The Child Support Enforcement program is a Federal, State, and local partnership, established in 1975 under Title IV-D of the Social Security Act, to ensure that noncustodial parents provide support to their children. The program collects 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 by setting program standards and policy, evaluating performance, and offering technical assistance. The Illinois Department of Healthcare and Family Services (the State agency) administers the federally mandated program through the Division of Child Support Enforcement and receives Federal reimbursement at a rate of 66 percent of program costs.

In October 1999, the State established the State Disbursement Unit to collect and distribute child support payments. Before that time, counties administered Title IV-D program operations. Within Cook County, the Clerk of the Circuit Court (Cook County) collects and distributes some child support payments and maintains records for the county.

#### **Requirements for Reporting Program Income**

OCSE requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from Title IV-D undistributable child support collections and interest earned on program funds.

#### **Undistributable Collections**

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 Title IV-D undistributable child support collections when the funds are considered abandoned. Specifically, OCSE-PIQ-88-7 states:

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

OCSE-PIQ-90-02 states:

Every State has statutes and regulations governing the handling of unclaimed or abandoned property left in its care. OCSE-PIQ-88-7, dated July 11, 1988, 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.

The instructions for Federal Forms OCSE-34A and OCSE-396A, used to report undistributable collections and program income, respectively, require States to report program income for Title IV-D undistributable collections when State law considers them abandoned. Specifically, OCSE-34A instructions for line 9a, Undistributable Collections, state:

The portion of collections reported on Line 9 that, despite numerous attempts, the State has determined it will be unable to distribute in accordance with the provisions of Section 457 of the Social Security Act and unable to return to the non-custodial parent. Under State law, these amounts are considered to be “abandoned property.”

The OCSE-396A instructions for line 2b, Interest Earned and Other Program Income, state: “The total amount of other income to the State used to offset the administrative costs reported on lines 1a or 1b. Include: . . . (b) undistributable child support collections as reported on line 9a of the Form OCSE-34A, the ‘Quarterly Report of Collections;’ . . . .”

Section 1120 of the Illinois Child Support Policy Manual permits undistributable collections to be deemed abandoned before the expiration of the State’s 7-year abandoned property law period if all efforts to locate the intended recipient have been exhausted. Specifically, the policy manual states:

By law, (765 ILCS 1025/8.1), all entrusted funds or other property held by a state government agency can be presumed abandoned if the property has remained unclaimed for seven years. However, NA [nonassistance] liability funds can be considered abandoned in less than seven years if the Department provides proof that all local efforts have been exhausted.

This policy allows the State and Cook County to transfer truly undistributable collections from the Child Support Enforcement program to an unclaimed property fund as soon as all efforts to locate the intended recipient have been exhausted. These recognized undistributable collections should be reported as reductions to program costs.

### **Interest Earned on Program Funds**

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 program funds. 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-AT-89-16 continues:

In many instances, however, States do not segregate funds received through the operation of the Child Support Enforcement Program from other State revenues. In those instances, a methodology must be developed to separate the collections, fees, and recovered costs from other amounts and determine and allocate the amount of interest or investment income earned on those funds.

. . . If the OCSE Regional Representative determines that the State has utilized a reasonable methodology, resulting in an accurate amount of interest or investment income being calculated, no further action is required other than to determine that the amount is correctly reported . . . .

. . . If the OCSE Regional Representative determines that the State is either failing to report or is incorrectly reporting the income earned, a disallowance must be taken for the amount of unreported income.

### **Prior Audit of Illinois Child Support Costs Claimed**

The OCSE Division of Audit conducted an audit of selected costs claimed by the State for operating the Child Support Enforcement program from February through October 1998 and issued a final report (IL-98-LC) on April 22, 1999. The report identified undistributable collections of \$125,016 and \$193,927 held by the State agency and Cook County, respectively, that met the State’s 7-year abandoned property requirement. In addition, the State agency was unable to determine the age of \$3.3 million of collections retained as of December 31, 1997. The OCSE Division of Audit recommended that the State agency report the undistributable collections as program income and analyze the \$3.3 million in retained collections to either verify that the collections did not meet the reporting requirement or report the amount as program income.

In response, the State agency contended that Illinois’s unclaimed property regulations did not result in the loss of the owners’ property rights and that the undistributable collections did not become property of the State. Consequently, the State agency believed that the undistributable collections should not be considered program income. The OCSE Division of Audit agreed that the regulations did not result in the loss of the owners’ property rights but stated, “This does not exempt it [the State agency] from Federal program income requirements . . . .” Thus, according to Federal policy, the undistributable collections should have been reported as program income.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

Our objectives were to determine whether the State agency appropriately reported program income for (1) undistributable child support collections and (2) interest earned on program funds.

### **Scope**

We reviewed undistributable collections reported on the Child Support Enforcement Program Quarterly Report of Collections and program income reported on the Child Support Enforcement Program Financial Report for the period October 1, 1998, through December 31, 2003. Pertaining to Title IV-D undistributable collections, this report includes (1) child support collections that could not be identified with or disbursed to the custodial parents or returned to the noncustodial parents and (2) checks for child support collections that were disbursed but not cashed by the recipients. We performed fieldwork at the State agency and Cook County from March through August 2004. We expanded our review to include Cook County due to the materiality of the undistributed collections held even after the establishment of the State Disbursement Unit.

### **Methodology**

To accomplish the objectives, we:

- reviewed applicable Federal laws and regulations;
- reviewed applicable program and policy announcements issued by the Administration for Children and Families;
- interviewed State agency and Cook County officials to identify existing policies, procedures, and internal controls for recognizing and reporting program income pertaining to undistributable collections and interest earned from program funds;
- reviewed undistributed child support collections, including outstanding checks, from the State agency and Cook County to quantify collections that had been held beyond the State's 7-year abandoned property period;
- determined whether collections deemed abandoned by the State agency and Cook County were transferred to the unclaimed property fund and reported as program income;
- compared and reconciled undistributed child support collections data to the amounts reported on the Child Support Enforcement Program Quarterly Report of Collections and the Child Support Enforcement Program Financial Report for the quarters ended September and December 2003;

- identified and reviewed interest earned by the State agency on the Child Support Trust Fund, Clearing Account, and State Disbursement Unit account for the audit period; and
- reviewed interest earned and reported by Cook County for selected months during 2002 and 2003.

We performed our audit in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

The State agency did not appropriately report all program income for undistributable child support collections or interest earned on program funds for our audit period.

The State agency did not report program income pertaining to undistributable child support collections of at least \$1,652,204 (\$1,090,454 Federal share) or the Title IV-D portion of Cook County outstanding checks that met the State's abandoned property law requirements. Program income for undistributed child support collections included Title IV-D child support collections of \$701,949 that met the State's abandoned property law requirements and \$950,255 that was deemed abandoned after State agency and Cook County personnel exhausted all efforts to distribute the collections and transferred them to the unclaimed property fund. State agency personnel did not report this income because they were unaware of the reporting requirement. We were unable to determine the Title IV-D portion of outstanding checks totaling \$1,742,502 from the Cook County check register that should have been reported as program income. Data on the check register were insufficient to link a check to a Title IV-D child support case.

Although the State agency reported program income for interest earned on program funds for our audit period, it recalculated and made adjustments to the reported interest that understated program income, thus overstating net program costs by \$7,005 (\$4,623 Federal share). The understatement occurred because the unapproved recalculation methodology omitted some child support collections.

### **UNDISTRIBUTABLE CHILD SUPPORT COLLECTIONS**

The State agency did not recognize and report program income pertaining to undistributable child support collections or the Title IV-D portion of Cook County outstanding checks that met the State's abandoned property law requirements.

#### **State Agency Did Not Report Program Income**

For the period October 1, 1998, through December 31, 2003, the State agency did not recognize and report program income totaling at least \$1,652,204 (\$1,090,454 Federal share) for undistributable child support collections that either met the State's abandoned property law requirements or were deemed abandoned after State agency and Cook County personnel exhausted all efforts to distribute the collections and transferred them to the unclaimed property fund.

Pursuant to OCSE-PIQ-88-7 and OCSE-PIQ-90-02, program income, including undistributable collections, must be reported to offset Child Support Enforcement program costs. Although the instructions for Federal Forms OCSE-34A and OCSE-396A, used to report undistributable collections and program income, respectively, require States to recognize program income for Title IV-D undistributable collections when State law considers them abandoned property, the State Child Support Policy Manual allows earlier recognition of program income. Section 1120 of the Child Support Policy Manual permits undistributable collections to be deemed abandoned before the expiration of the State's 7-year abandoned property law period if all efforts to locate the intended recipient have been exhausted. Once considered abandoned, the undistributable collections should be recognized as program income and used to offset program costs.

Even though a prior OCSE audit report, issued April 22, 1999, recommended that the State agency report program income for undistributable collections, State agency personnel said that they did not receive the final audit report and were unaware of the requirement to report undistributable collections as program income.

Undistributable collections were not recognized as program income and offset against program costs, as follows:

#### **Collections That Met State Abandoned Property Law Requirements**

The State agency identified Title IV-D collections of \$701,949 that met the State's 7-year abandoned property law requirement. The State agency had disbursed these collections as checks, but recipients had not cashed the checks. However, the State agency did not transfer the funds to the unclaimed property fund and recognize the appropriate offsets to program costs.

#### **Collections Deemed Abandoned After Exhausting All Efforts to Distribute**

The State agency and Cook County deemed Title IV-D undistributable collections totaling at least \$950,255 as abandoned and transferred the funds to the unclaimed property fund. The transfers occurred after the State agency and Cook County personnel exhausted all efforts to distribute the collections and deemed the collections abandoned. The State agency transferred Title IV-D undistributable collections of \$401,948 to the unclaimed property fund and estimated that another \$548,307 was the Title IV-D portion of the total undistributable collections of \$1,107,180 that Cook County transferred to the unclaimed property fund.

The State estimate of \$548,307 was based on a methodology that matched docket numbers or Social Security numbers on county records to information in the State agency's Key Information Delivery System or Family Support Information System. Although docket numbers and Social Security numbers may not have been accurately recorded and the potential identification of Title IV-D cases could have been missed, this methodology provided the State agency the best available means of estimating the Title IV-D allocable portion of these undistributable collections. We believe that the age of the collections, the potential for inaccurate information, and insufficient information to link collections to a custodial parent precluded a more refined match of child support collections to Title IV-D records.

The State agency and Cook County considered these undistributable collections abandoned in accordance with State law and the Illinois Child Support Policy Manual, after exhausting all efforts to distribute the child support collections. In transferring these collections to the unclaimed property fund, however, the State agency and Cook County should have recognized them as appropriate offsets to program costs.

### **Cook County Outstanding Checks Met Abandoned Property Law Requirements**

The State agency did not recognize and report program income for the Title IV-D portion of \$1,742,502 in Cook County outstanding checks that met the State's abandoned property law requirements. By State law, all entrusted funds or other property held by a State government agency may be presumed abandoned if the property has remained unclaimed for 7 years. Once considered abandoned, the undistributable collections should be recognized and used to offset program costs.

From the Cook County "Clerk of Circuit Court – Child Support Enforcement Program" check register dated April 26, 2004, we identified outstanding checks dated from January 1981 through December 1996 that met the State's abandoned property law requirements. According to Cook County personnel, this register identified checks issued for child support, alimony, and maintenance payments that had not been cashed by recipients or transferred to the unclaimed property fund. However, because data on the check register were not sufficient to link a check to a Title IV-D case, Cook County and State agency personnel could not identify those checks related to child support collections. Similarly, because of the age of the checks and insufficient information to link the checks to a Title IV-D case, we were unable to identify those check amounts related to Title IV-D undistributable child support collections that should have been reported as program income.

### **UNDERSTATED INTEREST EARNED ON PROGRAM FUNDS**

Although the State agency reported program income for interest earned on program funds for our audit period, the State agency determined that the Child Support Trust Fund included revenues from other State activities and recalculated and made adjustments to the interest reported that understated program income by \$7,005 (\$4,623 Federal share). While it was appropriate to recalculate reported interest earned on Title IV-D program funds, the method used was inaccurate and unapproved and resulted in understated program income and an understated reduction to program costs.

OCSE-AT-89-16 requires States to recognize and report program income from interest earned on collections, fees, recovered costs, or other funds received through program operations and to appropriately allocate and offset program income against Child Support Enforcement costs. In that regard, OCSE-AT-89-16 requires States that do not segregate funds received through the operation of the Child Support Enforcement program from other State revenues to develop a methodology to do so and to determine and allocate interest earned by child support funds. In accordance with OCSE-AT-89-16, the OCSE regional representative is responsible for

determining whether the State has used a reasonable methodology to allocate interest earned on Child Support Enforcement program funds.

To recalculate interest earned on the Child Support Trust Fund, the State agency used a new methodology, which excluded about 80 percent of the fund's balance (\$35 million), to segregate child support program funds from other State revenues and allocate interest earned. Based on this recalculation, the State agency made adjustments to the reported interest for our audit period. The recalculation methodology identified collections that represented payments to be made to custodial and noncustodial parents and used historical data to estimate the amounts to be paid to parents in the future. However, the methodology omitted some child support collections and was not submitted to the OCSE regional representative for approval. Our audit found understated program income and, therefore, cost reductions of \$7,005 (\$4,623 Federal share).

## **RECOMMENDATIONS**

We recommend that the State agency:

- make the appropriate program income adjustment for Title IV-D undistributable collections estimated to be at least \$1,652,204 (\$1,090,454 Federal share) during the audit period,
- work with OCSE to negotiate the Federal share of program income for Cook County outstanding checks totaling \$1,742,502 that may be attributable to Title IV-D undistributable collections,
- implement adequate policies and procedures and provide training to personnel responsible for preparing the OCSE-34A and OCSE-396A to ensure that undistributable child support collections are recognized as program income,
- make the appropriate program income adjustment of \$7,005 (\$4,623 Federal share) for the understated interest earned during the audit period, and
- obtain the OCSE regional representative's approval for any revised methodology used to determine and allocate interest earned on Child Support Enforcement program funds.

## **STATE AGENCY COMMENTS**

The Illinois Department of Healthcare and Family Services concurred with all of our recommendations except for working with OCSE to negotiate the Federal share of program income for Cook County outstanding checks totaling \$1.7 million. The State agency made adjustments for Title IV-D undistributable collections amounting to \$1.6 million, implemented procedural changes for determining program income, and adjusted program income for interest earned. Although the State agency believed that its method of allocating interest earned on Child Support Enforcement program funds was informally approved, it agreed to obtain written approval.

In regard to outstanding and undistributable checks for Cook County, the State agency believed that the specific program associated with these checks could not be definitely determined and that, therefore, none of the \$1.7 million in outstanding checks could be attributed to any Title IV-D child support case. The State agency did not respond to our recommendation to work with OCSE in making this determination and did not indicate whether it shared any analysis of the \$1.7 million with OCSE. The response is included as an appendix.

#### **OFFICE OF INSPECTOR GENERAL RESPONSE**

The determination of the Federal share of the \$1.7 million is not a unilateral decision to be made by the State agency. We continue to believe that the State agency should work with OCSE to determine the Federal share of program income that may be attributable to Title IV-D undistributable collections.

# **APPENDIX**



Rod R. Blagojevich, Governor  
Barry S. Maram, Director

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July 20, 2005

Mr. Paul Swanson  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
233 North Michigan Avenue  
Chicago, Illinois 60601

Re: *OIG Report A-05-04-00039*

Dear Mr. Swanson:

This letter is written in response to your letter, dated June 3, 2005, to provide you with additional comments or information regarding *OIG Report A-05-04-00039, Review of Undistributable Child Support Collections in Illinois From October 1, 1998, Through December 31, 2003*.

The OIG's report contains five recommendations. Our comments related to each recommendation follow.

**Recommendation #1:** We recommend that the State agency make the appropriate program adjustment for Title IV-D undistributable collections estimated to be at least \$1,652,204 (\$1,090,454 Federal share) during the audit period.

The Department agrees with the recommendation. The following adjustments have been made:

- For the report period ending 03/31/04, the Department reported \$401,948 in program income for Title IV-D Unclaimed Property transfers that occurred during the period 07/99 through 09/03.
- For the report period ending 06/30/04, the Department reported \$548,307 in program income for Cook County Title IV-D Unclaimed Property transfers that occurred during the period 12/98 through 12/03.

For the report period ending 06/30/04, the Department reported \$701,949 in program income for warrants issued by the department that had escheated during the period 12/02 through 12/03.

**Recommendation #2:** We recommend that the State agency work with OCSE to negotiate the Federal share of program income for Cook County outstanding checks totaling \$1,742,502 that may be attributable to Title IV-D undistributable collections.

The composition of the file totaling \$1,742,502 could not be definitely determined; therefore, the Department used actual child support case information. During the audit period, the Department worked with the Cook County Circuit Clerk to obtain all unclaimed property transfers back to 1998, as well as current undistributed collection (UDC) amounts. We found that none of the \$1.7 million could be attributed to any child support case. The Cook County Circuit Clerk reported in March 8, 2005, that all outstanding checks with dates prior to June 30, 1997, pursuant to Illinois State law, had been transferred as unclaimed property in 2004. Quarterly Cook County outstanding check files currently contain only outstanding checks reportable as UDC and include nothing aged over 7 years.

HFS has made several adjustments in the OCSE-34A and OCSE-396A to report the appropriate share of all program income due the federal government for transfers made by Cook County from 1998 to 2004.

**Recommendation #3:** We recommend that the State agency implement adequate policies and procedures and provide training to personnel responsible for preparing the OCSE-34A and OCSE-396A to ensure that undistributable child support collections are recognized as program income.

The Department concurs with the recommendation and has taken these steps to address the issue. Department staff that oversee the preparation of the OCSE 34A also participate in a national CSE Workgroup that discusses issues relative to reported information. Additional instructions have been provided and internal meetings have been conducted with staff that actually prepare the OCSE 396A and 34A.

The Department has also developed the following procedural changes in determining program income:

- Program income amounts are tracked monthly for both State escheated warrants and transfers to unclaimed property. An overall quarterly report is prepared from the monthly reports, which is utilized for preparation of the OCSE-34A and 396A in reporting the amount of program income.
- Undistributed collections related to State escheated warrants are tracked monthly and a quarterly report is prepared. The report amount is reported in the undistributed amount of the OCSE-34A.
- A quarterly report of outstanding checks is received from the Cook County Circuit Clerk's Office for use in the preparation of the OCSE-34A. The amount from this report is reported in UDC on the OCSE-34A.
- Annually, the Cook County Circuit Clerk's Office provides a file for the amounts transferred to unclaimed property at the State Treasurer. The amount from this report is reported in UDC on the OCSE-34A.

**Recommendation #4:** We recommend that the State agency make the appropriate program income adjustment of \$7,005 (\$4,623 Federal share) for the understated interest earned during the audit period.

The Department agrees with the recommendation. An adjustment was made for the report ending 09/30/04 in the amount of \$25,287, instead of the \$7005 as stated in the recommendation. The Department did not reduce the amount of program income by \$18,282 for the periods ending 06/30/02 (\$14,557) or 09/30/02 (\$3,725) as these quarters had negative adjustments and, therefore, could not be considered due to being beyond the federally allowable retroactive 8 quarters.

**Recommendation #5:** We recommend that the State agency obtain the OCSE regional representative's approval for any revised methodology used to determine and allocate interest earned on Child Support Enforcement program funds.

The prorated-interest model that is currently used by the Department was reviewed by the OCSE, Division of Audit (DoA), during an audit of program income conducted in 1998. The auditors concluded that the ratio of exempt and non-exempt interest in the Child Support Trust Fund was an acceptable methodology. On July 1, 2003, the Department was mandated by State law to utilize a separate fund to account for all administrative expenditures for the Child Support program. Department staff contacted the OCSE regional office and received verbal acceptance for using the methodology for the administrative fund. The Department is in the process of requesting written approval.

The Department appreciates the opportunity to offer comments regarding the OIG's recommendations. If you have any questions regarding the Department's position, please contact Elvin Lay, Chief, Bureau of Fiscal Operations, at (217) 782-1123.

Sincerely,



Barry S. Maram  
Director