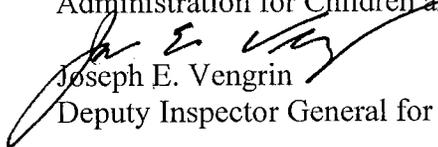




AUG - 1 2006

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 Michigan
From October 1, 1998, Through December 31, 2004 (A-05-05-00033)

Attached is an advance copy of our final report on undistributable child support collections in Michigan. We will issue this report to the Michigan Department of Human Services, Office of Child Support (the State agency) within 5 business days.

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

The State agency did not recognize program income of \$6,662,322 (\$4,397,133 Federal share) for unclaimed collections held by Friend of the Court offices that should have been considered abandoned and transferred to the State Treasurer pursuant to State law. Furthermore, the State agency did not report program income totaling \$390,695 (\$257,859 Federal share) for undistributable child support collections that were transferred to the State Treasurer pursuant to State law for the quarters ended December 1998 through December 2004.

These deficiencies occurred because the State agency did not (1) provide sufficient oversight of Friend of the Court office reporting of unclaimed collections to ensure that undistributable collections were identified and reported as program income or (2) have adequate policies, procedures, and controls to ensure compliance with Federal reporting requirements.

In addition, the State agency could not provide documentation to support resolution of a prior Office of Child Support Enforcement (OCSE) Division of Audit finding and recommendation regarding undistributable collections totaling \$1,121,298 (\$740,057 Federal share) that were not reported as program income.

The State agency properly reported interest earned on reported undistributed collections and program funds as program income and offset this amount against program expenditures.

We recommend that the State agency:

- require the Friend of the Court offices to transfer the unclaimed collections to the Unclaimed Property Division and report program income for undistributable collections totaling \$6,662,322 (\$4,397,133 Federal share);
- report program income for undistributable collections of \$390,695 (\$257,859 Federal share) that were transferred to the State Treasurer;
- provide program oversight to ensure that undistributable collections are identified and reported as program income on the quarterly Federal financial report (Form OCSE-396A);
- implement adequate policies, procedures, and controls to ensure that undistributable child support collections reported on the quarterly report of collections (Form OCSE-34A) are recognized as program income on Form OCSE-396A; and
- work with OCSE to resolve the OCSE Division of Audit recommendation from 1999 to adjust for undistributable collections totaling \$1,121,298 (\$740,057 Federal share) not reported as program income.

In its comments on the draft report, the State agency generally disagreed with our findings and recommendations. The State agency disagreed with our recommendations to report program income for the amounts that had not yet been transferred to the State Treasurer because it believed that reporting was not required until the collections were actually transferred to the Unclaimed Property Division. Because Friend of the Court offices had transferred \$1,490,819 to the Unclaimed Property Division, the State agency agreed to report this amount as program income. Additionally, the State agency said that the \$390,695 was overstated because we did not exclude undistributable collections that the Unclaimed Property Division paid. The State agency also believed that the prior OCSE audit may have been resolved because there was no evidence to the contrary.

We maintain that the findings and recommendations reflect the State agency's and Friend of the Court offices' failure to comply with Federal and State requirements for reporting unclaimed property and program income. All collections identified in our audit recommendations had been held more than 1 year, were presumed abandoned, and should have been transferred to the Unclaimed Property Division in accordance with State law. As a result, the collections should have been reported as program income in accordance with Federal requirements. We continue to recommend that the Friend of the Court offices transfer the unclaimed collections in accordance with State law at which time the amounts must be reported to OCSE as program income. Of the \$390,695 in program income not reported, we agree that the amount should be reduced by \$191,007 that the Unclaimed Property Division paid for the counties audited, resulting in net reportable program income of \$199,688. We could not conclude that the prior OCSE audit issue was resolved. Without documentation demonstrating the resolution of the Division of Audit's recommendation, we continue to believe that the State agency should work with OCSE for resolution.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Grants and Internal Activities, at (202) 619-1175 or through e-mail at Joe.Green@oig.hhs.gov. Please refer to report number A-05-05-00033.

Attachment



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

REGION V
OFFICE OF
INSPECTOR GENERAL

Report Number: A-05-05-00033

AUG - 4 2006

Ms. Marianne Udow
Director, Michigan Department of Human Services
P.O. Box 30037
Lansing, Michigan 48909

Dear Ms. Udow:

Enclosed are two copies of 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 Michigan From October 1, 1998, Through December 31, 2004." A copy of this report will be forwarded to the HHS action official noted on the next 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 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), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-05-05-00033 in all correspondence.

Sincerely yours,

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

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

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, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF UNDISTRIBUTABLE
CHILD SUPPORT COLLECTIONS
IN MICHIGAN
FROM OCTOBER 1, 1998,
THROUGH DECEMBER 31, 2004**



Daniel R. Levinson
Inspector General

August 2006
A-05-05-00033

Office of Inspector General

<http://oig.hhs.gov>

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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The Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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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. Within the Michigan Department of Human Services, the Office of Child Support (the State agency) supervises the Child Support Enforcement program. The State agency contracts with county prosecuting attorneys and Friend of the Court offices to manage the program.

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 program funds. Undistributable collections are those that are considered abandoned under State law.

In Michigan, child support collections that remain unclaimed by the owner for more than 1 year after becoming payable or distributable are presumed abandoned and must be reported and transferred to the State Treasurer pursuant to State law. The Michigan Department of Treasury, Unclaimed Property Division processes unclaimed property reports and holds abandoned property funds.

OBJECTIVES

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

SUMMARY OF FINDINGS

The State agency did not recognize program income of \$6,662,322 (\$4,397,133 Federal share) for unclaimed collections held by Friend of the Court offices that should have been considered abandoned and transferred to the State Treasurer pursuant to State law. Furthermore, the State agency did not report program income totaling \$390,695 (\$257,859 Federal share) for undistributable child support collections that were transferred to the State Treasurer pursuant to State law for the quarters ended December 1998 through December 2004.

These deficiencies occurred because the State agency did not (1) provide sufficient oversight of Friend of the Court office reporting of unclaimed collections to ensure that undistributable collections were identified and reported as program income or (2) have adequate policies, procedures, and controls to ensure compliance with Federal reporting requirements. Because these collections were not properly reported, the State agency did not fully recognize and report program income to offset program expenditures.

In addition, the State agency could not provide documentation to support resolution of a prior OCSE Division of Audit finding and recommendation regarding undistributable collections totaling \$1,121,298 (\$740,057 Federal share) that were not reported as program income. The State agency properly reported interest earned on reported undistributed collections and program funds as program income and offset this amount against program expenditures.

RECOMMENDATIONS

We recommend that the State agency:

- require the Friend of the Court offices to transfer the unclaimed collections to the Unclaimed Property Division and report program income for undistributable collections totaling \$6,662,322 (\$4,397,133 Federal share);
- report program income for undistributable collections of \$390,695 (\$257,859 Federal share) that were transferred to the State Treasurer;
- provide program oversight to ensure that undistributable collections are identified and reported as program income on the quarterly Federal financial report (Form OCSE-396A);
- implement adequate policies, procedures, and controls to ensure that undistributable child support collections reported on the quarterly report of collections (Form OCSE-34A) are recognized as program income on Form OCSE-396A; and
- work with OCSE to resolve the OCSE Division of Audit recommendation from 1999 to adjust for undistributable collections totaling \$1,121,298 (\$740,057 Federal share) not reported as program income.

STATE AGENCY'S COMMENTS

In its comments on the draft report, the State agency generally disagreed with our findings and recommendations. The State agency disagreed with our recommendations to report program income for the amounts that had not yet been transferred to the State Treasurer because it believed that reporting was not required until the collections were actually transferred to the Unclaimed Property Division. Because Friend of the Court offices had transferred \$1,490,819 to the Unclaimed Property Division, the State agency agreed to report this amount as program income. Additionally, the State agency said that the \$390,695 was overstated because we did not exclude undistributable collections that the Unclaimed Property Division paid. The State agency also said that it had implemented controls and procedures over undistributable child support collections as of FY 2004 and that the prior OCSE audit may have been resolved because there was no evidence to the contrary.

The State agency's comments are included in their entirety in the appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We maintain that the findings and recommendations reflect the State agency's and Friend of the Court offices' failure to comply with Federal and State requirements for reporting unclaimed property and program income. All collections identified in our audit recommendations had been held more than 1 year, were presumed abandoned, and should have been transferred to the Unclaimed Property Division in accordance with State law. As a result, the collections should have been reported as program income in accordance with Federal requirements. We continue to recommend that the Friend of the Court offices transfer the unclaimed collections in accordance with State law at which time the amounts must be reported to OCSE as program income. Of the \$390,695 in program income not reported, we agree that the amount should be reduced by \$191,007 that the Unclaimed Property Division paid for the counties audited, resulting in net reportable program income of \$199,688.

We continue to believe that the State agency should provide oversight and implement adequate policies, procedures, and controls over undistributable child support collections and work with OCSE to resolve the previous audit finding and recommendation.

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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. Within the Michigan Department of Human Services, the Office of Child Support (the State agency) supervises the Child Support Enforcement program and receives Federal reimbursement, generally at a rate of 66 percent of program costs. The State agency manages the program through contracts with county prosecuting attorneys and Friend of the Court offices. Because the Friend of the Court offices are part of the Michigan judicial branch and are based in the circuit courts, the Supreme Court's State Court Administrative Office is also involved in program operations.

Requirements for Reporting Program Income

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 program funds. Undistributable collections are unclaimed collections that are considered abandoned under State law.

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 undistributable child support collections as program income at the time the funds are considered abandoned. OCSE-PIQ-88-7 states:

If a . . . 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, . . . 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 . . . 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 undistributable collections when State law considers them abandoned. The OCSE-34A instructions for line 9a 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 . . . 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 define program income as “[t]he total amount of other income to the State used to offset the administrative costs reported on Lines 1a or 1b. Include: . . . (ii) undistributable child support collections as reported on Line 9a of Form OCSE-34A, the ‘Quarterly Report of Collections;’”

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.”

Prior Audit of Michigan Child Support Costs Claimed

The OCSE Division of Audit conducted an audit of selected program costs that Michigan claimed from January 1996 through June 1997 and issued a final report (MI-97-LC) on July 7, 1999. The report identified unclaimed collections of \$1,121,298 that the State agency transferred to the State Department of Treasury during the period January 1988 through December 1997 in accordance with the State’s abandoned property requirement. However, the State agency did not use these undistributable collections to reduce Title IV-D program expenditures. The OCSE Division of Audit recommended that the State agency make an adjustment for program income not claimed, and the State agency agreed.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether the State agency appropriately reported program income for undistributable child support collections and 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, 2004. Undistributable collections in this report pertain to (1) unclaimed child support collections that could not be identified with or disbursed to the custodial parent or returned to the noncustodial parent and (2) checks for child support collections that were disbursed to the recipient but not cashed. We reviewed child support collections for 18 Friend of the Court offices.¹ We performed fieldwork at the Michigan Department of Human Services from April through August 2005.

Methodology

To accomplish the objectives, we:

- reviewed applicable Federal and State laws and regulations;
- reviewed applicable Administration for Children and Families program and policy announcements;
- interviewed State agency officials to identify their policies, procedures, and internal controls for recognizing and reporting program income pertaining to undistributable collections and interest earned from program funds;
- verified interest that the State agency earned and reported on the child support accounts;
- reviewed unclaimed child support collections data from the State agency and Friend of the Court offices through December 31, 2004, to quantify the amount that met the requirements of the State unclaimed property law; and
- compared and reconciled undistributable child support collections data to amounts reported on the Child Support Enforcement Program Quarterly Report of Collections and the Child Support Enforcement Program Financial Report for the quarters ended December 2000 through December 2004.

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

FINDINGS AND RECOMMENDATIONS

The State agency did not recognize program income of \$6,662,322 (\$4,397,133 Federal share) for unclaimed collections held by Friend of the Court offices that should have been considered abandoned and transferred to the State Treasurer pursuant to State law. Furthermore, the State

¹Friend of the Court offices included Berrien, Calhoun, Genesee, Ingham, Jackson, Kalamazoo, Kent, Livingston, Macomb, Monroe, Muskegon, Oakland, Ottawa, Saginaw, Shiawassee, St. Clair, Washtenaw, and Wayne.

agency did not report program income totaling \$390,695 (\$257,859 Federal share) for undistributable child support collections that were transferred to the State Treasurer pursuant to State law for the quarters ended December 1998 through December 2004.

These deficiencies occurred because the State agency did not (1) provide sufficient oversight of Friend of the Court office reporting of unclaimed collections to ensure that undistributable collections were reported as program income or (2) have adequate policies, procedures, and controls to ensure compliance with Federal reporting requirements. Because these collections were not properly reported, the State agency did not fully recognize and report program income to offset program expenditures.

Additionally, the State agency could not provide documentation to support the resolution of a prior OCSE Division of Audit finding and recommendation regarding undistributable collections totaling \$1,121,298 (\$740,057 Federal share) that were not reported as program income.

The State agency properly reported interest earned on reported undistributed collections and program funds as program income and offset this amount against program expenditures.

UNCLAIMED COLLECTIONS NOT TRANSFERRED

Friend of the Court offices did not transfer \$6,662,322 (\$4,397,133 Federal share) in unclaimed collections to the State Department of Treasury, Unclaimed Property Division after the 1-year period as required by State law. If the offices had appropriately transferred these collections after the 1-year period, the State agency could have reported the collections as undistributable collections and program income.

Federal and State Requirements

OCSE-PIQ-88-7 states:

If a . . . collection is truly undistributable, the State may dispose of it in accordance with State law. States may, for example, provide that such collections . . . become the property of the State if unclaimed after a period of time. . . . [T]his revenue must be counted as program income and be used to reduce IV-D program expenditures, in accordance with Federal regulations

Michigan's Uniform Unclaimed Property Act establishes (1) how long property must be held before it is presumed abandoned;(2) when the State agency must report the abandoned property and the actions that the State agency must take before reporting; and (3) when abandoned property must be transferred to the State Treasurer. The Michigan Department of Treasury, Unclaimed Property Division processes unclaimed property reports and holds abandoned property funds. Section 567.234 states: "Property held for the owner by a court, state, or other . . . governmental subdivision or agency . . . that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned."

Section 567.238, paragraph 4, states: “. . . the report shall be filed on or before November 1 of each year for the 12-month period ending on the immediately preceding June 30”

Paragraph 5 states:

Not less than 60 days or more than 365 days before filing the report required by this section, the holder in possession of property presumed abandoned . . . shall send written notice to the apparent owner at his or her last known address informing him or her that the holder is in possession of property

Section 567.240(1) states: “A person who is required to file a report under section [567.238] shall at the time for filing the report pay or deliver to the administrator all abandoned property that is required to be reported under section [567.238]” Section 567.222(a) defines the “administrator” as the State Treasurer.

In December 1999, the State agency issued a letter (FCB 99-25) to Friend of the Court offices that states:

Under the Uniform Unclaimed Property Act, property held by a court, governmental agency, or public corporation or authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable, is presumed abandoned.

The State of Michigan requires government agencies to file unclaimed property reports annually with the State Treasurer and remit the total of the unclaimed/abandoned amount with the report.

Federal policy requires that such unclaimed amounts collected and directly attributed to child support, be considered program income,

Friend of the Court Office Transfers Not Accomplished

Ten Friend of the Court offices did not transfer \$6,662,322 in unclaimed collections to the State Department of Treasury, Unclaimed Property Division after the applicable 1-year period. (See Table 1.) Consequently, the State agency did not report the unclaimed collections as program income on Form OCSE-396A.

Table 1: Friend of the Court Collections Not Transferred

<u>Friend of the Court Office</u>	<u>Unclaimed Collections</u>
Wayne	\$4,902,285
Macomb	967,642
Saginaw	187,765
Ottawa	167,149
Genesee	126,455
Washtenaw	116,962
Ingham	98,101
Livingston	76,637
Shiawassee	15,850
Monroe	<u>3,476</u>
Total	\$6,662,322

Although the Friend of the Court offices had disbursed the collections as checks, recipients had not cashed the checks. If the Friend of the Court offices had properly transferred these collections to the Unclaimed Property Division, the State agency could have recognized these unclaimed collections as undistributable collections and reported them as program income.

This condition occurred because the State agency did not provide sufficient oversight of Friend of the Court offices to ensure that unclaimed collections were transferred to the Unclaimed Property Division and reported as program income. Friend of the Court personnel did not transfer the collections because they were either unaware of the State unclaimed property law or believed that all due diligence efforts to distribute the collections should have been exhausted before the collections were reported to the Unclaimed Property Division. These personnel believed that recognition of unclaimed collections should be delayed even if their efforts went beyond 1 year.

PROGRAM INCOME NOT REPORTED

The State agency did not report program income totaling \$390,695 (\$257,859 Federal share) for undistributable child support collections for the quarters ended December 2000 through December 2004. These funds were transferred to the Michigan Department of Treasury, Unclaimed Property Division, as abandoned property. The unreported program income included (1) \$324,778 in undistributable collections that the Friend of the Court offices identified as abandoned but the State agency did not report as program income and (2) \$65,917 that the State agency reported as undistributable collections but did not recognize as program income.

Federal and State Requirements

OCSE requires States to offset Child Support Enforcement program costs by reporting undistributable child support collections as program income at the time the funds are considered abandoned. In Michigan, child support collections that remain unclaimed by the owner for more than 1 year after becoming payable or distributable are presumed abandoned. State law requires that such funds be reported and transferred to the State Treasurer. Through a Friend of the Court letter (FCB 99-25), the State agency notified Friend of the Court offices of their responsibility to

annually report unclaimed property to the State Treasurer, remit the total abandoned amount with the report, and identify that amount as program income. Once notified of the Friend of the Court offices' transfers of undistributable collections to the State Treasurer, the State agency should recognize and report these undistributable collections as program income to offset program costs in accordance with instructions for Federal OCSE forms.

Undistributable Collections Not Reported

Friend of the Court offices did not notify the State agency of at least \$324,778 in undistributable collections that were transferred to the State Treasurer as abandoned property. During the period October 2000 through December 2004, 15 Friend of the Court offices transferred \$2,620,545 in unclaimed collections to the State Treasury, Unclaimed Property Division.² However, the State agency reported only \$2,295,767 as program income for all unclaimed collections that Friend of the Court offices transferred.

Even though the State agency instructed Friend of the Court offices to transfer unclaimed collections to the State Treasury, some Friend of the Court personnel did not inform the State agency of the transfers. Consequently, the State agency did not report all of the unclaimed collections as undistributable collections and program income (Forms OCSE-34A and 396A, respectively) and did not offset program expenditures. We attribute the underreporting to insufficient State agency oversight to ensure that the Friend of the Court offices reported all undistributable collections to the State agency.

Program Income Not Recognized

The State agency reported undistributable collections of \$65,917 but did not recognize the amount as program income. For the quarters ended March through December 2003, the State agency reported undistributable collections of \$69,345 on Form OCSE-34A but reported only \$3,428 as program income on Form OCSE-396A. Form OCSE-396A instructions require undistributable child support collections that are reported on Form OCSE-34A to be captured and reported as program income on Form OCSE-396A. This condition occurred because the State agency did not have written policies, procedures, or controls to ensure that the amounts reported as undistributable collections on Form OCSE-34A were captured as program income on Form OCSE-396A.

UNRESOLVED PRIOR AUDIT FINDING AND RECOMMENDATION

The State agency could not provide documentation to support the resolution of a prior OCSE Division of Audit finding and recommendation regarding undistributable collections totaling \$1,121,298 (\$740,057 Federal share) that were not reported as program income. The audit report (MI-97-LC), dated July 7, 1999, identified unclaimed funds that were transferred as abandoned property in accordance with the State unclaimed property law but not reported as program income.

²Friend of the Court offices included Berrien, Calhoun, Genesee, Ingham, Jackson, Kalamazoo, Kent, Macomb, Monroe, Muskegon, Oakland, Ottawa, Saginaw, St. Claire, and Wayne.

Although the State agency agreed with the recommendation to report \$1,121,298 as program income, it was unable to provide documentation supporting the adjustment or an audit clearance document indicating that the finding and recommendation had been resolved. In addition, a reconciliation of reported program income with reported undistributable collections, program interest, and miscellaneous income for our audit period did not support the State agency resolution of the prior audit finding and recommendation. In addition to making the reconciliation, we contacted Region V and headquarters OCSE Division of Audit staff and Region V OCSE program representatives to determine whether any audit clearance documentation existed to resolve the finding and recommendation. None of the offices identified any documentation to resolve the issue. According to the OCSE Division of Audit staff, they did not record the audit report in the audit resolution system and therefore took no action to monitor compliance with the recommendation or resolve the issue.

RECOMMENDATIONS

We recommend that the State agency:

- require the Friend of the Court offices to transfer the unclaimed collections to the Unclaimed Property Division and report program income for undistributable collections totaling \$6,662,322 (\$4,397,133 Federal share);
- report program income for undistributable collections of \$390,695 (\$257,859 Federal share) that were transferred to the State Treasurer;
- provide program oversight to ensure that undistributable collections are identified and reported as program income on the quarterly Federal financial report (Form OCSE-396A);
- implement adequate policies, procedures, and controls to ensure that undistributable child support collections reported on the quarterly report of collections (Form OCSE-34A) are recognized as program income on Form OCSE-396A; and
- work with OCSE to resolve the OCSE Division of Audit recommendation from 1999 to adjust for undistributable collections totaling \$1,121,298 (\$740,057 Federal share) not reported as program income.

STATE AGENCY'S COMMENTS AND OFFICE OF INSPECTOR GENERAL'S RESPONSE

In its March 13, 2006, comments on the draft report, the State agency generally disagreed with our recommendations to report program income for collections not transferred to the Unclaimed Property Division and for underreported program income during the audit period. The State agency also said that it had implemented controls and procedures over undistributable child support collections as of FY 2004. In addition, it did not believe that the finding related to a previous OCSE audit was appropriate because it covered a prior period for which records were not available to support the resolution of the finding.

In response to the State agency's comments, all collections that we identified in our audit recommendations had been held more than 1 year, were therefore presumed abandoned in accordance with the State law, should have been transferred to the Unclaimed Property Division, and should have been reported as program income. The State agency and Friend of the Court offices failed to comply with Federal and State requirements for reporting unclaimed property, undistributable collections, and program income. We continue to believe that the State agency should provide oversight and implement adequate policies, procedures, and controls over undistributable child support collections and work with OCSE to resolve the previous audit finding and recommendation.

The State agency's comments related to individual report sections and recommendations are summarized below and included in their entirety in the appendix.

Transfer Unclaimed Collections and Report Program Income of \$6,662,322

State Agency's Comments

The State agency disagreed that \$6,662,322 must be reported as program income before it is actually transferred to the Unclaimed Property Division. Although the State agency agreed that it must report as program income any amounts that the Friend of the Court had forwarded to the Unclaimed Property Division, it asserted that if the Friend of the Court offices never identify collections as abandoned, there is no obligation to report them as program income. The State agency further said that there was no Federal Title IV-D requirement for the State agency to identify abandoned property or distribute it to the appropriate State agency pursuant to State law.

The State agency said that some Friend of the Court offices interpreted the Michigan Uniform Unclaimed Property Act as allowing them to continue working unclaimed collections until all due diligence was exhausted, which may take longer than 1 year. The State agency identified a total of \$7,071,733 in collections on hand in the counties included in the audit. Of this amount, the State agency indicated that it would report program income of \$1,490,819 for collections that Friend of the Court offices transferred to the Unclaimed Property Division. Collections totaling \$3,319,317 were recorded in the Michigan Child Support Enforcement System (MiCSES),³ and \$2,261,597 remained with the counties because the State agency believed that the funds would eventually be distributed to the rightful owner.

Office of Inspector General's Response

All collections that we identified in our audit recommendations had been held more than 1 year, were therefore presumed abandoned in accordance with State law, should have been transferred to the Unclaimed Property Division, and should have been reported as program income. Undistributable child support collections must be reported as program income to offset program costs when a State's unclaimed property law legally recognizes the collections as abandoned.

³MiCSES is a statewide automated information system that is used by the State agency, county prosecuting attorneys, and county Friend of the Court offices. The system performs critical child support functions including child support collection and distribution.

The Michigan Uniform Unclaimed Property Act (the Act) provides that property held for the owner by a court, the State, or another government agency and not claimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned. The Act requires that this property be reported and transferred to the State Treasurer. The Act does not grant the State agency or Friend of the Court offices discretion not to report and transfer unclaimed property on the basis of a belief that the unclaimed property can be distributed. If the Unclaimed Property Division subsequently distributes the funds, the reporting of program income is a reversible transaction according to Federal OCSE guidance and the Federal share of the child support payment will be credited to the State agency. We continue to believe that the State agency should require the Friend of the Court offices to transfer the unclaimed collections to the Unclaimed Property Division and report program income for undistributable collections totaling \$6,662,322 (\$4,397,133 Federal share).

Report Program Income of \$390,695

State Agency's Comments

The State agency asserted that it did not underreport program income during the audit period and said that we did not deduct claims that the Unclaimed Property Division paid. According to a spreadsheet attached to the State agency's response, the State agency believed that it overreported program income by \$97,533.

The State agency also said that unreported program income for collections totaling \$65,917 was already included in the collection amounts that counties transferred to the Unclaimed Property Division.

Office of Inspector General's Response

Of the \$390,695 identified as program income not reported, we agreed to reduce this amount by \$191,007, resulting in net reportable program income of \$199,688 (\$131,794 Federal share). We agree that child support collection claims paid by the Unclaimed Property Division should be offset against amounts reported as program income. Because the amounts per the State agency's response varied from figures obtained during our audit, we adjusted our prior recommendation by the amount supported during our audit. After considering the abandoned collections that the Unclaimed Property Division paid for the counties audited, the net collections reportable as program income amounted to \$133,771, as shown in Table 2.

Table 2: Collections Reportable as Program Income

	<u>State Agency Calculations</u>	<u>OIG Original Calculations</u>	<u>OIG Revised Calculations</u>
Collections transferred to Unclaimed Property Division	\$2,620,545	\$2,620,545	\$2,620,545
Claims paid by Unclaimed Property Division	<u>267,119</u>	<u>0</u>	<u>191,007</u>
Net collections reportable as program income	2,353,426	2,620,545	2,429,538
Reported program income	<u>2,450,959</u>	<u>2,295,767</u>	<u>2,295,767</u>
Underreported program income	<u>(97,533)</u>	<u>324,778</u>	<u>133,771</u>

Regarding the State agency's claim that the \$65,917 in undistributable collections was already included in the amounts that counties transferred to the Unclaimed Property Division, the State agency did not provide documentation indicating which counties reported the undistributable collections. Therefore, we could not conclude that the \$65,917 was a part of the collections that counties transferred to the Unclaimed Property Division. We concluded that the \$65,917 reported on the OCSE-34A was not properly reported as program income on the OCSE-396A, as required by OCSE reporting instructions.

Provide Oversight and Implement Policies and Procedures

State Agency's Comments

The State agency believed that it would no longer need to capture county information to prepare the Form OCSE-34A and identify amounts transferred to the Unclaimed Property Division once the counties no longer processed collections. As of State fiscal year 2004, the State agency said that it had moved to the statewide MiCSES system, and all funds now flow through the State Disbursement Unit. The State agency said that the MiCSES would determine the amounts to be transferred to the Unclaimed Property Division and reported on the Form OCSE-34A. The amount reported on the Form OCSE-34A is reported as program income on the Form OCSE-396A.

Office of Inspector General's Response

We agree that once all collections are transferred from the counties, the State agency will no longer need to capture county information to prepare the Federal OCSE forms. However, the State agency's response indicated that \$2,261,597 remained with the counties and would therefore require State agency oversight until the collections are transferred to the Unclaimed Property Division. We continue to believe that the State agency should provide program oversight and implement policies, procedures, and controls to ensure that undistributable child support collections are reported and recognized as program income.

Resolve Office of Child Support Enforcement Prior Audit Finding and Recommendation

State Agency's Comments

The State agency did not believe that the finding related to the previous OCSE audit was appropriate because it covered a prior period for which records were not available. Although no records were available at the State agency or the Federal Office of Child Support Enforcement to demonstrate resolution of the prior finding, the State agency believed that the finding may have been resolved and properly reported because there was no evidence to the contrary.

Office of Inspector General's Response

Our analysis did not support the conclusion that the State agency reported program income as recommended by the OCSE Division of Audit. In the absence of such support, and with a lack of documentation resolving the finding and recommendation, we could not conclude that the prior audit was resolved and continue to believe that the State agency should work with OCSE for resolution.

APPENDIX