



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

REGION V  
OFFICE OF  
INSPECTOR GENERAL

May 24, 2006

Report Number: A-05-06-00018

Ms. Roberta Gassman, Secretary  
Department of Workforce Development  
201 East Washington Avenue  
P.O. Box 7946  
Madison, Wisconsin 53707-7946

Dear Ms. Gassman:

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 Wisconsin From October 1, 1998, Through September 30, 2005." A copy of this report will be forwarded 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 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.

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Please refer to report number A-05-06-00018 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 WISCONSIN  
FROM OCTOBER 1, 1998,  
THROUGH SEPTEMBER 30, 2005**



**Daniel R. Levinson  
Inspector General**

**MAY 2006  
A-05-06-00018**

# ***Office of Inspector General***

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## **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 Wisconsin Department of Workforce Development, the Bureau of Child Support (the State agency) administers the child support enforcement 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 Wisconsin, child support collections that remain unclaimed by the owner for more than one year after becoming payable or distributable are presumed abandoned. While State regulations require the State agency to report abandoned funds to the Office of the State Treasurer and transfer unclaimed funds to the Department of Administration annually, county agencies must report and transfer unclaimed funds to the county treasurer on every odd numbered year.

### **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**

For the quarters ended December 1998 through September 2005, the State agency did not recognize and report program income of \$162,701 (\$107,383 Federal share) for undistributable collections. This amount consisted of (1) unclaimed collections totaling \$125,704 (\$82,965 Federal share) that one county agency (Milwaukee) did not identify as abandoned and transfer to the county treasurer and (2) undistributable child support collections of \$36,997 (\$24,418 Federal share) that were identified as abandoned and appropriately transferred, but not reported as program income by the State Agency. These deficiencies occurred because the State agency did not provide sufficient oversight of State and county agency reporting of unclaimed collections or have adequate procedures to ensure that undistributable collections were identified and reported as program income.

With respect to interest, the State agency did properly report 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:

- report program income for undistributable collections of \$162,701 (\$107,383 Federal share);
- require the Milwaukee county agency to transfer unclaimed collections to the treasurer's office in accordance with State regulations; and
- provide program oversight and implement procedures to ensure that undistributable collections are identified and reported as program income on the quarterly Federal financial report (Form OCSE-396A).

## **STATE AGENCY COMMENTS**

The State agency agreed with the audit findings, has taken corrective action to report program income for undistributable collections, and will provide direction to assist the State and county agencies in following the regulations and complying with the recommendations. The State agency comments are included in the 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, 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 Wisconsin Department of Workforce Development, the Bureau of Child Support (the State agency) administers the child support enforcement program and receives Federal reimbursement, generally at a rate of 66 percent of program costs.

In 1999, the State established the State Disbursement Unit to collect and distribute child support payments. Before that time, county child support agencies (county agencies) were responsible for collecting and disbursing child support payments.

#### **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 those 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 “the 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 “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 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 Wisconsin Child Support Costs Claimed**

The OCSE Division of Audit conducted an audit of selected program costs that Wisconsin claimed from October 1, 1997 through September 30, 1998 and issued a final report (WI-98-AC) on June 19, 2000. The report identified unclaimed collections of \$1,366,439 that should have been transferred to the county treasurers on or before the date of the report in accordance with the State’s abandoned property requirement. Because these collections were not properly transferred, these undistributable collections were not used to reduce Title IV-D program expenditures. The OCSE Division of Audit recommended that the State agency make an adjustment for program income not reported. Additionally, the OCSE Division of Audit determined that the State did not report any interest earned on collections retained at the State level. Between November 1996 and December 1998, the State earned but did not report interest to offset program expenditures. The OCSE Division of Audit recommended that the State agency report interest totaling \$476,649 as program income. The State agency agreed to properly report unclaimed funds and interest earned as program income.

## **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 September 30, 2005. Undistributable collections in this report pertain to (1) 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 5 counties, including Brown, Dane, Milwaukee, Racine and Rock County. We performed fieldwork at the Wisconsin Department of Workforce Development from December 2005 through January 2006.

Our review of internal controls was limited to understanding the State agency's policies and procedures for reporting undistributable collections and program income. Specifically, we reviewed the policies and procedures that the State agency and county agencies used to identify unclaimed property, report it as abandoned pursuant to State law, and report it as undistributable and program income according to Federal requirements.

### **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 and understand 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 selected county Clerk of the Court and child support agencies through September 30, 2005, 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 June 2005 and September 2005.

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

## **FINDINGS AND RECOMMENDATIONS**

For the quarters ended December 1998 through September 2005, the State agency did not recognize and report program income of \$162,701 (\$107,383 Federal share) for undistributable collections. This amount consisted of (1) unclaimed collections totaling \$125,704 (\$82,965 Federal share) that one county agency (Milwaukee) did not identify as abandoned and transfer to the county treasurer and (2) undistributable child support collections of \$36,997 (\$24,418 Federal share) that were identified as abandoned and appropriately transferred, but not reported as program income by the State Agency. These deficiencies occurred because the State agency did not provide sufficient oversight of State and county agency reporting of unclaimed collections or have adequate procedures to ensure that undistributable collections were identified and reported as program income.

With respect to interest, the State agency did properly report interest earned on reported undistributed collections and program funds as program income and offset this amount against program expenditures.

### **UNCLAIMED COLLECTIONS NOT TRANSFERRED**

The State agency did not recognize program income of \$125,704 (\$82,965 Federal share) for unclaimed collections that the Milwaukee county agency failed to identify as abandoned and transfer to the county treasurer. The county did not notify the State agency of the amount of undistributable collections that should be reported as program income. If these collections had been appropriately transferred in accordance with State regulations and the State agency had been notified, the collections could have been reported as 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 . . . this revenue must be counted as program income and be used to reduce IV-D program expenditures, in accordance with Federal regulations . . . .

Wisconsin's statutes establish (1) how long property must be held before it is presumed abandoned, (2) when the State and county agency must report the abandoned property, and (3) the necessary abandoned property reporting actions. County agencies must report and

transfer funds held more than one year to the county treasurer on every odd numbered year. Pursuant to Wisconsin Statutes § 59.66(2):

On or before January 10 of every odd-numbered year, each officer of a . . . county, and each clerk of every court of record, shall file with the treasurer of that person's county a written report under oath giving the names and the last-known addresses of all persons for whom any such officer or clerk holds money or security, and which has not been claimed for at least one year, and showing the amount of the money or the nature of the security in detail . . . .

On September 30, 1999, the State agency issued a Child Support Bulletin (No. 99-29) that instructed County agencies to follow county policy on the disposition of unclaimed child support payments. The State agency indicated that county agencies should comply with the guidance provided in Section 59.66(2) of the Wisconsin State Statutes, which states:

In summary, this statute requires county clerk of courts on every odd numbered year to file with the county treasurer a written report of persons for whom the Clerk holds money . . . and which has not been claimed for at least one year. The county treasurer should publish the names of these persons by February 1<sup>st</sup> of the same year and any money not disbursed within 6 months becomes the possession of the county treasurer.

### **County Transfers and State Agency Notification Not Accomplished**

The Milwaukee county agency did not transfer \$125,704 in unclaimed collections to the county treasurer, as required by State statute. Consequently, the State agency did not report the unclaimed collections as program income on Form OCSE-396A. If the county agency had appropriately transferred these collections in accordance with State regulations and notified the State agency, it could have reported the collections as undistributable and program income.

Even though the State agency instructed county agencies to comply with State statutes and report unclaimed child support funds as program revenue on their county report, the State agency did not ensure that the county agency fully implemented procedures to transfer unclaimed collections and to notify the State agency of the amounts to be reported as program income.

### **PROGRAM INCOME NOT REPORTED**

The State agency did not report program income totaling \$36,997 (\$24,418 Federal share) for undistributable child support collections. The unreported program income included \$25,659 in unclaimed collections that one county transferred to the county treasurer, but did not report as program income to the State agency, and \$11,338 in unclaimed funds that the State agency transferred to the Department of Administration, but did not report as 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 . . . this revenue must be counted as program income and be used to reduce IV-D program expenditures, in accordance with Federal regulations . . . .

Wisconsin statutes establish when property is considered abandoned and the abandoned property reporting requirements. Wisconsin Statutes § 177.13 states: “. . . property held for the owner by a court, state, or . . . agency . . . that remains unclaimed by the owner for more than one year after it became payable or distributable is presumed abandoned.” The State agency must report abandoned funds to the Office of the State Treasurer and transfer unclaimed funds to the Department of Administration annually. County agencies must report funds held more than one year to the county treasurer on every odd numbered year. Wisconsin Statutes § 59.66(2) states: “On or before January 10 of every odd-numbered year, each officer of a . . . county . . . shall file with the treasurer of that person’s county a written report . . . for whom any such officer . . . holds money or security, and which has not been claimed for at least one year, . . . .”

### **Undistributable Collections Not Reported to State Agency**

Although the Dane county agency transferred \$25,659 in unclaimed collections to the county treasurer’s office, it failed to report these undistributable collections to the State agency. Consequently, the State agency did not report the unclaimed collections as program income on Form OCSE-396A. We attribute the underreporting to insufficient State agency oversight to ensure that the county agency reported undistributable collections as program income.

### **Program Income Not Reported by the State Agency**

The State agency transferred unclaimed collections totaling \$11,338 to a trust fund account but did not report the unclaimed funds as program income. These collections, which the State Department of Administration held for more than one year, should have been reported as program income. This condition occurred because the State agency did not have adequate procedures to ensure that all unclaimed collections transferred to trust fund accounts were recognized as program income.

## **RECOMMENDATIONS**

We recommend that the State agency:

- report program income for undistributable collections of \$162,701 (\$107,383 Federal share);

- require the Milwaukee county agency to transfer unclaimed collections to the treasurer's office in accordance with State regulations; and
- provide program oversight and implement procedures to ensure that undistributable collections are identified and reported as program income on the quarterly Federal financial report (Form OCSE-396A).

#### **STATE AGENCY COMMENTS**

The State agency agreed with the audit findings, has taken corrective action to report program income for undistributable collections, and will provide direction to assist the State and county agencies in following the regulations and complying with the recommendations. The State agency comments are included in the appendix.

# **APPENDIX**

**Department of Workforce Development**  
**Workforce Solutions Division**  
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**State of Wisconsin**  
**Department of Workforce Development**  
Jim Doyle, Governor  
Roberta Gassman, Secretary  
Bill Clingan, Division Administrator

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May 5, 2006

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

Re: Report Number A-05-06-00018

Dear Mr. Swanson:

Thank you for your letter to Secretary Roberta Gassman. We are writing in response to the Office of Inspector General's Review of Undistributable Child Support Collections in Wisconsin from October 1, 1998 through September 30, 2005. It is our understanding that the report dated April 13, 2006 is not final and that this draft report was provided for our consideration as to the validity of the facts and the reasonableness of the recommendations. We are providing written comments to you, as required by the letter of April 13, 2006.

We believe that your facts are essentially accurate, with some clarification as noted below. We have reviewed your recommendations and have initiated a course of action to remedy the findings.

**Findings and Recommendations**

For the quarters ended December 1998 through September 2005, the State agency did not recognize and report program income of \$162,701 (\$107,383 Federal share). This amount consists of three separate amounts:

1. Milwaukee County unclaimed collections totaling \$125,704, and
2. Dane County unclaimed collections totaling \$25,659, and
3. Bureau of Child Support unclaimed collections totaling \$11,338.

The Report recommends that the State agency:

- Report program income for undistributable collections of \$162,701 (\$107,383 Federal share);
- Require the Milwaukee county agency to transfer unclaimed collections to the treasurer's office in accordance with State regulations; and
- Provide program oversight and implement procedures to ensure that undistributable collections are identified and reported as program income on the quarterly Federal financial report (Form OCSE-396A).

### **Milwaukee County Unclaimed Funds**

The Milwaukee county child support agency did not recognize program income of \$125,704 in unclaimed collections to the county treasurer, as required by State statute, nor did Milwaukee County report this program income to the state agency. Consequently, the state agency did not report the unclaimed collections as program income on Form OCSE-396A. If the county agency had appropriately transferred these collections in accordance with State regulations and notified the state agency, these collections would have reported the collections as undistributable and program income.

In response, the Milwaukee county child support agency reported this program revenue in the amount of \$125,704 in January 2006. This was claimed on the OCSE-396A for the period ended March 31, 2006. The state agency will further advise Milwaukee County that they must transfer unclaimed collections to the treasurer's office in accordance with State regulations.

### **Dane County Unclaimed Funds**

Although the Dane county agency transferred \$25,659 in unclaimed collections to the county treasurer's office, the county failed to report these undistributable collections as child support program revenue to the state agency. Consequently, the state agency did not report the unclaimed collections a program income on Form OCSE-396A.

In response, the Dane county child support agency reported this program revenue in the amount of \$25,659 in February 2006. This was claimed on the OCSE-396A for the period ended March 31, 2006.

### **Bureau of Child Support Unclaimed Funds**

The State agency transferred unclaimed collections totaling \$11,338 to a trust fund account but did not report the unclaimed funds as program income. These collections, which the State Department of Administration held for more than a year, should have been reported as program income.

The State has procedures to ensure that unclaimed funds are routinely identified, published by the State Treasurer, and reported as program income on the OCSE-396A. Since 1999, the state agency reported approximately \$7 million in unclaimed funds using these procedures.

The \$11,338 in unclaimed funds were life-of-case refunds for payees with no known address on file. These funds were not identified or reported because they are handled outside of the usual BCS processes established for handling unclaimed funds.

In response to this finding, BCS has developed procedures to identify and report life-of-case refunds on an annual basis. These procedures assure that all unclaimed funds are reviewed annually, appropriately transferred to state bank account managed by the Department of Administration, and also reported as program income on the OCSE-396A.

The \$11,338 will be reported as program income on the OCSE-396A report for the quarter ended June 30, 2006 and will be published by the State Treasurer as Unclaimed Funds in 2007 as required under Wisconsin statutes.

**State Oversight of Reporting**

In 1999 and 2000, following the transition of the support collections to the state disbursement unit, the state agency issued instructions to county agencies to ensure that they complied with State statutes for reporting unclaimed funds to the county treasurer, and also report unclaimed child support funds. The state agency surveyed each county and required that the county identify unclaimed funds. The following year, the state agency required an accounting from each agency that those funds were either forwarded to the legal payees, or reported as unclaimed funds. However, the state agency did not issue further instructions to ensure that the county agencies appropriately report unclaimed funds that might be identified in the years since 2000.

In response to this finding, the Bureau of Child Support is preparing a policy directive to advise all county child support agencies that any unclaimed funds or other program revenues must be reported on the CORE monthly expense reporting software. If appropriately reported on CORE, the revenue will be properly reported on the quarterly OCSE-396A.

If you have questions concerning this response, please contact Susan Pfeiffer, Wisconsin Bureau of Child Support Director, at (608)267-4337.

Sincerely,



Bill Clingan  
Division Administrator

cc: Roberta Gassman, Secretary