



MAR 31 2008

**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 Orange County, California, From October 1, 1998, Through March 31, 2006 (A-09-06-00040)

Attached is an advance copy of our final report on undistributable child support collections in Orange County, California, from October 1, 1998, through March 31, 2006. We will issue this report to the California Department of Child Support Services (the State agency) within 5 business days.

In California, the State agency supervises the Child Support Enforcement program, and individual counties administer the program. This report focuses on Orange County's local child support agency, Child Support Services (the county agency), which reported undistributable collections and program income to the State agency.

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

For the period October 1, 1998, through March 31, 2006, the State agency did not recognize or report program income totaling \$2,218,391 (\$1,464,138 Federal share) for undistributable child support collections and interest earned on child support collections. This amount consisted of (1) unclaimed collections totaling \$2,168,879 (\$1,431,460 Federal share) held by the county agency that were 3 years old or older as of March 31, 2006, but that had not been recognized as abandoned; (2) unreported program income totaling \$3,011 (\$1,987 Federal share) for undistributable collections that had been recognized as abandoned and transferred to the Orange County general fund; and (3) unreported program income totaling \$46,501 (\$30,691 Federal share) for interest earned on child support collections.

These deficiencies occurred because the State agency had not sufficiently monitored the county agency's unclaimed collections that were 3 years old or older and because the county agency had focused resources on processing current child support collections instead. In addition, because

administration of the Child Support Enforcement program moved July 1, 2002, from the Orange County office of the district attorney to the county agency, the county agency was not aware that the office of the district attorney had not reported some undistributable collections and interest earned on collections as program income.

We recommend that the State agency:

- monitor the county agency's progress in resolving the status of \$2,168,879 (\$1,431,460 Federal share) of unclaimed child support collections that were 3 years old or older as of March 31, 2006, and report as program income those collections recognized as abandoned pursuant to State requirements;
- report program income totaling \$3,011 (\$1,987 Federal share) for undistributable collections that the county agency already recognized as abandoned; and
- report program income totaling \$46,501 (\$30,691 Federal share) for interest earned on child support collections.

In comments on our draft report, the State agency concurred with the findings and described how it was addressing the recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov) or Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360 or through e-mail at [Lori.Ahlstrand@oig.hhs.gov](mailto:Lori.Ahlstrand@oig.hhs.gov). Please refer to report number A-09-06-00040 in all correspondence.

Attachment



Region IX  
Office of Audit Services  
90 – 7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

APR - 4 2008

Report Number: A-09-06-00040

Mr. David Maxwell-Jolly  
Director  
Department of Child Support Services  
P.O. Box 419064  
Rancho Cordova, California 95741-9064

Dear Mr. Maxwell-Jolly:

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

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

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

If you have any questions or comments about this report, please do not hesitate to call me, or contact Thomas P. Lenahan, Audit Manager, at (323) 261-7218, ext. 604, or through e-mail at [Thomas.Lenahan@oig.hhs.gov](mailto:Thomas.Lenahan@oig.hhs.gov). Please refer to report number A-09-06-00040 in all correspondence.

Sincerely,

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Sharon M. Fujii  
Regional Administrator  
Administration for Children and Families  
San Francisco Regional Office  
90 – 7th Street, 9th Floor  
San Francisco, California 94103

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
UNDISTRIBUTABLE CHILD  
SUPPORT COLLECTIONS IN  
ORANGE COUNTY, CALIFORNIA,  
FROM OCTOBER 1, 1998,  
THROUGH MARCH 31, 2006**



Daniel R. Levinson  
Inspector General

April 2008  
A-09-06-00040

# ***Office of Inspector General***

<http://oig.hhs.gov>

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

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

In California, the Department of Child Support Services (the State agency) supervises the child support program, and individual counties administer the program. Beginning in 2000, the State agency gradually transferred county administration from the county offices of the district attorneys to newly created independent county departments of child support services (local child support agencies). The transitions were completed by July 1, 2002.

Undistributable collections result when a State receives a child support payment but cannot identify or locate the custodial parent or return the funds to the noncustodial parent. OCSE requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from undistributable child support collections and interest earned on child support collections. OCSE defines undistributable collections as those that are considered abandoned under State law. California law provides that money that remains unclaimed for 3 years becomes the property of the county after public notice. Upon satisfaction of State requirements, such as trying to locate the custodial or noncustodial parent and publishing notice of the unclaimed collections in the local newspaper, the unclaimed funds are considered abandoned and may be transferred to the county's general fund.

States are required to report undistributable collections to OCSE on Federal Form OCSE-34A, "Child Support Enforcement Program Quarterly Report of Collections," and program income on Federal Form OCSE-396A, "Child Support Enforcement Program Financial Report, Quarterly Report of Expenditures and Estimates."

This report focuses on Orange County's local child support agency, Child Support Services (the county agency), which reported undistributable collections and program income to the State agency.

### **OBJECTIVES**

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

## **SUMMARY OF FINDINGS**

For the period October 1, 1998, through March 31, 2006, the State agency did not recognize or report program income totaling \$2,218,391 (\$1,464,138 Federal share) for undistributable child support collections and interest earned on child support collections. This amount consisted of (1) unclaimed collections totaling \$2,168,879 (\$1,431,460 Federal share) held by the county agency that were 3 years old or older as of March 31, 2006, but that had not been recognized as abandoned; (2) unreported program income totaling \$3,011 (\$1,987 Federal share) for undistributable collections that had been recognized as abandoned and transferred to the Orange County general fund; and (3) unreported program income totaling \$46,501 (\$30,691 Federal share) for interest earned on child support collections.

These deficiencies occurred because the State agency had not sufficiently monitored the county agency's unclaimed collections that were 3 years old or older and because the county agency had focused resources on processing current child support collections instead. In addition, because administration of the Child Support Enforcement program moved July 1, 2002, from the Orange County office of the district attorney to the county agency, the county agency was not aware that the office of the district attorney had not reported some undistributable collections and interest earned on collections as program income.

## **RECOMMENDATIONS**

We recommend that the State agency:

- monitor the county agency's progress in resolving the status of \$2,168,879 (\$1,431,460 Federal share) of unclaimed child support collections that were 3 years old or older as of March 31, 2006, and report as program income those collections recognized as abandoned pursuant to State requirements;
- report program income totaling \$3,011 (\$1,987 Federal share) for undistributable collections that the county agency already recognized as abandoned; and
- report program income totaling \$46,501 (\$30,691 Federal share) for interest earned on child support collections.

## **STATE AGENCY COMMENTS**

In comments on our draft report, the State agency concurred with the findings and described how it was addressing the recommendations. The complete text of the State agency comments is included as 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 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 by setting program standards and policy, evaluating performance, and offering technical assistance.

In California, the Department of Child Support Services (the State agency) is responsible for supervising the Child Support Enforcement program and generally receives Federal reimbursement at a rate of 66 percent of program costs. The individual counties administer the program.

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

Undistributable collections result when a State receives a child support payment but cannot identify or locate the custodial parent or return the funds to the noncustodial parent. 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 under State law. 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 . . . 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.”

In addition, OCSE Action Transmittal (AT)-89-16 requires States to offset Child Support Enforcement program costs by recognizing and reporting program income from interest earned on child support collections.

States are required to report undistributable collections to OCSE on Federal Form OCSE-34A, “Child Support Enforcement Program Quarterly Report of Collections,” and program income on Federal Form OCSE-396A, “Child Support Enforcement Program Financial Report, Quarterly Report of Expenditures and Estimates.”

#### **California’s Child Support Enforcement Program**

Before January 1, 2000, the Child Support Enforcement program in California was supervised by the Department of Social Services and administered at the county level by the offices of the district attorneys. Effective January 1, 2000, the State agency took over supervision of the program and gradually transferred county administration of the program to newly created

independent county departments of child support services (local child support agencies). All transitions were completed by July 1, 2002.

From November 2005 through May 2006, the State agency transferred child support collection and disbursement activities from the local child support agencies to the State Disbursement Unit (SDU). During the transition, local child support agencies forwarded to SDU on a daily basis the child support payments that they received. The local child support agencies retained all other functions, such as locating custodial and noncustodial parents and enforcing collection actions. Within 1 year after the transfer of collection and disbursement functions to SDU, all collections remaining unclaimed in the child support trust accounts at the local child support agencies were to be transferred to SDU.<sup>1</sup>

California law provides that money that remains unclaimed for 3 years becomes the property of the county after public notice. Upon satisfaction of State requirements, such as trying to locate the custodial or noncustodial parent and publishing notice of the unclaimed collections in the local newspaper, the unclaimed funds are considered abandoned and may be transferred to the county's general fund.

## **Review of Orange County Child Support Services**

Within California, we selected for review several local child support agencies that had large amounts of unclaimed child support collections that were 3 years old or older and/or had reported no undistributable collections. This report focuses on Orange County's local child support agency, Child Support Services (the county agency), which reported undistributable collections and program income to the State agency. We will address other local child support agencies in separate reports.

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

### **Objectives**

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

### **Scope**

We reviewed the county agency's undistributable collections reported on Form OCSE-34A and program income reported on Form OCSE-396A for the period October 1, 1998, through March 31, 2006. Our review included child support collections that could not be identified with or disbursed to the custodial parent or returned to the noncustodial parent and checks for child support collections that were disbursed to the recipients but not cashed.

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<sup>1</sup>A child support trust account was an account established by a local child support agency for the receipt and disbursement of child support collections.

We limited our review of internal controls to understanding the State agency's and county agency's policies and procedures for reporting undistributable collections and interest earned on child support collections.

We performed fieldwork at the State agency in Rancho Cordova, California, in June and July 2006 and at the county agency in Santa Ana, California, from August 2006 through April 2007.

## **Methodology**

To accomplish our objectives, we:

- reviewed applicable Federal and State laws, regulations, and guidance, including OCSE program and policy announcements;
- reviewed the State agency's policies and procedures for recognizing and reporting program income pertaining to undistributable collections and interest earned on child support collections;
- reviewed the county agency's policies and procedures for identifying unclaimed property, reporting abandoned property, and identifying and reporting undistributable collections and program income to the State agency;
- interviewed State agency and county agency officials to obtain an understanding of procedures for recognizing and reporting program income pertaining to undistributable collections and interest earned on child support collections;
- compared and reconciled undistributable collections from the State agency's supporting documentation to amounts reported on Forms OCSE-34A and OCSE-396A for the period October 1, 1998, through March 31, 2006;
- compared and reconciled undistributable collections from the county agency's accounting records to undistributable collections reported to the State agency;
- reviewed 15 monthly Orange County auditor controller's reports of warrants issued but not cashed that covered the period May 1, 1998, through March 31, 2005, to determine whether the county agency appropriately reported the uncashed warrants as unclaimed collections;
- reviewed pertinent documentation that the Orange County office of the district attorney transferred to the county agency, such as monthly collection reports, quarterly expenditure reports, and schedules of unclaimed child support collections identified for transfer to the Orange County general fund;

- reviewed the county agency's unclaimed collections data through March 31, 2006, to determine actions that the county agency took on unclaimed collections that were 3 years old or older;
- assessed the county agency's documentation for any unclaimed child support collections that the county agency transferred to SDU as of March 31, 2006, to determine whether those unclaimed collections qualified as abandoned property pursuant to State requirements; and
- compared data for interest earned that the State agency reported on Form OCSE-396A with interest earned that the county agency entered in its accounting records for the period October 1, 1998, through March 31, 2006.

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

## **FINDINGS AND RECOMMENDATIONS**

For the period October 1, 1998, through March 31, 2006, the State agency did not recognize or report program income totaling \$2,218,391 (\$1,464,138 Federal share) for undistributable child support collections and interest earned on child support collections. This amount consisted of (1) unclaimed collections totaling \$2,168,879 (\$1,431,460 Federal share) held by the county agency that were 3 years old or older as of March 31, 2006, but that had not been recognized as abandoned; (2) unreported program income totaling \$3,011 (\$1,987 Federal share) for undistributable collections that had been recognized as abandoned and transferred to the Orange County general fund; and (3) unreported program income totaling \$46,501 (\$30,691 Federal share) for interest earned on child support collections.

These deficiencies occurred because the State agency had not sufficiently monitored the county agency's unclaimed collections that were 3 years old or older and because the county agency had focused resources on processing current child support collections instead. In addition, because administration of the Child Support Enforcement program moved July 1, 2002, from the Orange County office of the district attorney to the county agency, the county agency was not aware that the office of the district attorney had not reported some undistributable collections and interest earned on collections as program income.

### **UNCLAIMED CHILD SUPPORT COLLECTIONS**

#### **Federal and State Requirements**

The instructions for Forms OCSE-34A and OCSE-396A require States to report program income for undistributable collections when State law considers them abandoned. The Form 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.’ ”

California law establishes how long property must be held before it is presumed abandoned. Section 50050 of the California Government Code states: “. . . money . . . that is not the property of a local agency that remains unclaimed in its treasury or in the official custody of its officers for three years is the property of the local agency after notice . . . the treasurer of the local agency may cause a notice to be published once a week for two successive weeks in a newspaper of general circulation . . .” The requirement for public notice after 3 years does not apply to collections that are unidentified or less than \$15. Section 50055 of the California Government Code states: “. . . individual items of less than fifteen dollars (\$15), or any amount if the depositor’s name is unknown, which remain unclaimed in the treasury or in the official custody of an officer of a local agency for the period of one year . . . may be transferred to the general fund . . . without the necessity of publication of a notice in a newspaper.”

In November 2004, the State agency issued Child Support Services (CSS) letter 04-22 to local child support agencies; the letter provides policy direction for the disbursement of child support collections and the resolution of collections that cannot be distributed. The letter states that for warrants issued to the custodial parent but not cashed, the local child support agency should attempt to contact the custodial parent. If the custodial parent cannot be reached because the contact information is no longer valid, the local child support agency should attempt to locate the custodial parent for a period of 6 months using all available locate tools as specified in the California Code of Regulations, Title 22, Division 13, Article 1, section 113100(a).

When the local child support agency has been unsuccessful in locating the custodial parent after a 6-month period and/or the check has become stale-dated, the payment shall be reversed and the collection returned to the noncustodial parent. If the refund to the noncustodial parent remains uncashed, the local child support agency shall attempt to contact the noncustodial parent. If the local child support agency is unable to contact the noncustodial parent, locate efforts shall be made for a period of 6 months using all available locate resources as specified in the California Code of Regulations, Title 22, Division 13, Article 1, section 113100(a). If the noncustodial parent cannot be located after 6 months and the warrant remains uncashed, the payment transaction shall be reversed. The local child support agency shall hold the unclaimed funds in trust for an additional 6 months (for a total of 1 year from the date of the refund warrant) if funds are less than \$15 or an additional 2 years (for a total of 3 years from the date of the warrant) if funds are \$15 or more. Once the local child support agency has complied with all State requirements, which may include publishing notice of the unclaimed collections in the local newspaper, the funds held in trust are considered abandoned property and may be reverted to the county general fund.

## **Unclaimed Collections Held by the County Agency Not Recognized as Abandoned**

As of March 31, 2006, the county agency held in its child support trust account \$2,168,879 (\$1,431,460 Federal share) in unclaimed child support collections that were 3 years old or older but had not been recognized as abandoned and reported as program income. The majority of these unclaimed collections had been transferred from the Orange County office of the district attorney when administration of the program was transferred to the county agency. The vast majority of these unclaimed collections were for warrants disbursed to the recipients but not cashed. The county agency did not take timely action to address the collections, as required by State policy letter CSS 04-22. Such action would have resulted in returning the collections to the custodial or noncustodial parents or transferring the collections to the Orange County general fund after all State requirements had been met.

This deficiency occurred because the State agency did not sufficiently monitor the county agency's unclaimed collections that were 3 years old or older to ensure that the county agency took timely actions in accordance with State policy. These actions would have included attempts to locate the custodial and noncustodial parents for a period of 6 months for collections that had been paid out but not cashed. Instead of resolving these older unclaimed collections, the county agency focused staff resources on processing current collections.

Effective January 1, 2006, in an effort to resolve the \$2,168,879 in the child support trust account, the county agency contracted with an external vendor to locate custodial or noncustodial parents. After we completed our fieldwork, the county agency informed us that, with the external vendor's assistance, the county agency had been able to resolve \$1,140,978 of these unclaimed collections, which consisted of \$593,358 transferred or scheduled for transfer to the Orange County general fund and \$547,620 returned to custodial or noncustodial parents. The county agency also informed us that it planned to continue its efforts to resolve the remaining unclaimed collections.

## **UNDISTRIBUTABLE CHILD SUPPORT COLLECTIONS**

### **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 must be refunded to the obligor or that they 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 at 45 CFR § 304.50.

The Form 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: . . . (ii) undistributable child support collections as reported on Line 9a of Form OCSE-34A, the ‘Quarterly Report of Collections’ . . . .”

CSS letter 04-22 states that pursuant to Federal requirements, when child support collections have reverted to the county general fund, they are considered to be program income and must be abated and reported as program income by the local child support agency.

### **Undistributable Collections Recognized as Abandoned but Not Reported as Program Income**

For the period October 1, 1998, through March 31, 2006, the State agency did not report program income totaling \$3,011 (\$1,987 Federal share) for undistributable child support collections that had been recognized as abandoned and transferred to the Orange County general fund. This amount consisted of \$1,754 transferred to the Orange County general fund in June 2002 and \$1,257 transferred in June 2003.

Effective July 1, 2002, administration of the Child Support Enforcement program moved from the Orange County office of the district attorney to the county agency. Therefore, the county agency was not responsible for administration of the program in June 2002 and was unaware that \$1,754 was transferred to the Orange County general fund but not reported as program income to the State agency.

In June 2003, the county agency was responsible for reporting program income to the State agency for undistributable collections transferred to the Orange County general fund. However, because of a clerical error, the county agency did not report undistributable collections totaling \$1,257.

## **INTEREST EARNED ON CHILD SUPPORT COLLECTIONS**

### **Federal and State Requirements**

Federal regulations (45 CFR § 304.50) state that interest earned must be used to reduce Child Support Enforcement program expenditures. In addition, OCSE AT-89-16 requires States to offset program costs by recognizing and reporting program income from interest earned on child support collections. Specifically, OCSE AT-89-16 states: “Although not required by either statute or regulation, many States have chosen to invest or deposit these funds in income-producing accounts. Any amount earned through these activities is considered program income and must be used by States to offset program expenditures.”

State agency policy, Local Child Support Agency letter 02-36, provides clarification on the reporting of interest earned on child support collections: “All interest earned on Child Support Enforcement program funds must be reported . . . .” and used to offset program expenditures.

## **Interest Earned on Child Support Collections Not Reported as Program Income**

The State agency did not report program income totaling \$46,501 (\$30,691 Federal share) for interest earned on child support collections in June 2001. The county agency was unaware that the interest earned was not reported to the State agency as program income because in June 2001, the county agency did not administer the Child Support Enforcement program.

### **RECOMMENDATIONS**

We recommend that the State agency:

- monitor the county agency's progress in resolving the status of \$2,168,879 (\$1,431,460 Federal share) of unclaimed child support collections that were 3 years old or older as of March 31, 2006, and report as program income those collections recognized as abandoned pursuant to State requirements;
- report program income totaling \$3,011 (\$1,987 Federal share) for undistributable collections that the county agency already recognized as abandoned; and
- report program income totaling \$46,501 (\$30,691 Federal share) for interest earned on child support collections.

### **STATE AGENCY COMMENTS**

In comments on our draft report (included in their entirety as the Appendix), the State agency concurred with the findings. In response to the first recommendation, the State agency commented that the county agency had resolved or was currently resolving all remaining unclaimed child support collections, either by returning funds to custodial or noncustodial parents or by recognizing funds as abandoned and reporting them as program income. In response to the second and third recommendations, the State agency commented that it would report as program income the full amounts of undistributable collections that the county agency had already recognized as abandoned and interest earned on child support collections.

### **OTHER MATTER: INTEREST EARNED ON PROGRAM ADMINISTRATIVE FUNDS**

Pursuant to Federal regulations (45 CFR § 92.21(i)), interest earned on advances, except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act, must be remitted to the Federal Government at least quarterly. State agency policy, Local Child Support Agency letter 02-36, states that county agencies must report quarterly the interest earned on all funds received to administer the child support program.

The State agency advances Federal funds for administering the Child Support Enforcement program to Orange County. These funds are commingled with other Orange County funds and

invested by the Orange County treasurer. The interest earned on these commingled funds is considered general-purpose revenue and is used to support countywide operations, such as health care services, social services, and police protection. Orange County does not report this income to the State agency. County agency officials told us that they were unaware that child support program administrative funds earned interest. We plan to review the interest earned on these funds in a future audit.

# **APPENDIX**

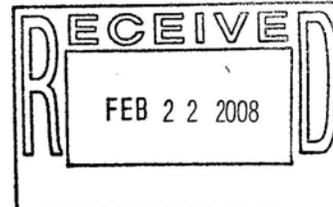
**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES**

P.O. Box 419064, Rancho Cordova, CA 95741-9064



February 20, 2008

Ms. Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
Department of Health & Human Services  
90 – 7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103



SUBJECT: REPORT NUMBER A-09-06-00040

Dear Ms. Ahlstrand:

This is in response to your draft report of the Review of Undistributable Child Support Collections in Orange County, California, from October 1, 1998 through March 31, 2006. Thank you for your letter of January 24, 2008 and the opportunity to respond.

We have reviewed your recommendations contained in the draft report and concur with the findings. Please find our responses to your recommendations, as noted below.

**Unclaimed Child Support Collections**

**Recommendation:** Monitor the county agency's progress in resolving the status of \$2,168,879 (\$1,431,460 Federal share) of unclaimed child support collections that were 3 years old or older as of March 31, 2006, and report as program income those collections recognized as abandoned pursuant to State requirements.

**Response:** We concur with the finding. As of March 31, 2006, Orange County continued to research undistributed collections to determine capability of returning funds to custodial or noncustodial parents. Subsequent to the audit period Orange County has resolved all remaining unclaimed collections as follows:

- \$784,451 was returned to custodial or noncustodial parents.
- \$587,517 was recognized as abandoned and reported as program income.

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- Remaining balance of approximately \$790,000 will be recognized as abandoned and reported as program income by July of 2008.

**Undistributable Child Support Collections**

Recommendation: Report program income totaling \$3,011 (\$1,987 Federal share) for undistributable collections that the county agency already recognized as abandoned.

Response: We concur with the finding. Prior period abandoned collections were not reported as program income. Full amount will be reported as program income on the third quarter claim.

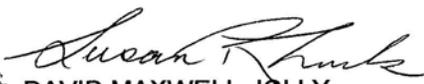
**Interest Earned on Child Support Collections**

Recommendation: Report program income totaling \$ 46,501 (30,691 Federal share) for interest earned on child support collections.

Response: We concur with the finding. Interest earned in June of 2001 on child support collections was not reported as program income. Full amount will be reported as program income on the third quarter claim.

If you have any questions regarding this response, please contact Barbara Owens, Audit Manager, at (916) 464-5168.

Sincerely,

  
for DAVID MAXWELL-JOLLY  
Director

cc: Jan Sturla, Director, Orange County DCSS  
Susan R. Turek, Acting Chief Deputy Director  
Mary Lawrence, Regional Administrator