



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

APR 30 2009

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

Report Number: A-09-08-00024

Mr. Jan Sturla  
Director  
California Department of Child Support Services  
P.O. Box 419064  
Rancho Cordova, California 95741-9064

Dear Mr. Sturla:

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 Los Angeles 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.

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If you have any questions or comments about this report, please do not hesitate to call me at (415) 437-8360, or contact James Kenny, Audit Manager, at (415) 437-8370 or through e-mail at [James.Kenny@oig.hhs.gov](mailto:James.Kenny@oig.hhs.gov). Please refer to report number A-09-08-00024 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand".

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, Region IX  
U.S. Department of Health and Human Services  
90 – 7<sup>th</sup> Street, 9<sup>th</sup> Floor  
San Francisco, California 94103

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

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



Daniel R. Levinson  
Inspector General

April 2009  
A-09-08-00024

# *Office of Inspector General*

<http://oig.hhs.gov>

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

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

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

In 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 amounts of \$15 or greater that remain unclaimed for 3 years become the property of the county after public notice. Individual amounts that are less than \$15, or any amount if the depositor's name is unknown, that remain unclaimed for a period of 1 year may be transferred to the county's general fund without the necessity of public notice.

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 Los Angeles County's local child support agency, the Child Support Services Department (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**

The State agency has appropriately recognized and reported program income for the county agency's undistributable child support collections for the period October 1, 1998, through

March 31, 2006. Specifically, the county agency substantially resolved the \$1,855,354 (\$1,224,533 Federal share) of unclaimed collections that it held as of March 31, 2006, and that had met or exceeded the required time periods for holding unclaimed collections. The county agency resolved the majority of these unclaimed collections before the start of our fieldwork in December 2007, including reporting most unclaimed collections to the State agency as program income and returning some unclaimed collections to custodial or noncustodial parents.

However, the State agency did not recognize or report program income totaling \$878,373 (\$579,726 Federal share) for interest earned on child support collections. Because administration of the Child Support Enforcement program moved July 1, 2001, from the Los Angeles 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 interest earned on collections as program income.

### **RECOMMENDATION**

We recommend that the State agency report program income totaling \$878,373 (\$579,726 Federal share) for interest earned on child support collections.

### **STATE AGENCY COMMENTS**

In its comments on our draft report (included in their entirety as the Appendix), the State agency concurred with the findings. Regarding our recommendation, the State agency commented that the county agency will pay the full amount to the State agency to reimburse the unreported interest earned on child support collections.

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## **INTRODUCTION**

### **BACKGROUND**

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

The Child Support Enforcement program is a Federal, State, and local partnership, established in 1975 under Title IV-D of the Social Security Act, to 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 amounts of \$15 or more that remain unclaimed for 3 years become the property of the county after public notice. Individual amounts that are less than \$15, or any amount if the depositor's name is unknown, that remain unclaimed for a period of 1 year may be transferred to the county's general fund without the necessity of public notice. Upon satisfaction of State requirements, such as trying to locate or identify the custodial or noncustodial parent and publishing notice of the unclaimed collections in the local newspaper if required, the unclaimed funds are considered abandoned and may be transferred to the county's general fund.

## **Review of Los Angeles County Child Support Services Department**

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 Los Angeles County's local child support agency, the Child Support Services Department (the county agency), which reported undistributable collections and program income to the State agency. We addressed the local child support agencies in Orange County and Riverside County in separate reports (A-09-06-00040 and A-09-07-00049, respectively).

## **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

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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.

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.

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 Commerce, California, from December 2007 through April 2008.

## **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 total undistributable collections reported on Form OCSE-34A to program income reported on Form OCSE-396A for the period October 1, 1998, through March 31, 2006;
- compared and reconciled undistributable collections from the State agency's supporting documentation to amounts reported on Form OCSE-34A for the period October 1, 1998, through March 31, 2006;
- compared and reconciled program income from the State agency's supporting documentation to amounts reported on Form 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 the undistributable collections reported to the State agency;

- compared and reconciled interest earned on child support collections from the county agency's accounting records to the interest earned reported to the State agency;
- 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;
- reviewed 50 warrants selected from 8 monthly Los Angeles County auditor controller's reports of warrants issued but not cashed that covered the period April 2, 2001, through March 31, 2004, to determine whether the county agency appropriately reported the uncashed warrants as unclaimed collections;
- reviewed pertinent documentation that the Los Angeles County office of the district attorney transferred to the county agency, such as monthly collection reports, quarterly expenditure reports, and unclaimed child support collections transferred to the Los Angeles County general fund;
- reviewed the county agency's unclaimed collections data through March 31, 2006, to determine (1) whether the collections were aged appropriately and (2) actions that the county agency took on unclaimed collections that had met or exceeded the time periods for holding unclaimed collections required by California law; and
- 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.

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 RECOMMENDATION**

The State agency has appropriately recognized and reported program income for the county agency's undistributable child support collections for the period October 1, 1998, through March 31, 2006. Specifically, the county agency substantially resolved the \$1,855,354 (\$1,224,533 Federal share) of unclaimed collections that it held as of March 31, 2006, and that had met or exceeded the required time periods for holding unclaimed collections. The county agency resolved the majority of these unclaimed collections before the start of our fieldwork in December 2007, including reporting most unclaimed collections to the State agency as program income and returning some unclaimed collections to custodial or noncustodial parents.

However, the State agency did not recognize or report program income totaling \$878,373 (\$579,726 Federal share) for interest earned on child support collections. Because administration of the Child Support Enforcement program moved July 1, 2001, from the Los Angeles 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 interest earned on collections as program income.

## **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 \$878,373 (\$579,726 Federal share) for interest earned on child support collections held by the county agency. This unreported interest was earned from May through August 2000. Because administration of the Child Support Enforcement program moved July 1, 2001, from the Los Angeles 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 interest earned on collections as program income.

## **RECOMMENDATION**

We recommend that the State agency report program income totaling \$878,373 (\$579,726 Federal share) for interest earned on child support collections.

## **STATE AGENCY COMMENTS**

In its comments on our draft report (included in their entirety as the Appendix), the State agency concurred with the findings. Regarding our recommendation, the State agency commented that the county agency will pay the full amount to the State agency to reimburse the unreported 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 Los Angeles County. These funds are commingled with other county funds and invested by the Los Angeles County treasurer. The Los Angeles Auditor-Controller's office stated that the interest earned on these funds is used to help fund the county's annual budget. The county agency did not know the amount of the interest earned on these advances. 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



April 3, 2009

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

SUBJECT: REPORT NUMBER A-09-08-00024

Dear Ms. Ahlstrand:

This is in response to your draft report of the Review of Undistributable Child Support Collections in Los Angeles County, California, from October 1, 1998 through March 31, 2006. Thank you for your letter of January 28, 2009 and the opportunity to respond.

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

**Interest Earned on Child Support Collections**

Recommendation: Report program income totaling \$ 878,373 (\$579,726 federal share) for interest earned on child support collections.

Response: We concur with the finding. This amount of interest earned on child support collections was not reported by the Office of the District Attorney during May through August 2000 and should have been reported as program income. The full amount will be paid to the State by the county to reimburse the amount of unreported interest.

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

Sincerely,

A handwritten signature in cursive script that reads "Jan Sturla".

JAN STURLA  
Director

cc: Steven J. Golightly, Director, Los Angeles County Child Support Services Department