



J. TYLER McCAULEY  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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November 8, 2002

TO: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *JTM*  
Auditor-Controller

**SUBJECT: DEPARTMENT OF CHILDREN AND FAMILY SERVICES – CHILD  
SUPPORT TRUST ACCOUNT REVIEW**

At the request of the Department of Children and Family Services' (DCFS) management, we have completed a review of the Department's Child Support Trust Account (TK7). The purpose of our review was to reconcile the Child Support Trust Account to DCFS' accounting records and to determine whether funds remaining in trust should be held in trust or distributed.

In conducting our review, we interviewed DCFS and Child Support Services Department (CSSD) staff, reviewed County-wide Accounting and Purchasing System (CAPS) reports, and analyzed DCFS' ledger balances. We also reviewed State guidelines for classifying and distributing support payments.

**Background**

The California Department of Social Services requires DCFS to make a referral to the CSSD for support collections from non-custodial parents (NCP). Each month, CSSD collects approximately \$625,000 from NCPs for foster cases and then distributes the collections to the federal government, State, and County based on established sharing ratios. Amounts collected from NCPs in excess of the cost of providing services are placed into the Child Support Trust Account to be held or used for the child's benefit. As of June 30, 2002, the balance in the account was \$4.6 million.

### Summary

DCFS has never attempted to reconcile its internal accounting records with the Child Support Trust Account actual balance in CAPS. This has resulted in a \$2,087,000 difference between the \$4,661,000 CAPS balance and the Department's ledger balance of \$2,574,000. We were able to account for \$1,327,493 of the difference. Once DCFS takes action to correct these errors, we estimate that the Department should realize approximately \$720,000 in County revenue. The remaining difference in the account, \$759,507 (\$2,087,000 - \$1,327,493), cannot be identified using existing records. We have recommended that DCFS consult with County Counsel on how to appropriately disposition these funds. Resolution of this amount should result in additional County revenue.

Our review also disclosed that most of the \$2,574,000 reflected in the Department's ledger balances needs to be distributed to the federal government, State, and County. For example, based on a sample of 227 accounts totaling \$128,000, we found that only approximately \$8,000 (6%) should remain in trust. If the results of our sample were applied to the entire \$2,574,000 balance, the distribution of funds would likely result in additional County revenue of \$724,000. Determining how much of the \$2,574,000 should be distributed will require DCFS to analyze over 3,500 accounts. We have offered our assistance to help DCFS develop a methodology to accomplish this task.

Details of these and other findings, along with recommendations to strengthen controls over the Child Support Trust Account, are discussed in the attached report.

### Acknowledgment

We thank DCFS management and staff for their cooperation and assistance during our review. We discussed the results of our review with DCFS management on November 5, 2002. The Department's written response (attached) indicates it plans to implement all twelve recommendations.

If you have any questions, please call me or your staff may contact DeWitt Roberts at (213) 974-0301.

JTM:DR:RAD

c: David E. Janssen, Chief Administrative Officer  
Philip Browning, Director, Child Support Services Department  
Department of Children and Family Services  
Marjorie Kelly, Interim Director  
Paul Freedlund, Bureau Chief  
Ed Jewik, Finance Officer  
Patti Griffin, HSM III  
Lloyd W. Pellman, County Counsel  
Jon W. Fullinwider, Chief Information Officer  
Violet Varona-Lukens, Executive Officer  
Public Information Office  
Audit Committee

**Department of Children and Family Services**  
**Child Support Trust Account (TK7) Review**

**Comments and Recommendations**

**Background**

The California Department of Social Services requires DCFS to make a referral to the CSSD for support collections from NCPs. Each month, CSSD prepares a Child/Family and Spousal Support Payments – Assistance Related Distribution/Disbursement Summary (CS800) to distribute the collections to the federal government, State, and County based on sharing ratios established by the California Department of Social Services. These ratios vary depending on whether the case is federal or non-federal.

The CS800 also reflects a “pass-on” amount that is not subject to distribution. Pass-on represents collections from NCPs in excess of the amount of foster care support provided. For example, if the NCP made a \$700 payment, but the amount of support provided per the referral was only \$500, the pass-on amount would be \$200. The California Department of Social Services requires pass-on amounts to be held in trust for the child or used in the child’s best interest.

In addition to the CS800, CSSD also prepares a monthly journal voucher to transfer the County share and pass-on amount to DCFS’ Child Support Trust Account in CAPS. DCFS’ Finance Section then prepares another journal voucher to transfer the County share to Departmental revenue. Thus, the Child Support Trust Account should only include pass-on amounts plus any County share received but not yet transferred from the trust account to revenue.

**Summary**

DCFS has never attempted to reconcile its internal accounting records with the Child Support Trust Account actual balance in CAPS. This has resulted in a \$2,087,000 difference between the \$4,661,000 CAPS balance and the Department’s ledger balance of \$2,574,000. We were able to account for \$1,327,493 of the difference as follows:

- Between March 1999 and June 2000, DCFS reduced its ledger balances by approximately \$915,000, but did not process distribution transactions to reduce the trust balance.
- \$412,493 in June 1999 collections were not distributed to the federal government, State, and County.

DCFS needs to distribute the \$1,327,493 (\$915,000 + \$412,493) from the Child Support Trust Account to the federal government, State, and County, as appropriate. Once this

is accomplished, the Department should realize approximately \$720,000 in County revenue.

After the \$1,327,493 is distributed, the remaining difference in the account is \$759,507 (\$2,087,000 - \$1,327,493). Of this amount, \$500,000 is due to pre-1998 deposits that are not reflected in DCFS' ledger balances. DCFS needs to consult with County Counsel on how to disposition this amount because records do not appear to be available to formally resolve it. It appears that the remaining difference of \$259,507 (\$759,507 – \$500,000) results from deposits made but not recorded in DCFS' ledgers. DCFS needs to review its deposits and post corresponding ledger entries to reflect these deposits. If this is not possible, DCFS should also consult County Counsel on how to disposition this amount.

Our review also disclosed that most of the \$2,574,000 reflected in the Department's ledger balances should be distributed to the federal government, State, and County. For example, based on a sample of 227 accounts totaling \$128,000, we found that only approximately \$8,000 (6%) should remain in trust. If the results of our sample were applied to the entire \$2,574,000 balance, the distribution of funds would likely result in additional County revenue of \$724,000.

Determining how much of the \$2,574,000 should be distributed will require DCFS to analyze over 3,500 accounts. We have offered our assistance to help DCFS develop a methodology to accomplish this task.

### **Account Reconciliation**

#### **Adjusting CSUP Balances**

CSSD provides DCFS with a monthly computer file (download file) containing detailed collection information, such as the child's name, payor's name, month of collection, amount collected, and pass-on amount. DCFS downloads this information into their Child Support System (CSUP) to update individual ledger accounts. These ledgers show the pass-on amounts (reflected on CSUP as trust amounts) and foster care support costs for each child. The ledgers serve as subsidiary records to support amounts in trust. Consequently, the total of the ledgers should reconcile to the Child Support Trust Account balance in CAPS.

To ensure subsidiary records reconcile with CAPS, any reductions to CSUP ledger balances should result in a corresponding transaction to decrease the Child Support Trust Account balance in CAPS. However, we noted that between March 1999 and June 2000, DCFS reduced the CSUP ledger balances by approximately \$915,000, but did not distribute funds from the Child Support Trust Account.

These adjustments to ledgers were made because CSSD incorrectly determined pass-on amounts on numerous non-federal cases. This occurred because DCFS does not provide CSSD with the amount of unreimbursed foster care support payments (this

issue is discussed in greater detail on page five). The California Department of Social Services' manual letter number CS-00-02 states that "In a current non-federal foster care assistance case, any amount of current child support collected shall be retained by the County to reimburse, in whole or in part, the aid payment for that month and any past aid payments made to the child which have not been otherwise reimbursed." For many non-federal cases, the County had unreimbursed foster care costs. Since there should not be a pass-on amount in these instances, DCFS' Child Support Unit (the unit responsible for accounting for foster care support collections) reduced the trust balances in CSUP. However, the corresponding funds were not distributed from the Child Support Trust account to State and County revenue. Based on the current sharing ratio for non-federal cases, the estimated distribution of the \$915,000 would be: State - \$366,000 (40%) and County - \$549,000 (60%).

DCFS should identify those accounts where amounts were reduced in CSUP and distribute this amount to the State and County.

### **Recommendation**

- 1. DCFS identify those non-federal cases where amounts were reduced in CSUP and distribute this amount to the State and County.**

### **Distributions of Monthly Collections**

CSSD currently transfers only the County share and pass-on amounts to DCFS' Child Support Trust Account. However, prior to July 2000, CSSD transferred all collections to the trust account and DCFS would distribute the collections to the federal government, State, and County.<sup>1</sup>

We reviewed CAPS reports and CS800s to determine:

- Whether all collections prior to July 2000, as identified on the CS800, were deposited to the trust account and that the federal, State, and County shares were subsequently distributed from trust.
- Whether the County share and pass-on amounts were deposited to the trust account and that the County share was subsequently transferred to revenue for collections since July 2000.

We noted one exception where \$412,493 in total collections for June 1999 were never distributed from the trust account, which resulted in under-reported revenue. According to the CS800, \$128,754 should have been distributed to the federal government, \$112,719 to the State, and \$171,020 to the County. DCFS should distribute the \$412,493 in accordance with the CS800. In addition, DCFS should establish

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<sup>1</sup> The CSSD was established as a new department in July 2001. Prior to this, child support collections were the responsibility of the District Attorney's Bureau of Family Support Operations.

procedures to ensure that the County share identified on each CS800 is transferred to revenue.

### **Recommendations**

2. **DCFS distribute the \$412,493 in June 1999 collections to the federal government, State, and County based on amounts indicated on the CS800.**
3. **DCFS establish procedures to ensure that the County share identified on each CS800 is transferred to revenue.**

### **Unreconciled Trust Balance**

The remaining difference in the account is \$759,507. Of this amount, \$500,000 is due to pre-1998 deposits that are not reflected in DCFS' ledger balances. DCFS needs to consult with County Counsel on how to disposition this amount because records do not appear to be available to formally resolve it. It appears that the remaining difference (\$259,507) results from deposits made but not recorded in DCFS' ledgers. DCFS needs to review its deposits and post corresponding ledger entries to reflect these deposits. If this is not possible, DCFS should also consult County Counsel on how to disposition this amount.

### **Recommendations**

4. **DCFS consult with County Counsel on how to disposition pre-1998 deposits that are not reflected in DCFS' ledger balances.**
5. **DCFS determine the deposits made that are not reflected in its ledgers and post corresponding ledger entries to reflect those deposits. If this is not possible, DCFS consult County Counsel on how to disposition this amount.**

### **Distributions of Pass-on Amounts**

#### **Reviewing CSUP Ledger Balances**

CSUP ledger balances should only include valid pass-on amounts. As of June 30, 2002, the CSUP ledger balances totaled \$2,574,000 for 3,560 cases. We reviewed a sample of 227 (6%) cases, totaling \$128,000 (5%), to determine whether any of these funds could be distributed to the federal government, State, or County. We found that approximately \$120,000 (94%) of the \$128,000 sampled should not be in trust. Instead, CSSD should have distributed these funds based on the appropriate sharing ratios as follows: federal - \$60,000 (50%), State - \$24,000 (20%), and County - \$36,000 (30%).<sup>2</sup>

<sup>2</sup> These amounts are estimates because they are based on current sharing ratios, which may differ from the sharing ratios in effect at the time of the collection.

Based on our sample results, we estimate that only \$161,000 of the \$2,574,000 CSUP balance should remain in trust. The remaining \$2,413,000 should be distributed, as appropriate. Using our sample results as a basis, we estimate the distribution to be as follows: federal - \$1,206,000, State - \$483,000, and County - \$724,000.

In general, the cases we identified where amounts should have been distributed fell into two categories:

- CSSD overstated the pass-on amount because DCFS does not provide CSSD with current data on the amount of foster care support costs (discussed below under "Pass-On Calculation").
- CSSD incorrectly calculated the pass-on amount because DCFS does not provide CSSD with the amount of unreimbursed foster care support payments.

DCFS should review all CSUP ledger accounts with balances to identify funds that should be distributed to the federal government, State, and County.

### **Recommendation**

- 6. DCFS review all CSUP ledger accounts with balances to identify funds that should be distributed to the federal government, State, and County.**

### **Pass-On Calculation**

According to the California Department of Social Services' manual letter number CS-00-02, pass-on amounts represent collections received in excess of foster care support provided. CSSD frequently computes pass-on amounts incorrectly because DCFS does not provide CSSD with updated foster care cost data. Therefore, for each collection, CSSD uses the initial referral amount to determine the pass-on. Since monthly foster care costs often change, this usually results in an overstatement of the pass-on amount and an understatement of the amount to be distributed. Typically, current monthly foster care costs will be more than the amounts indicated on the initial referral.

DCFS should periodically provide CSSD with a computer file of updated foster care costs so that CSSD can correctly calculate pass-on amounts. This should minimize the amount of funds in the Child Support Trust Account, making it easier for DCFS to manage the account.

### **Recommendation**

- 7. DCFS periodically provide CSSD with a computer file of updated foster care costs so that CSSD can correctly calculate pass-on amounts.**

**Distributing Pass-On Amounts**

The California Department of Social Services requires pass-on amounts to be held in trust for the child or used in the child's best interest. If the child leaves foster care, any balance in their trust account should be distributed to them. We noted that the Department does not have a mechanism in place to identify these cases. Consequently, funds that should have been distributed continue to remain in the Child Support Trust Account.

DCFS should develop a mechanism for identifying children with trust balances who are no longer in foster care so that these funds can be distributed to them.

**Recommendation**

- 8. DCFS develop a mechanism for identifying children with trust balances who are no longer in foster care so that these funds can be distributed to them.**

**Other Issues**

**Reliability of Download Data**

As previously indicated, CSSD provides DCFS with a download file which DCFS uses to update CSUP ledger balances. From this file, DCFS generates a download report showing payor and child identification numbers, total collections, and pass-on amounts for each collection. In theory, figures on the download reports should match those on the CS800.

We compared pass-on amounts reflected on the download reports to corresponding figures on the CS800 for 33 months. For all 33 months, the figures did not agree. On average, the amounts differed by \$1,057 with the CS800 figure almost always being higher.

The amounts differ because CSSD makes manual adjustments between the time it creates the download file and the time the CS800 is prepared. However, CSSD does not provide these adjustments to DCFS. Without these adjustments, pass-on amounts posted in CSUP will not agree with the trust amounts deposited into the Child Support Trust Account.

DCFS should work with CSSD to ensure that actual trust amounts received (and posted to CAPS) are the same as the amounts indicated on the download reports. If this is not feasible, DCFS should request CSSD to provide details of the adjustments so DCFS can enter this data into CSUP.



**Recommendation**

9. **DCFS work with CSSD to ensure that actual trust amounts received (and posted to CAPS) are the same as the amounts indicated on the download reports. If this is not feasible, DCFS should request CSSD to provide details of the adjustments so DCFS can enter this data into CSUP.**

**Written Procedures**

DCFS management has not provided the Child Support Unit with instructions on how to disposition trust amounts, nor do they have any guidance on how to reconcile the Child Support Trust Account. As a result, the trust account continues to grow.

DCFS needs to develop comprehensive procedures for staff to follow. These procedures should provide instructions for dispositioning trust amounts and for reconciling the Child Support Trust Account.

**Recommendation**

10. **DCFS develop procedures for dispositioning trust amounts and for reconciling the Child Support Trust Account.**

**System Documentation**

System documentation provides detailed information about functions performed by a system. Documentation should be complete and kept current for all changes to allow someone other than the original designer of the System to understand, review, and maintain the System. Documentation would ordinarily include:

- a) System description
- b) System flowcharts
- c) General design and detailed design documentation
- d) Program narratives
- e) Program flowcharts and decision tables
- f) File and record layouts
- g) Data dictionary
- h) User manual, including data entry instructions, explanation of fields on screens, and explanation of reports.

DCFS does not have any documentation for CSUP. This made our review more difficult. For instance, DCFS staff was unable to explain how CSUP processed certain transactions. Because of the lack of documentation, we had to review several reports to determine how the transactions were processed.

DCFS is currently developing a new Integrated Financial System (IFS). IFS will replace three of DCFS' standalone systems, including CSUP. DCFS should ensure this System is properly documented. In addition, DCFS should provide training to ensure users understand the System's functions.

**Recommendations**

- 11. DCFS ensure that it properly documents the Integrated Financial System.**
- 12. DCFS provide training to ensure users understand the System's functions.**



MARJORIE KELLY  
Interim Director

# County of Los Angeles DEPARTMENT OF CHILDREN AND FAMILY SERVICES

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November 7, 2002

J. Tyler McCauley, Auditor-Controller  
Auditor-Controller  
525 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Mr. McCauley:

## DEPARTMENT OF CHILDREN AND FAMILY SERVICES CHILD SUPPORT TRUST ACCOUNT REVIEW (11-2002)


The Department of Children and Family Services reviewed the above report with your audit team on November 5, 2002. We appreciate your staff's time and efforts in responding to our request for assistance and helping us determine whether funds remaining in trust should be held or distributed.

We generally agree with the analyses and recommendations offered in the report. As discussed in the meeting with your staff, the computer system that accounts for the child support funds is in the process of re-design, therefore, some of the recommendations related to technological enhancements are already underway.

We plan to implement all of the recommendations outlined in your report and accept your offer to assist us in developing a methodology for accomplishing this task.

If you have any questions regarding this response, please contact me at (213) 351-5535 or your staff can contact Cynthia James of my staff at (213) 351-5562.

Sincerely,

  
Paul V. Freedlund, Bureau Chief  
Finance and Administration

PVF:CJ:cj

c: Ricky A. Deguchi  
Ed Jewik  
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