COUNTY OF LOS ANGELES
Child Support Services Department

Philip L. Browning
Director

January 28, 2004

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

From: PHILIP L. BROWNING
Director

Subject: **IMPLEMENTATION REPORT ON AUDITOR-CONTROLLER'S REVIEW OF MONTHLY COLLECTION AND DISTRIBUTION REPORTS – CHILD SUPPORT SERVICES DEPARTMENT**

Background

On December 10, 2003, the Auditor-Controller released the attached report on the Child Support Services Department's collection and distribution processes. The report contains six recommendations, all of which have been implemented, or are in the process of being implemented, by the Department. The report also requires a detailed corrective action plan be provided to your Board within 60 days.

Corrective Action Plan

Recommendation 1: CSSD management continue its efforts to resolve the over and under transfer problem occurring each month.

Status: Through continuing analytical efforts, the Department has identified the remaining source of the over/under transfer situation in the ARS child support case management and tracking system. It is related to the calculation of Medi-Cal reimbursement for medical support payments. The amount is currently $200 - $1,400 per month. A programming request to correct this problem has been submitted and is currently pending.

Recommendation 2: CSSD management continue to consult with County Counsel and the State to determine the proper disposition of the $1.95 million unidentified overage.

Status: The unidentified overage is money that is present in the CAPS county-wide accounting system but is not identifiable to a particular case on the ARS system. There are two components: one is a reconciling difference of $1,095,782 from ARS conversion in 1995 up to 11/31/98. The other is a reconciling difference of $647,914 from 12/1/98 to 12/31/03. A new program was implemented on 12/1/98 which allowed some of the cases to be traced as case audits revealed under/over transfers. Although there is no information to reduce or resolve the first component, we have been working to resolve the second component over time. The current total of the two components is $1.74 million, down from the $1.95 million at the time that the audit research was conducted in March 2003.

The State Department of Child Support Services has contacted the Department by telephone to request that the unidentified overage be transferred to them in accordance to State policy. We are currently awaiting written instructions from the State.

Recommendation 3: CSSD management work with County Counsel and the State to minimize the Accounts Receivable and to resolve uncollected accounts. This should include determining if CSSD can follow federal regulations related to tax intercepts involving joint returns. It should also include determining the practicality and legality of not disbursing funds from the trust account until the check from the Non-Custodial Parent clears the bank.

Status: Federal law (45CFR 303.72(h)(5)) allows tax refund intercepts on joint returns to be withheld up to six months from distribution to the custodial parent, as the intercept might be contested by the non-custodial parent's current spouse. If the intercept is immediately distributed to the custodial parent, as required by California law, and later there is an IRS determination that all or a portion of the intercept must be refunded by the Department to the non-custodial parent's spouse, there is no mechanism to recoup the distribution from the custodial parent. This creates a large Accounts Receivable from custodial parents who do not voluntarily return the money. Very few custodial parents will voluntarily agree to return the funds. The same result happens when a non-custodial parent's check is not honored and the distribution has already been made. In the case of the tax intercepts, we are preparing a letter to the State requesting that they conform the State law to the federal law in order to allow the Department to withhold distribution to the custodial parent up to six months. In the case of checks from the non-custodial parent, federal law (45CFR 302.32(b)(3)(i)) provides that amounts collected

must be disbursed within two days of original receipt. Therefore, it is not possible to withhold distribution pending a check clearing the bank.

Recommendation 4: CSSD management ensure that collections and distributions on hold are dispositioned timely.

Status: The Department has established Collection/Distribution Review Teams in each operating division. These teams review cases where money is on hold and attempt to locate and release the funds to the custodial parent, and if the custodial parent cannot be found, return the funds to the non-custodial parent, in accordance with State law.

Recommendations 5 and 6:

CSSD management:

5. **Require its fiscal staff to review and approve the monthly UF6 reconciliation, and CS 34 and CS 35 reports to insure their accuracy.**

6. **Require its fiscal staff to review and approve all journal vouchers and Trust Warrant Requisitions that transfer/disburse funds from UF6 to DCFS, DPSS, the State, and the federal government.**

Status: Fiscal managers will begin reviewing the CS 34 and CS 35 in draft, on line, prior to the Director's approval during the month of February 2004. These reports are precedent to the development of the UF6 reconciliation and the journal vouchers/trust warrant requisitions which distribute reimbursement funds to County, State and federal governments. The federal portion is included in the State's trust warrant and further distribution to the federal level is done at the State level. Fiscal managers will review and initial the reconciliation, journal vouchers and trust warrant requisitions for consistency with the CS 34 and CS 35 at the end of February 2004, prior to submission to the Auditor-Controller for payment.

Conclusion

All of the recommendations under the control of the Department will be implemented as of February 2004.

The final resolution of portions of Recommendations 2 and 3 will follow receipt of direction from the State Department of Child Support Services.

If you have any questions or need further information, please do not hesitate to contact me.

PLB:PVB:crd

Attachment

c: J. Tyler McCauley, Auditor-Controller
David Janssen, Chief Administrative Office
James Blunt, Chief Administrative Office
Justice Board Deputies

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
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December 10, 2003

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **CHILD SUPPORT SERVICES DEPARTMENT – REVIEW OF MONTHLY COLLECTION AND DISTRIBUTION REPORTS**

We have completed a review of the Child Support Services Department's (CSSD) monthly child support collection and distribution reports. CSSD submits these reports to the California Department of Child Support Services for statistical tracking and general reporting purposes. The Auditor-Controller is required to sign these reports certifying their accuracy. At CSSD's request, we also reviewed the Department's Domestic Relations Trust Account (UF6) to verify that an overage exists in the account. CSSD uses the UF6 account on the County-wide Accounting and Purchasing System (CAPS) to account for all child support collections and disbursements. The Department's records show that the account contains a $1.95 million overage.

SCOPE / METHODOLOGY

Our review focused on evaluating how the monthly reports are prepared, ensuring the reports are accurate, and determining if the reported collection and distribution amounts agree to CAPS and to the Department's mainframe case tracking system, ARS (ACSES Replacement System). As part of our review, we interviewed CSSD and Court Trustee personnel, and reviewed pertinent documentation such as monthly reports, trust account reconciliations and CAPS reports.

BACKGROUND

CSSD establishes and enforces child support orders, collects child support payments from non-custodial parents (NCPs), and distributes child support to custodial parents. During Fiscal Year 2002-2003, CSSD collected $515.6 million (an average of $43

million per month). As of September 30, 2003 the balance in the Domestic Relations Trust Account totaled $20.4 million.

The County contracts with Affiliated Computer Services, Inc. (ACS) as the Court Trustee (CT) to process child support payments received on behalf of CSSD. The CT enters collection information into ARS and deposits the corresponding funds into UF6. ARS automatically identifies the custodial parents and sends an electronic payment file to the Auditor-Controller (A-C). The A-C then issues County warrants to the custodial parents using UF6 funds.

It should be noted that not all collections are sent to the custodial parent. For example, if the custodial parent receives welfare assistance, or the child is in foster care, the County is entitled to retain all, or part of, the payment as "assistance reimbursement." Assistance reimbursement amounts are shared among the State, federal government, and County based on predetermined ratios.

Each month, CSSD prepares a Monthly Report of Collections and Distributions (CS34) and an Assistance Related Distribution/Disbursement Summary (CS35) based on information from ARS. These reports reflect child support collections received during the month, including collections from the NCPs and collections received by other counties or other states on behalf of Los Angeles County. The reports also show the distributions of the collections to the custodial parent, State, federal government, and County. Based on information on the CS34 and CS35, the CT prepares a journal voucher to transfer funds from UF6 to the Department of Children and Family Services (DCFS) and to the Department of Public Social Services (DPSS). The CT also prepares a Trust Warrant Requisition so a warrant can be issued for the State and federal share of assistance reimbursements.

SUMMARY OF FINDINGS

With the exception of a discrepancy that occurs each month (discussed below), we were able to agree amounts reported on the CS34 and CS35 to CAPS. In addition, our review confirmed that there is an unidentified overage of $1.95 million in the Domestic Relations Trust Account. Of the $1.95 million, the Department attributes $981,000 to problems that occurred in 1995 when CSSD converted to ARS from an older computer system. Department management believes that it will be unable to resolve most of this discrepancy. The remaining $971,000 unidentified discrepancy is due to various computer programming errors that have resulted in unresolved discrepancies each month since 1997. CSSD should work with County Counsel and the State to determine the proper disposition of the funds.

Our review also disclosed other issues that the Department needs to address. The most significant are:

- CSSD has over $2.8 million in Accounts Receivable. The Department believes that most of this amount is uncollectible. Accounts Receivable are problematic because

if CSSD is unable to collect its Accounts Receivable, the trust account would be "short". CSSD needs to work with County Counsel and the State to minimize Accounts Receivable and to disposition uncollected accounts.

- CSSD has $860,000 in collections received more than six months ago that have not been distributed. Although there are often valid reasons (e.g., the payment is being held due to a legal dispute) why collections are not distributed timely, the large dollar amount indicates that CSSD management needs to place additional emphasis on ensuring collections are distributed timely.

Details of our findings and recommendations are included in the Comments and Recommendations section of our report.

COMMENTS AND RECOMMENDATIONS

Reconciliation of Monthly Reports to CAPS

With the exception of a discrepancy that occurs each month (discussed below), we were able to agree amounts reported on the CS34 and CS35 to CAPS for selected months. It should be noted that CSSD recently began preparing reconciliations that more clearly disclose accounting and timing differences between CAPS and State reporting requirements. CSSD has agreed to provide this reconciliation to the A-C when it submits the CS34 and CS35 reports for signature.

CAPS Trust Account Overage

We reviewed the March 2003 reconciliation between CSSD's detailed trust account records and the UF6 balance on CAPS. The reconciliation showed a $1.95 million unidentified overage (the CAPS balance is $1.95 million higher than CSSD's detailed records).

The $1.95 million consists of two primary components:

- $981,000 – The Department indicated that this amount is the result of problems that occurred in 1995 when CSSD converted to ARS from an older computer system. Although CSSD and CT staff have been able to periodically identify small amounts that need to be corrected, CSSD management indicated it will probably be unable to resolve most of this discrepancy. CSSD should consult with County Counsel and the State to determine the proper disposition of these funds.

- $971,000 – CSSD has determined that this amount is due to over and under transfers of funds to DCFS, DPSS, and the State and federal governments which were caused by various computer programming errors (e.g., erroneously distributing non-welfare cases as assistance reimbursement cases). These errors have resulted in an unresolved discrepancy each month

since 1997 between CAPS and CSSD's detailed trust records. CSSD's reconciliations show that over the past two years, the largest over transfer amount was $37,595, while the largest under transfer amount was $24,029.

During our review, CSSD implemented new computer programming changes which reduced the monthly discrepancy to an average of $700 between July 2003 and October 2003. Although the monthly discrepancy has been reduced significantly, CSSD does not believe that the Department will be able to resolve the existing $971,000 discrepancy. Consequently, CSSD should also consult with County Counsel and the State to determine the proper disposition of these funds.

In summary, CSSD needs to continue its efforts to resolve the over and under transfer problem occurring each month. In addition, CSSD management should continue to consult with County Counsel and the State to determine the proper disposition of the $1.95 million unidentified overage.

Recommendations

CSSD management:

1. **Continue its efforts to resolve the over and under transfer problem occurring each month.**

2. **Continue to consult with County Counsel and the State to determine the proper disposition of the $1.95 million unidentified overage.**

Accounts Receivable

As of March 31, 2003, CSSD's reconciliation showed an Accounts Receivable balance of $2.8 million. Accounts Receivable occur when the Internal Revenue Service or Franchise Tax Board send CSSD monies from tax refund intercepts, but later inform CSSD that they are "reversing" the intercept, after the funds have already been disbursed to the custodial parent. For instance, the State Treasury may send a payment to CSSD, but later reverse 50% of the amount. This can occur when the refund relates to a joint return in which it is determined that the new spouse of the NCP is not responsible for payments made to the custodial parent.

Accounts Receivable also result when a collection from an NCP has been distributed, but the NCP's check is returned for non-sufficient funds (NSF). CSSD stated that it attempts to collect from the NCPs, but the success rate is very low.

Accounts Receivable are problematic for the Department because if CSSD is unable to collect its Accounts Receivable, the trust account would be "short." Currently, the trust account does not reflect an overall shortage because of the $1.95 million overage, new collections that have not yet been distributed, and collections/distributions on hold (discussed below).

CSSD management should work with County Counsel and the State to minimize Accounts Receivable and to resolve uncollected accounts. For example, CSSD should consult with County Counsel and the State regarding whether CSSD can follow federal regulations related to tax intercepts involving joint tax returns. It appears that these regulations allow the County to hold tax intercepts, involving joint returns, for as long as six months before making a distribution to the custodial parent. State regulations appear to allow these payments to be held for up to 30 days.

CSSD should also work with County Counsel and the State to determine the practicality and legality of not disbursing funds from the trust account until the check from the NCP clears the bank.

Recommendation

3. **CSSD management work with County Counsel and the State to minimize Accounts Receivable and to resolve uncollected accounts. This should include determining if CSSD can follow federal regulations related to tax intercepts involving joint returns. It should also include determining the practicality and legality of not disbursing funds from the trust account until the check from the NCP clears the bank.**

Payments on Hold

The Department may place a child support collection or distribution on hold for a variety of reasons. This includes payments held due to legal issues or disputes, unidentified collections, and collections made before they are due to be distributed to the custodial parent (i.e., advance payments).

Section 17502 of the Family Code requires local child support agencies to locate the custodial parent within six months so that funds may be distributed. If unable to locate the custodial parent within this timeframe, the funds should be returned to the non-custodial parent.

CSSD has over $5.7 million in collections and distributions on hold, including $860,000 that has been on hold for more than six months. While we recognize that there are often valid reasons for a collection/disbursement to remain on hold for an extended period, the high dollar amount indicates the need for CSSD management to place additional emphasis on resolving old accounts. Past audits of the Department's trust account, performed by a Certified Public Accounting firm, have noted similar problems with payments on hold. CSSD management needs to ensure collections and distributions on hold are dispositioned timely.

Recommendation

4. **CSSD management ensure that collections and distributions on hold are dispositioned timely.**

CSSD Fiscal Management Division Oversight

Currently, the CT reconciles the UF6 account and completes the journal vouchers and Trust Warrant Requisitions to transfer/disburse funds from UF6 to DCFS, DPSS, State, and federal government. Our review indicates that CSSD's fiscal staff need to increase their involvement in this process. For example, when CT forwards the monthly reconciliations to CSSD's Fiscal Management Division, the Division's fiscal staff should review the reconciliations. Also, fiscal staff should review and approve all journal vouchers transferring funds from UF6 to the State and federal government. Currently, this does not occur.

Since the CT is a vendor and is not staffed by County employees, CSSD management should require its fiscal staff to review and approve the monthly UF6 reconciliations. In addition, CSSD management should require its fiscal staff to review and approve all journal vouchers and Trust Warrant Requisitions that transfer/disburse funds from UF6 to DCFS, DPSS, the State, and the federal government.

Recommendations

CSSD management:

5. **Require its fiscal staff to review and approve the monthly UF6 reconciliations, and CS34 and CS35 reports to ensure their accuracy.**

6. **Require its fiscal staff to review and approve all journal vouchers and Trust Warrant Requisitions that transfer/disburse funds from UF6 to DCFS, DPSS, the State, and the federal government.**

REVIEW OF REPORT

We thank management and staff from CSSD and CT for their cooperation and assistance during our review. We discussed the results of our review with CSSD management. As indicated in the Department's attached response, CSSD generally agrees with the findings and has already begun to implement the recommendations. CSSD will provide the Board with a detailed corrective action plan within 60 days.

If you have any questions regarding this report, please contact me or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR:RD
Attachment

c: David E. Janssen, Chief Administrative Officer
Philip L. Browning, Director, Child Support Services Department
Lloyd W. Pellman, County Counsel
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

COUNTY OF LOS ANGELES
Child Support Services Department

Philip L. Browning
Director

To enrich lives through caring and effective services

December 5, 2003

To: J. Tyler McCauley
Auditor-Controller

From: PHILIP L. BROWNING
Director

Subject: **CHILD SUPPORT SERVICES DEPARTMENT – REVIEW OF MONTHLY COLLECTION AND DISTRIBUTION REPORTS**

We have reviewed the draft of the subject report with your staff. We concur generally with your findings, and have initiated further investigations to clarify how the recommendations can be implemented. We will provide the Board of Supervisors with a response outlining our specific corrective actions within 60 days of the issuance of the report.

We appreciate the efforts of Auditor-Controller staff in assisting us to review our collection and distribution processes.

PLB:PVB:crd

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