



Legislative Budget and Finance Committee

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Performance Audit of the Child Support Statewide Collections and Disbursement Unit

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Table of Contents

	<u>Page</u>
I. Introduction	1
II. Findings and Recommendations	4
III. Additional Information	28
A. Origins of the State Disbursement Unit	28
The Federal IV-D Program	28
State Legislation Authorizing an SDU	35
B. Pennsylvania’s Child Support Collection and Disbursement System	37
State Collection of Child Support	39
Collections and Their Relationship to Enforcement Activities	44
Monitoring the SDU Project	45
Contract and Fiscal Information	46
IV. Appendices	49
A. The Department of Public Welfare’s Cooperative Agreement With the County Commissioners and the Courts of Common Pleas	50
B. Overview of DPW’s SDU Vendor’s Collection and Disbursement Process	54
C. Non-Performance Sanctions.	58
D. Questionnaire for DRS Directors	60
E. Questionnaire for the Courts of Common Pleas	64
F. Questionnaire for Wage Withholding Employers	66
G. Agency Response	69

I. Introduction

In November 1999, the officers of the Legislative Budget and Finance Committee authorized a performance audit of the state's collection and disbursement of child support payments. The Department of Public Welfare became primarily responsible for the collection and disbursement of such payments in response to federal requirements that went into effect during the last half of 1999. Prior to this, the Domestic Relations Section of the Court of Common Pleas in each county had primary responsibility for the collection and disbursement of child support payments. Activity on the performance audit started in late December 1999.

Audit Objectives

1. To describe the origin, development, and implementation of Pennsylvania's State Disbursement Unit (SDU).¹
2. To identify significant problems that have occurred since August 1999 and the current status of their resolution.
3. To assess the compliance of the state's SDU with federal requirements for timely disbursement of child support payments.
4. To identify significant outstanding issues or problems from the perspective of the state, local courts, employers, and child support payment payors and payees and plans for their resolution.

Audit Scope and Methodology

This audit differs from many performance audits and evaluations of child support programs. Such studies often focus on the full range of child support services--the location of absent parents, paternity establishment, support establishment, medical support establishment, collection of support, and enforcement of support orders. Many studies also give considerable attention to program efforts to assure that parents who have not paid child support in the past begin to meet their parental obligations. This audit, however, focuses on the collection of child support payments that have been made by paying parents and the processing and disbursement of such payments.

The audit considers the processes carried out by Pennsylvania's SDU vendor. It also considers activities and processes related to the collection and disbursement

¹ In Pennsylvania, the federally required state disbursement unit is referred to as SCDU--the State Collection and Disbursement Unit. Throughout this report, however, we have used the federal designation for such a unit.

of child support payments that are not directly controlled by DPW's vendor. Such activities and processes are considered because they can affect the amount of payment the vendor disburses to the custodial parent.

To describe the origin, development, and implementation of the state disbursement unit (SDU), we reviewed federal legislation, regulations, and administrative directives. We also reviewed requests for proposals and other information provided by the Department of Public Welfare and its SDU vendor, Lockheed Martin IMS.

To identify any significant problems that have occurred since August 1999 and the current status of their resolution, we met with DPW and Lockheed officials and reviewed various internal monitoring reports prepared by DPW's vendor. We directly observed the work of the vendor, including unannounced visits to observe the customer service unit. We also surveyed the directors of the domestic relations sections (DRSs) of the courts of common pleas, their president judges, and a random sample of employers who are required to withhold wages to pay child support on behalf of their employees. Through survey responses and site visits, we received input from 55 DRS directors and their staff.

To assess the compliance of the SDU with federal requirements for timely payment disbursement, we analyzed a sample of collections received by the SDU in October, November, and December. We were able to use information from automated systems maintained by SDU and from the Pennsylvania Child Support Enforcement System (PACSES) to assess the time required to receive, post, and disburse SDU's child support collections.

To identify significant outstanding issues or problems from the perspective of the state, local courts, employers, and child support payors and payees and plans for their resolution, we surveyed the various groups noted above and contacted Pennsylvania chapters of custodial and noncustodial parent associations. We also reviewed specific cases of parents seeking assistance that were brought to our attention. We met with county DRS officials and conducted site visits to several DRS offices.

LB&FC staff spoke with other states to learn of their experiences in implementing state collection and disbursement programs. We also met with officials from the federal Department of Health and Human Services.

This report presents certain financial information and information about Pennsylvania's child support enforcement automated system—known as PACSES. We have included such information because of its relevance to the operations of the state's collection and disbursement system and the performance of the SDU. We did not, however, conduct a financial audit of the Commonwealth's SDU accounts

nor did we audit the PACSES computer system. We also recognize that within the child support program there are provisions for medical support orders. The requirements for such orders differ from those for child support maintenance, and they do not always involve specific cash payments. We have, therefore, excluded them from consideration in the report.

Acknowledgements

We express our appreciation to the Honorable Feather Houstoun, Secretary of Public Welfare, and her staff, particularly Dr. Sherri Heller, the Deputy Secretary, Office of Income Maintenance; Michael Coulson, Jeffery Rowe, and Jody Pender from the Bureau of Program Support; and Daniel Richard from the Bureau of Child Support Enforcement. We appreciate the cooperation we received from DPW's state disbursement unit vendor. In addition, we appreciate the valuable assistance provided by DRS directors and president judges of the courts of common pleas.

This report was developed by LB&FC staff. The release of this report should not be construed as an indication that the Committee's members endorse the report's findings or recommendations. Questions or comments regarding this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, PA 17105-8737.

II. Findings and Recommendations

In Pennsylvania, the collection and disbursement of child support involves several government units. State law assigns primary authority over matters such as child support to the courts of common pleas and their domestic relations sections. They are responsible for establishing and enforcing support orders.

On behalf of the Commonwealth, the Department of Public Welfare (DPW) administers the federal child support enforcement program called for in Title IV-D of the Social Security Act. This program provides for a variety of services, including the collection and disbursement of child support payments. States are required to have such a program to qualify for federal funds to assist needy families. The Department carries out IV-D program responsibilities through several units within DPW, other state agencies, including the State Treasurer's Office, and through cooperative agreements with the courts of common pleas and the county commissioners in Pennsylvania's 67 counties. Appendix A provides additional information on the Department's intergovernmental cooperative agreement with the courts and the counties.

State Disbursement Units

In 1996, the Social Security Act was amended to require that, as part of their IV-D programs, states operate state disbursement units (SDUs) for the collection of monthly and periodic child support payments. Such payments are to be collected for three different types of child support cases—cases required to participate in the IV-D program, voluntary IV-D cases, and non-IV-D cases.

Mandatory cases include individuals receiving Temporary Assistance for Needy Families (TANF) and cases where federal funds are used to serve children in foster care. Voluntary cases include those individuals who directly apply for child support services available through the IV-D program. Non-IV-D cases include all support orders issued in the state after January 1, 1994, which involve wage withholding. The federal Department of Health and Human Services (DHHS) refers to cases covered through this provision as “non-IV-D cases” because they are not subject to enforcement by the IV-D program.

The 1996 Social Security Act amendments required the state's SDU to use automated procedures, electronic processes, and computer driven technology to the maximum extent feasible for collection and disbursement of child support payments. To the extent feasible, the SDU is to operate in coordination with the IV-D program computer systems.

The 1996 amendments require SDUs to disburse child support payments to both IV-D and non IV-D cases within two business days after receipt from the employer or other periodic source. This rule, however, applies only if the payment includes sufficient information to identify the payee and if the arrears that are present are not under appeal. Employers, moreover, have seven business days from the date the amount of the withheld wage would have been paid to the employee to submit payments to the SDU, and they cannot be required to modify their payroll practices to comply with wage withholding requirements. Federal law limits the total amount that employers can withhold to comply with an order, and permits employers to charge a fee for wage withholding. If employers charge a fee, it is to be paid within the federal withholding cap.

States in which the courts are responsible for issuing child support orders, such as Pennsylvania, were required to have their SDUs in place by October 1, 1999. Pennsylvania met this deadline, but several other populous states (California, Michigan, Ohio, Texas) did not. Subsequent federal legislation, however, effectively removed the threat of loss of significant TANF funds for states not meeting the deadline.

Pennsylvania's Child Support Collection and Disbursement System

Confronted with the possible loss of significant federal TANF funds, the Commonwealth enacted Act 1997-58 authorizing DPW to establish and operate an SDU consistent with federal law. Subsequently, DPW assumed primary responsibility for the collection and disbursement of child support—activities previously carried out by counties.

In April 1999, the Department contracted with Lockheed Martin IMS to assist it in collecting and disbursing child support payments and serve as the federally required SDU. Prior to the federal mandate, Lockheed had been involved in collection and disbursement programs in New York and Wisconsin. DPW also chose Lockheed because of its familiarity with Pennsylvania's Child Support Enforcement System (PACSES), the federally required automated IV-D program enforcement system, which Lockheed designed.

In July 1999, the Department officially notified the presiding judges and the county commissioners that the state would assume responsibility for the collection and disbursement of child support payments as of August 1st and that DRS offices would no longer be involved in such functions. In doing so, the Department advised the counties that they could no longer claim federal reimbursement for such activities. It also recommended that county staff that had been involved in collections and disbursements could now be used to increase activities to locate absent parents, establish support orders, and for enforcement activities.

The Department and Lockheed acted quickly to implement the SDU. Effective August 2, 1999, all support checks were printed by DPW's SDU vendor and all payors who did not pay child support through employer wage withholding were required to direct their child support payments to the SDU. Other states that collect child support on behalf of those currently residing in Pennsylvania were also required to submit payments to DPW's vendor. As of October 1, 1999, all employers were required to send wages withheld to pay child support to DPW's vendor.

As a result of our interviews, questionnaires, site visits to counties, individual case reviews, review of DPW policies and SDU procedures, and data analysis we found:

1. ***DPW, its SDU vendor, and county DRS staff have taken steps to address many of the initial implementation problems.*** As has occurred in other states, DPW immediately encountered problems when it implemented the SDU. In some instances, notices telling clients to forward payments to the SDU were sent to clients whose child support cases had been closed. Thousands of notices alerting parents and employers to the start up of the SDU and coupons to be used to process payments were returned to the SDU as a result of incorrect addresses. Some custodial parents were unable to cash their SDU checks due to a clerical error at the SDU's bank. Custodial and non-custodial parents, and others attempting to contact the SDU's automated voice response system (AVR) and customer service unit frequently encountered busy signals.

The information on the AVR concerning payments was not always up to date. Custodial and noncustodial parents, moreover, for a time were unable to access the AVR because efforts to fix certain AVR problems erased all previously assigned PIN numbers allowing access to the AVR.

Not all of the payments received contained the information the SDU expected to receive to post payments using its automated systems. This resulted in many payments being cashed and deposited into the SDU suspense/unidentified account but not being disbursed to the custodial parent.¹

DPW, working cooperatively with its SDU vendor and with the assistance of the county DRS staff, took steps to address the initial problems as they were identified. The SDU vendor promptly installed additional telephone lines and hired additional customer service staff. The vendor also designated specific telephone lines for use by DRS offices that were receiving requests for assistance from custodial and noncustodial parents and employers.

¹The term "unidentified" is a misnomer in that it suggests that there is no identifying information along with the payment. Some of the "unidentified" receipts do not contain legible information identifying the member or case. Others, however, contain legible information. Such information, however, is not the specific information that the SDU requires to post a payment to a member's account on PACSES.

DPW's vendor began to provide county DRS offices with lists of checks from employers and others that SDU had not been able to post and had, therefore, returned. This allowed the DRS staff to better respond to questions from parents and others about payments that had been made but not received by the custodial parent.

DPW further enlisted the assistance of DRS offices in identifying the payments that did not contain all of the information the SDU required to post payments. DPW provided counties with copies of checks that previously were deposited and posted as unidentified. The SDU vendor also started to provide counties with copies of all checks that did not have the information sought by the vendor to post the payment when the check is received. As described below, such processes and the support of the DRS staff have resulted in a significant reduction in the volume of "unidentified" payments deposits. In late March 2000, the SDU vendor also provided DRS offices with limited direct access to its check images to facilitate DRS efforts to identify the "unidentified" payments.²

In June 2000, DPW provided DRS offices with access through PACSES for information concerning the name, address, and check amount for unidentified payments for which the SDU has requested additional information. In June, DPW and the SDU also expressed a willingness to provide DRS offices with additional ability to search the SDU's check images using check number, bank account number, and routing number if this is technically feasible. Such actions help facilitate DRS efforts to assist parents and employers.

All but one of the DRS offices responding to an LB&FC survey indicated that they have noticed improvements as a result of efforts to address these initial problems. They also noted that the availability of electronic fund transfers (EFT) is a major benefit available under the state's system for the collection and disbursement of child support payments. Forty of the 52 DRS offices responding to an LB&FC survey reported this as a benefit. The DRS directors also note, however, that, as described in this report, important problems remain.

2. ***Parents do not have one place they can turn to for answers to questions about their child support payments.*** Prior to the advent of the SDU, parents could turn to the DRS office for answers to questions about their child support payments. DPW had intended that the SDU vendor's customer service unit would become the family's primary point of contact for this function. However, the expertise required to research these calls was far beyond what either DPW or the SDU vendor had anticipated. As we discovered in researching cases ourselves, child support is a highly complex area and requires a

²The counties for technical reasons are not able to open the entire unidentified file without going to the SDU offices. Currently from their DRS offices, they can only research by member number, not by bank account number, check number, or bank routing code number.

comprehensive understanding of federal and state laws and regulations and how they are operationalized by the PACSES computer system. The PACSES computer system is also highly complex.

DPW and its SDU contractor, therefore, limited the information provided by its customer service representatives to primarily the same information as is available through the SDU automated voice response system—the most recent payments received by the SDU, the five most recent disbursements, and the arrears balance. When presented with more complex questions--how payments are distributed, why a payment was misapplied or delayed, why the payment suddenly is different than the amount of the court order, and other problems such as described below--the SDU customer service representative is to refer the caller to the county DRS office.

However, some DRS offices, in response to a DPW July 1999 letter,³ transferred staff with the expertise to answer complex payment questions to other duties. Even in those DRS offices that retained all of the staff who previously handled such questions, the staff may be unable to assist the family. They may not be familiar with all of the policy and PACSES programming changes that were rapidly implemented with the start of the SDU. County DRS staff have also not had ready access to all of the payment information that is available at the SDU, although county access to this information (such as images of checks) has been expanded recently. For these and other reasons, county DRS staff may re-refer customers back to SDU customer service representatives.

Only three of the DRS offices responding to an LB&FC survey indicated that the SDU customer service staff have been responsive to the questions and concerns of their clients. Thirty-two DRS offices noted specific problems that they or their clients had encountered with the customer service unit. The most often identified problem was that the customer service representatives give incomplete or inaccurate information and that they are not adequately trained. Clients served by two of the state's largest DRS offices (which did not respond to the LB&FC survey) have also experienced similar problems, according to information reported during our site visits.

3. ***The SDU vendor appears to be adhering to the federal requirement that fully identified monthly and periodic payments be disbursed within two business days, but many factors can cause payment delays.*** Eighty-nine percent of the payments reviewed by the LB&FC⁴ staff were disbursed within

³In this letter, DPW informed counties that expenditures associated with child support collections and disbursement must be eliminated from the indirect costs reported for Title IV-D reimbursement. DPW strongly encouraged that county staff engaged in such activities be reassigned to new functions such as locating parents, establishing support orders, and implementing enforcement actions.

⁴LB&FC staff reviewed a random sample of 84 defendant and employer periodic payments received and posted onto PACSES by DPW's SDU vendor during October, November, and December 1999.

one day of their collection, and 98 percent were disbursed within two business days.⁵ None of the payments we reviewed took longer than three days (excluding holidays and Sundays) to process.

The federal requirements for timely processing only apply, however, to those collections that contain information required to process the payment. These were the only checks included in our sample. The timeliness requirement does not apply to checks that cannot be posted because they do not contain information identifying the payee.

DPW permits the SDU vendor to return checks from defendants, employers,⁶ and other states that do not contain a member's PACSES identification number and/or social security number--the information used by the SDU to post payments onto PACSES. The SDU vendor also returns employer checks that are out-of-balance, meaning that the check total (that includes wages withheld for multiple employees) does not agree with the aggregate of the payment amounts listed for the various employees. A check that is partially out-of-balance may be partially posted to member accounts, and the remainder posted to the SDU suspense/unidentified account. If sufficient information is not available to return a check that is received at the SDU without the necessary member information, such a check will also be deposited by the SDU into its suspense/unidentified account. In all of the above situations, the families will not receive their child support payments when they expect it.

In mid-November 1999, 15,815 payments totaling over \$2.6 million were classified as unidentified.⁷ With the assistance of DRS staff, the backlog of unidentified payments was reduced to 5,197 items totaling \$607,553 as of May 31, 2000. The value of returned and out-of-balance checks for all of November and December was over \$1.7 million. For the month of May, such checks totaled over \$600,000.⁸

There are other reasons for delayed payments that are not within the control of the SDU. Families could have experienced some of these delays in the past. For example, employers are allowed seven days before they must submit the withheld amounts. Even so, these checks may not always be sent in promptly. Delays can occur because payments to or from SDU may be delayed or lost in the mail. In our sample of 84 payments, we found that it averaged 13 days

⁵DPW's RFP requires the SDU vendor to process 99.9 percent of receipts on the same day they are received. Processing, however, is not the same as disbursement.

⁶The SDU vendor does make a limited effort to resolve problems for employer checks that are for more than \$5,000 before sending the check back to the employer.

⁷These are point-in-time data, not unduplicated, cumulative totals. DPW does not have reports containing unduplicated, cumulative totals.

⁸Exact figures are not available. The amount of each check is not always included on the SDU check listing.

from the date of the employer's or noncustodial parent's child support check to the date the custodial parent cashed the SDU disbursement check.

Finally, not all of the payments are required to be disbursed immediately. Funds may be collected and not distributed and disbursed because the case is not established in the PACSES system. A hold may be placed on a case because there is no accurate address to which to mail a payment. A case may be due for closure and a hold may be established to assure that overpayment does not occur. Certain other funds, such as IRS intercepts, may be placed on hold because of federal program requirements.

The value of payments with a distribution hold⁹ on any given day ranged from \$4.8 million in January to \$5.5 million in May 2000. The value of payments with a disbursement hold¹⁰ ranged from \$2.8 million in January to \$3.2 million in May 2000.¹¹

We also sought to assess the timeliness of payments under the former county-based system. Prior to the start of the SDU, the DPW did not continually track the timeliness of payment processing when the counties handled the process. However, in its most recent assessment of their compliance with federal requirements, using data for the 1998 federal fiscal year, DPW found that on a statewide basis, the counties disbursed 94 percent of all types of child support payments within two days of receipt. Only 5 percent of such payments took six or more days to process. At the time, the federal timeliness requirement was 10 days following the receipt of the payment.¹²

4. ***Families can lose a child support payment because there is not a policy and process for correcting all misapplied payments.*** Custodial parents and their children may not receive payments that have been made on their

⁹A distribution hold occurs when child support payments received by the SDU cannot be allocated to the proper child support obligations because of missing or erroneous information in the PACSES system.

¹⁰A disbursement hold is placed on child support funds collected by the SDU and distributed by the PACSES system but not released for payment to the custodial parent. This can occur when the custodial parent's address is not available, because an IRS intercept is taken from a joint return, or because the county DRS has a reason to prevent funds from being sent to a payee.

¹¹These are point-in-time data.

¹²DPW's analysis included over 2.2 million collections statewide.

behalf when their payments have been posted in error to someone else's account.¹³ Such payments are referred to as misapplied payments. If SDU staff makes the error, SDU is responsible to correct the error and, if necessary, use its business funds to make the correct payment. If the funds have gone improperly to the DPW, the Department will refund the money for payment to the family for whom the child support was paid.

If the SDU vendor does not assume responsibility for the misposting,¹⁴ however, there is no procedure to require that the individual or family that received funds in error to refund the amount so that it can be forwarded to the correct family. If the individual who incorrectly received the payment does not voluntarily return it, or if employer who makes or may have contributed to the mistake is unwilling to use its funds to cover the misapplied payment, the custodial parent will never receive the child support payment that was made on their behalf.

The Commonwealth is unable to identify the total number of misapplied payments. However, 38 of the 52 DRS directors responding to an LB&FC survey indicated that delay in a custodial parent receiving child support payments following a misapplied payment is a major problem that has occurred with the shift to a state collection and disbursement system.

DPW recognizes the problem encountered by families whose child support is misapplied, but does not have policies or procedures requiring that those who receive funds in error refund the amount so that they can be forwarded to the correct family. When counties were responsible for child support collection and disbursement, they typically required someone who received another family's child support to repay the amount, normally through offsets to their subsequent child support payments.

¹³In December 1999, DPW established a State Collection and Disbursement Unit Payment Adjustment Management (SPAM) process for DRS offices to submit requests for reversals of receipts that have been posted onto PACSES. These include misapplied payments and also requests to reverse and hold receipts, void and reissue checks, and for the posting of payments that were unidentified. The request is researched and submitted electronically by the DRS. Lockheed staff reviews each request. SPAM forms are reviewed on a daily basis by the vendor's review team who approve or reject the payment adjustment request. This review of SPAM requests is intended to be completed within two weeks of submission, but it can take much longer. County DRS representatives told us it can take up to three months for a review to be completed. If the request is not approved, the DRS staff can appeal the denial to DPW's Bureau of Child Support Enforcement (BCSE). Between January 1 and April 7 of this year, over 4,000 SPAM requests were submitted for review. The primary reason for these requests was the payment being posted to the wrong payor. Of the 3,763 SPAM requests reviewed by the vendor staff during this period, 3,044 were approved, 716 were denied, and 3 were cancelled. These numbers do not reflect the total numbers of misapplied payments for several reasons. Each SPAM request can involve several receipts that have been misposted. Employers and parents may be unaware of the SPAM process. Moreover, DRS staff may not submit SPAM requests when mispostings have been documented because they know the DPW will deny the request because of its current policies.

¹⁴Some of the situations that can result in misapplied payments from employers are described in Finding 7. Other situations can occur as a result of the PACSES database and multiple sources of information provided by a defendant.

It is DPW's understanding, however, that the federal government does not permit offsets to recover misapplied payments. It bases its understanding on the Department of Health and Human Services' response to a question concerning situations in which custodial parents have been overpaid child support that was paid on their behalf. The response also addresses situations where a payment made on behalf of a parent has been received and there were insufficient funds in the non-custodial parent's bank account.¹⁵ We have not been able to identify any federal statute or regulation specifically prohibiting the use of offset funds to obtain refunds when someone has improperly received funds paid on behalf of another individual. On the contrary, federal regulations require that state IV-D programs promptly refund wages that have been improperly withheld, even if such funds have been disbursed. Additionally, on several occasions, we have attempted to clarify with federal authorities whether DPW's interpretation of the federal guidelines is correct, but the federal regional office was unable to provide a response.

We also found that other states, including Wisconsin, allow offsets from subsequent child support when funds are received that were paid on behalf of another parent and child. They require the refunding of such funds and will establish offsets of subsequent support unless the state agrees to another repayment plan. Moreover, the Department of Public Welfare requires that IV-D participants in the IRS Tax Refund Offset Program refund monies owed to the Commonwealth if they have received funds from their former spouse's income tax refund that are not due them.

5. ***The SDU vendor posts checks on the day received rather than the date the wages are withheld or the date on the check. The posting date, therefore, becomes the "collection date," which can cause some families to lose a monthly child support payment.*** Families that previously received cash assistance can be adversely affected by the SDU vendor's practice of routinely posting checks the date they are received, even if the check is not negotiable until a later date. As a result, some families have their monthly child support payments in certain months going to pay past welfare arrears. When this happens, the families permanently lose that month's child support payment. This problem appears to happen most frequently in families where the noncustodial parent is employed by the United States military.

This problem occurs because federal law requires that payments collected during the month that are over and above the current monthly child support amount are to be applied to arrears, including welfare arrears. If, for example, an employer sends the withholding check early, SDU will post the check based on the date it is received even though the check may be dated for the following month. This is typically done because the employer wants to be sure that the

¹⁵OCSE-AT-97-13, September 15, 1997, Question 13.

check arrives by the first of the new month. If the noncustodial parent's payment has already been collected for that month, however, the second check will be used to pay off any welfare arrears the family may have accumulated (if there are not other arrears which have a higher priority), rather than go for the new month's child support payment.

Similar problems can arise when a monthly support payment has been withheld from a parent's wages and the SDU receives and returns a check from an employer. If the employer resubmits the first check along with the check for the following month, families with welfare arrears can lose one month's child support.

To partially address this problem, in April 2000 DPW instructed the SDU vendor to wait to post U.S. Treasury checks received until the date on the check. This happened most recently when, to avoid possible delays as a result of the Memorial Day holiday, military checks for June 2000 were mailed several days prior to the end of May. Before the new instructions, the checks, which arrived at SDU at the end of May, would have been posted early and those families affected by this problem would have missed their June child support payment. Instead, SDU waited to post the checks until the dates on the checks, thereby avoiding the welfare arrears problem.

6. ***Even if a court orders that future payments be immediately passed through to the custodial parent, PACSES is not programmed to routinely allow them.*** DPW's policies and procedures concerning child support at times are designed with the state's cash assistance program requirements in mind. Under the state's system for collection and disbursement of child support, such policies are now applied to all families in Pennsylvania that have registered their support orders with the courts. For example, the DPW has a practice of limiting the amount of future payments that can be disbursed to a custodial parent. As a result, if a non-custodial parent (whose family has never received public welfare) pays more than three months child support, for example to help with extraordinary college expenses, the "future" or advanced payment is not immediately passed along to the family. The PACSES system is programmed to permit only one future payment (equivalent to two months monthly child support) to be passed along to the family. The remainder of the payment is placed in an automatic escrow account to cover the cost of future monthly child support. The release of such a payment requires additional work for the DRS and the courts, and delays receipt by the family.
7. ***Employers have encountered problems, particularly regarding payment coupons.*** Although most employers did not express an opinion, 36 percent of the employers responding to an LB&FC survey believe that the SDU is an improvement over the prior system. The employers that consider the SDU to be

an improvement appreciate the advantage of having to send only one check for all wage withholding employees to one address rather than having to send checks to multiple counties.

Seventy-one of the 160 employer respondents, however, noted one or more problems they experienced with DPW's SDU vendor. Twenty-three of the 71 employers reported problems with the employer coupons SDU uses to post payments, often noting that the coupons either include former employees or do not include new employees for whom they have wage withholding orders from the courts. Several employers reported frustration with their attempts to get former employees removed from the payment coupons—a problem that has existed since the start of the SDU.

When the SDU does not promptly remove the names of former employees from the coupon as requested by the employer, the payments submitted to SDU can be posted to the wrong account. This can occur even when the employer submits a check with a statement indicating the correct name and social security number of the employees because SDU relies on the coupon, rather than any supplementary materials, to post payments. When the information on the coupon and the information on the check differ, a misapplied payment can occur.

DPW staff has recently determined that a software problem has caused former employees to not be deleted from the employer coupons. Until this problem was discovered, SDU took the position that such errors were the employer's, not SDU's, responsibility. SDU, therefore, refused to pay the child support for families whose child support was misapplied.

DPW has determined that the SDU's software problems contributed to the coupon errors which, in turn, caused misapplied payments. It has, therefore, required the SDU, in at least one case, to use SDU funds to pay the child support payments of the affected family. DPW is continuing to work with the SDU to correct such employer coupon problems.

8. ***DPW has not required its vendor to comply with all the provisions of the SDU contract.*** We found that DPW has chosen not to enforce several key provisions of its contract with its vendor, Lockheed Martin IMS. In particular:
 - The contract requires the SDU vendor to resolve 95 percent of collection exceptions within three business days. Failure to comply can result in a \$100 per day fiscal sanction or require a Corrective Action Plan. Because of problems encountered by its SDU vendor in identifying certain payments for posting onto PACSES as described in Finding 1 above, the Department agreed to set aside this performance standard. It agreed to allow the SDU

to return checks, rather than post such payments into its suspense/ unidentified account or conduct research to gather the information needed.

- The contract requires the SDU vendor to provide a broad range of customer services related to child support payment receipt and disbursement. As described in Finding 2 above, shortly after the SDU started operation, DPW and its vendor determined that the vendor's customer service unit could not provide such services. DPW then permitted its vendor to refer questions other than for the type of information available through the AVR system to the county DRS offices to address.
- The contract envisions that the SDU vendor would be fully responsible for the accounts into which child support payments were deposited because such collections are not considered Commonwealth receipts. Subsequent to the start of the contract, and at the request of the vendor, DPW agreed that the accounts would be maintained by the SDU vendor using the Commonwealth's federal identification number.

Each of these understandings was reached without formal amendments to the SDU vendor's contract with the Commonwealth.

9. ***Changes in federal cash assistance policies have resulted in some confusion.*** Custodial parents that are receiving cash assistance may receive less of their monthly child support than in the past. In the past, when child support payments in a month exceeded the amount of the monthly assistance, the family received the amount above the amount of the monthly cash assistance. Recent federal policy changes do not permit such payments unless the state elects to pay the family the state's share of the collection.¹⁶

We also found that federal cash assistance policies are not always consistent with federal child support policies. For example, when a noncustodial parent makes a monthly child support payment on the first of the month and custodial parent leaves cash assistance on the second of the month, the entire child support check still goes to DPW. In this situation, the custodial parent receives neither child support nor cash assistance for the full month.

10. ***The SDU vendor controls bank accounts holding significant funds that use the Commonwealth's federal identification number.*** Over \$1.1 billion in child support was collected during the 1999 federal fiscal year. In addition, the IRS income tax refund offset program collected \$50.49 million,

¹⁶OCSE-AT-97-17, October 21, 1997. The Commonwealth has not elected the option to pass through all child support collections to the family. Act 1997-58, however, provides for the Commonwealth to pass through to the family receiving cash assistance up to \$50 per month from the state's share of the collection. It also provided for no more than one support pass through payment per month.

unemployment compensation intercepts totaled approximately \$24.22 million, and Lottery Fund intercepts totaled \$0.9 million. Prior to the start of the SDU, such funds were maintained in accounts controlled and accounted for by county and state governments.

DPW's SDU vendor collected \$819 million between August 1999 and the end of April 2000. These SDU collections include collections received through the mail and through electronic transfer of funds as well as funds collected by the counties and transferred to the SDU. During the same period, an additional \$31.4 million in IRS intercepts and \$20.3 million in unemployment compensation were transferred to PACSES for distribution.¹⁷ The intercept amounts were collected through state agencies.

DPW's SDU vendor disbursed 5 million checks totaling \$851 million dollars since August 1, 1999. This amount includes both collections by the SDU and state agencies responsible for the collection of intercept funds. As discussed in Finding 8, the Commonwealth had not planned for its federal identification number to be used on these accounts. We should note, however, that the SDU vendor has developed procedures to assure that account transactions are appropriate and to safeguard account assets.

11. ***DPW has not provided adequate information to parents to alert them to the changes in the child support collection and distribution system and the consequences of their enrollment in the IV-D program.*** As described throughout this report, the move to a statewide collection and disbursement system has had many ramifications affecting how much child support a family receives and when it is received. DPW sent a letter to both custodial and non-custodial parents in June 1999 advising them that payments were to be made to the SDU and providing the telephone number for the SDU customer service unit. The letter, however, did not inform parents how these changes could alter the amount of monthly child support the family receives or the types of situations that could result in payment delays.

We also found that DPW does not provide families with certain information required by federal regulation when they apply for IV-D services. This is especially important since Pennsylvania does not provide services for non-IV-D cases as provided for in the Social Security Act.¹⁸ Individuals who are not federally required to receive IV-D services must apply for these services. Federal regulations require the application form to be accompanied by information describing available services, the individual's rights and responsibilities, and the

¹⁷\$16.7 million of the total IRS intercepts were distributed to DPW and the remainder (\$14.7 million) transferred to SDU for disbursement to families. Of the total UC intercepts, \$1.6 million were retained by DPW and the remainder (\$18.7 million) transferred to the SDU for disbursement to families.

¹⁸See the discussion in Chapter III about requirements for a non-IV-D program.

state's distribution policies. The application for IV-D services in Pennsylvania does not include this information, nor does it specifically reference that the form is for enrollment in the IV-D program.

When a family is no longer required to participate in the IV-D program, federal regulations require the state to notify a family that it will continue to receive such services unless it notifies the state. This notice is to inform the family of the consequences of continuing to receive IV-D services. The notice used in Pennsylvania explains the distribution of child support if arrears are owed to DPW but does not provide other federally required information. In the absence of that information, the family will not know, for example, that child support will be prorated if the noncustodial parent has another case and fails to make adequate payment to fully pay both families.

12. ***Because the SDU posts payments to member numbers rather than case numbers, it will be difficult, if not impossible, to reconcile certain interstate cases.*** Families that are part of interstate cases may receive different amounts of child support than indicated on the controlling order of another state because DPW's SDU vendor now posts cases by member ID, including interstate cases where another state controls the child support order. This can result in child support payments not being distributed according to the controlling court's order.

For example, a neighboring state court has ordered wage withholding for child support for a defendant who resides in that state and whose former spouse and child currently reside in Pennsylvania. The defendant's employer will withhold wages based on the controlling state's order and submit the withheld wages to that state's SDU. The controlling state's payment records will indicate that the defendant has paid the plaintiff in the case the total monthly support that is due. When the controlling state's SDU forwards the payment to Pennsylvania's SDU, our SDU will post the payment by member ID—not by the case for which the payment was made under the controlling state's order. If PACSES determines that the member has other obligations for child support, PACSES will distribute the wages withheld under the controlling state's wage withholding order across all of the defendant's obligations. It will do this even though a court order for wage withholding does not exist for the second obligation. Such cases can be further complicated when there are arrears. In this example, the parent with the court order for wage withholding will not receive the total amount paid under the parent's order. Also, when it comes time to close such a case, the controlling state's records will consider the noncustodial parent to have paid all of the support required under the order. The plaintiff, however, will not have actually received all of the support due under the other state's order.

The Social Security Act does not require that automated procedures be used by the SDU to process all payments. The reason for this is the recognition that not all cases are the same and there are legal and program reasons for exceptional processing. Such a need can arise with certain interstate cases and in situations where the courts order lump sum payments. At least 11 DRS offices, including some of the largest in the state, have noted their concerns about the vendor's processing of interstate cases.

DPW indicated that they are aware of the potential problem that can be created by posting payments to member identification numbers in interstate cases with controlling orders in other states and that a federal task force is working to devise a solution to this problem.

13. ***Noncustodial parents can be referred for enforcement action even when they have fully paid their child support as required by the court order.*** PACSES automatically reviews cases with financial obligations for delinquency on the overdue date for the payment. If no payment is recorded as received in its financial management subsystem, then the financial obligation balances are checked to determine if the case is more than one month in arrears. If total arrears exceed the amount equal to the support payable for one month as determined by PACSES, the case is referred to the DRS staff to select an appropriate enforcement remedy. Such remedies include delinquency notices, enforcement conferences, contempt hearings, income attachment, bench warrants, bond and security, account garnishment, liens, license suspension, credit bureau reporting, unemployment compensation intercept, IRS intercept, and lottery intercept. Some of these enforcement remedies are automatically initiated by PACSES on all delinquent cases that meet certain criteria without DRS staff initiating the remedy.

Noncustodial parents who have complied with their court order can be referred for enforcement actions as a result of posting problems, posted receipts that are not distributed and disbursed, and certain automated procedures designed into the PACSES system. Enforcement remedies can be generated:

- When the noncustodial parent makes a direct payment to the custodial parent rather than sending the payment through the SDU. This can occur when a noncustodial parent makes direct payments to the custodial parent prior to when a child support order is officially established by the courts and the order does not properly credit such payments.

- When a payment is made and received by the SDU but not posted by the SDU.¹⁹
- When an employer withholds employee wages and does not submit the withheld wages.
- When payments have been posted to the wrong account by the SDU and, at the state level, the steps to correct this have not been taken.

Enforcement remedies can also be initiated when the parent has paid the required child support on time and the payment has been properly posted by the SDU. Such situations can arise:

- When the support order is weekly or bi-weekly and the order is established with retroactive arrears that are prematurely converted by PACSES to normal arrears (even though the defendant is not delinquent in payment of the retroactive arrears²⁰ based on the court order).
- When a payment is made and posted onto PACSES and a hold is placed on the case prior to PACSES performing distribution and authorizing disbursement of the collection.

These situations occur because of the way PACSES operates. The PACSES distribution system works on an accrual basis in processing payments. PACSES enforcement activities, however, continue to use what is known as the monthly support order (MSO) calculation in determining whether to refer for enforcement. The effect of this for accounts that have weekly and biweekly support orders and orders for payment of retroactive arrears is that the retroactive arrears that are being paid fully and timely according to the court's order prematurely convert to normal arrears. As a result, such cases meet the criteria for referral to the credit bureau, even though they have met all of the court's requirements. The only way to prevent such a referral is for such a parent to pay in advance, though not ordered to do so by the courts. DRS offices have brought this problem to the attention of the DPW and no satisfactory solution has been identified to date.

When payments are made that are not distributed by PACSES, accruals on the case will grow and the defendant will go into an active enforcement status. Various remedies will then be initiated without the intervention of the DRS worker. A defendant in such a situation will have the delinquency balance

¹⁹As described elsewhere in this report, such situations occur when the payment does not have the information sought by the vendor to post the payment using its automated systems, when an employer check that includes multiple employees is out-of-balance, and when payments are deposited into the SDU's suspense account.

²⁰Retroactive arrears (also known as past due support) accrue as a result of the time required for the courts to establish a child support order (or to modify an order) after a petition is filed with the court. In Pennsylvania, retroactive arrears automatically become normal arrears (also known as overdue support) when current monthly child support is considered by PACSES to be one month overdue.

reported to credit bureaus, for IRS interception, and driver's license suspension. A DRS worker can suspend enforcement for some remedies, but the IRS intercept and credit bureau reporting processes will occur automatically.

Once such remedies are automatically initiated by PACSES, the DRS workers in some instances can intervene to prevent the remedy from going forward. However, such situations are highly time-sensitive and intervention requires a high degree of skill and understanding of the operations of PACSES.

These issues highlight the importance of accurate processing of payments by the SDU, the importance of training, and the complex skills now required by DRS staff working with the PACSES system. They also clearly highlight the importance of providing information to parents and others about how the system works. Such information is essential as Pennsylvania enrolls all child support cases with orders enforced by the courts in the IV-D program and enters the cases onto PACSES for enforcement. The Commonwealth does not provide the federally required non-IV-D program option required in federal law for cases that technically qualify as non-IV-D cases.

14. ***DRS offices have also faced significant challenges under the new system.*** DRS efforts to assist families and employers are more difficult at times because the DRSs no longer receive and post child support collections themselves. The DRS tasks are further complicated by the way in which DPW and its SDU vendor's policies and procedures are communicated to DRS offices. The Department issues policies and procedures through DRS memoranda and PACSES memoranda. The Department also developed a PACSES manual to acquaint DRS staff with the IV-D automated system and its operations. These sources, however, do not always contain the most current or complete information about policies and procedures, especially as they relate to the SDU.

DRS staff are expected to learn about new policies and procedures through e-mails from the SDU vendor and through postings of selected information on the PACSES intranet. Such information, however, is difficult to track because the initial e-mail for a policy and procedure is often modified on several occasions. For example, the SDU policies and procedures for handling over-the-counter payments were updated through separate e-mails on nine occasions between August 1999 and February 2000. Such procedures are used to handle purge payments ordered by the court to avoid incarceration for failure to pay child support. When the procedures are unclear (or inadequately explained), they can potentially result in someone who has made the payment being jailed incorrectly. There is no single document to which a DRS staff member can turn to identify complete and up-to-date information for processing such payments.

At times, e-mails written by the vendor, perhaps inadvertently, interpret federal policies from the vendor's perspective and outline "DPW policies" on matters that affect payments families receive. They also provide instructions to DRS staff, even though the DRS offices have no cooperative agreement with the SDU.

The PACSES manual has not been updated to reflect changes in policies and procedures that have occurred with the start of the SDU. Relatively limited training has been available to DRS staff concerning the changes. More training that is reflective of real life situations is needed, according to the DRS offices.

DPW, moreover, permits its SDU vendor staff to make changes for cases directly onto PACSES—such as address changes and others that can affect wage withholding. The SDU vendor's staff, however, does not enter notes onto the PACSES to notify the DRS staff when such changes are made. DRS staff reported they include such notes when they enter changes onto PACSES.

Recently, the SDU staff has been required to enter notes onto PACSES when financial changes are made. Such notes, however, are not made when employer's employee lists are changed. As a result, the DRS does not know if the employee was laid off, quit, or was terminated, which can be important information for the DRS. Without such notes, DRS staff can be placed in the difficult position of having to explain to a family changes they themselves did not initiate or know about. For example, one DRS staff member told us of situations in which an employee had been deleted from the employer's list by SDU staff. This had been done in error as the noncustodial parent was still employed by the employer. The DRS only learned of this when the parents brought the matter to its attention.

The Department and its SDU vendor do not always consult in advance with county DRS offices (who are represented through their state association) about problems that have been identified or policies and procedures that are being considered. At least 18 DRS directors responding to the LB&FC survey reported the need for improved communications between the Department, its vendors, and DRS offices. They pointed to the need to inform DRS offices of policies and procedures before, not after, the fact. They pointed to the need for open and consistent communications and for DRS policies to be driven by the needs of clients rather than "computer system managers." Very few presiding judges or DRS directors, however, recommended that the DRS be reassigned responsibility for all collection and disbursement activities.

The Department is aware of the need to support DRS offices. For example, it has included in its 2000-01 budget funding for additional training activities.

DPW has also indicated it is aware of problems in communication and is working with DRSs to address this issue in the new intergovernmental cooperative agreement. Negotiations concerning this agreement were underway in May 2000.

15. ***DPW will be implementing additional changes to the child support enforcement system that will rely on information provided through its SDU vendor's collection processes.*** The Department will be implementing asset seizure, revocation of professional licenses, and revocation of hunting and fishing licenses for failure to pay child support. All enforcement activity at some level relies on the input provided through the SDU processes. It is important, therefore, that the problems identified in this report be addressed as quickly as possible.

Recommendations

The Department of Public Welfare should:

1. **Revise the way customer services are provided to the public by reestablishing county DRS staff as the primary point of contact.** Under the original SDU concept, SDU staff were to be the main point of contact for questions concerning child support collections and disbursements. The SDU soon found that the questions they received required greater knowledge of child support payment laws, regulations, and practices, than anticipated. Consequently, SDU customer service staff now only provide the information available through the automatic voice response system: the amount of the last five payments received and paid, and the current arrears balance. With few exceptions, all other questions are directed to the county DRS staff.

While most county DRS offices have accepted this role, some may not be fully prepared to assume the customer service activities that they had been led to believe would be the SDU vendor's responsibility. County offices also do not have all of the information as readily available as SDU to address customer questions. DPW and the SDU vendor, however, have taken steps and are willing, if technically feasible, to provide counties with greater access to the information available to the SDU.

We recommend that DPW work with the courts, county DRS offices and county commissioners to enable county DRS offices to reassume primary responsibility for customer service. To support the county DRS offices to carry out this function, we also recommend that a small unit of highly trained SDU staff be made available to respond promptly and accurately to requests made by the DRS offices. The responsibilities of the various parties should be clearly

communicated, in writing, to all involved, including parents, employers, the courts, DRS and SDU staff, and county commissioners.

2. **Assure that all families that have their payments posted to the wrong account (misapplied payments) expeditiously receive their child support and that the noncustodial parents' accounts are properly credited so that improper referrals for enforcement do not occur.** If SDU staff make an error that results in a custodial parent missing a child support check or receiving less than they should, the SDU vendor is responsible to correct the payment and make the custodial parent whole. If, however, another party, such as an employer, makes the error, there is no effective process in place to reverse or correct the misapplied payment.

Counties previously had policies and procedures in place to assure that all families whose funds were misapplied received their child support payment and had their account properly credited. They did this by requiring someone who received funds improperly to repay the amounts through offsets to subsequent child support payments.

We recommend that, unless federal agency heads specifically prohibit offsets to correct misapplied payments, DPW authorize its SDU vendor to correct misapplied payments by requesting the overpayment be returned, with the understanding that if this is not done, the amount of the overpayment will be deducted, in installments if appropriate, from subsequent payments to that individual.

To implement this policy, we recommend that a separate account be established so that child support payments can be sent immediately to families whose payments have been misapplied. Once established (perhaps through a state appropriation, using interest earned from child support payments in the suspense account, the state portion of the welfare arrears collected, or through state legislation establishing a revolving fund using child support funds that cannot be disbursed that would otherwise be escheated to the state General Fund), the fund would be replenished through refunds of the misapplied payments. We recommend that this policy be made retroactive to the start of the SDU, so families that have lost child support payments through no fault of their own are made whole.

3. **Require its SDU vendor to assume financial responsibility for misapplied payments resulting from the vendor's failure to add or remove employees from an employer's payment coupon.** The SDU vendor has had particular problems with the software used to remove the names of former employees from the payment coupons sent to employers. Because SDU staff use these coupons to post payments, errors on the coupon can easily result in

misapplied payments. We, therefore, recommend that the SDU vendor assume financial responsibility (i.e., make the payment to the family owed child support from its operating funds) for such misapplied payments if the employer had previously notified the SDU vendor that an employee has been hired or an employee is no longer employed at that firm.

The Department of Public Welfare has recently required its vendor to assume responsibility for the misapplied payment in a few cases that have been brought to its attention. We recommend that this requirement be made retroactive, so that families are reimbursed for child support payments they have missed as a result the vendor's problem in removing employees from employer coupons. We also recommend that DRS offices and employers be informed of the problem and encouraged to resubmit such cases for DPW's review and approval.

- 4. Expand on its policies to allow reversals of collection dates in situations where the families lose monthly support payments to welfare arrears as a result of the posting practices of its SDU vendor.** If a family has welfare arrears and two monthly support payments are posted in one month, and if other arrears are not owed, the family will lose one month's child support because the second payment received that month will be used to pay down the welfare arrears. Similar problems can occur if the SDU returns a check to an employer because the employer's submission does not contain the information the SDU needs to post the payment. These problems occur because DPW uses the date its vendor posts a check as the "collection" date, rather than the actual date of the check.

DPW has a process for county DRS offices to request reversals of postings. Its current policies, however, do not provide for approval of such requests in situations such as described above. We, therefore, recommend that DPW broaden its policies to allow such reversals and notify counties and parents of this change. Such a policy would continue to allow the collection of welfare arrears as required by the federal government, but would not "short change" a family's monthly child support because of internal processes the Department's vendor has established for posting checks.

To reduce the occurrence of this problem, DPW informed us that it has begun to hold checks it receives from the US Treasury until the date the check is negotiable in the following month if posting them in the month they are received would trigger the welfare arrears problem.

- 5. Work with its SDU vendor to develop improved "exceptional processing procedures," including how it posts payments made in interstate cases and lump sum payments ordered by courts.** In some situations,

such as SDU's practice of posting child support payments to member numbers rather than case numbers in interstate cases, the procedures SDU uses to facilitate automated processing can create additional problems. Although we did not determine how often these situations occur, we recommend the Department work with the DRS offices to identify the types of cases that require exceptional processing and work with the SDU vendor to change its procedures for processing such cases. When lump sum payments ordered by the courts are not posted properly, serious problems can occur for defendants. The SDU should, therefore, further refine its exceptional processing procedures to prevent problems with court payments from occurring.

6. **Pay the custodial parent the interest earned on payments placed in the suspense account that are more than 30 days old.** Currently, the interest earned on unidentified collections is used to offset the cost of the SDU vendor contract. We recommend if such funds are retained for more than 30 days, which should be ample time to research and disburse the vast majority of problem payments, the interest earned on the funds should be paid to the custodial parent whose payment was delayed. This may require a legislative change, as the Department does not currently have specific authorization to pay such interest to these individuals.
7. **Improve the information it provides to families about the state's child support collection and disbursement system, particularly how some of its operations can affect the child support they expect to receive.** Pennsylvania's application for child support services does not inform families that they are being enrolled in the IV-D program, and the notices provided to families do not contain all of the information required to be provided by the federal government. Families have also received only very limited information about the state's collection system and how it can result in changes and delays in child support payments and, for noncustodial parents, in enforcement actions. We recommend that DPW modify its application forms to provide the information required by federal regulations and that parents receive appropriately detailed information to help them understand how the Commonwealth's child support system operates.
8. **Develop processes to expedite release of lump sum future payments for non-welfare families.** There are times when it is appropriate for non-welfare families to access lump sum future payments. The state's collection and disbursement system should accommodate such needs.
9. **Provide additional information to employers concerning the operations of the state collection and disbursement unit and how its processing procedures can affect them and their employees.** As with parents, DPW should take steps to better inform employers of how the child

support system operates and the consequences for their employees and their families when the information they provide is not sufficient for SDU processing procedures.

10. **Require its SDU vendor to provide notes to the appropriate DRS staff when entering a change onto PACSES that could affect a child support payment.** SDU staff can make changes to the information in the PACSES computer system that affect a family's child support payments, but have not been required to notify or explain the change to the county DRS office. As a result, DRS staff can be placed in the difficult position of having to explain to a family changes that they did not initiate or have no knowledge about. DPW has informed us that the SDU vendor has agreed to provide notes to the counties when they make financial changes. We recommend DPW work with the Board of the Domestic Relations Association of Pennsylvania to identify other situations that should be brought to the attention of a county DRS through PACSES notes and make changes to provide for them.
11. **Revise its contract with its SDU vendor to reflect changes to its understanding of contract provisions.** While some flexibility in interpreting a contract is desirable to allow a vendor to meet unanticipated problems, at some point the interpretations become significant enough to warrant a formal contract amendment. Two such issues that we think should be incorporated into a formal contract amendment include the role and cost of the SDU Customer Service Unit and the circumstances under which the vendor can return checks to a defendant or employer rather than research and correct the problem.
12. **Audit the bank accounts controlled by its SDU vendor into which all child support collections are placed prior to disbursement.** Annually, over \$1.1 billion in mostly private funds will be deposited into the child support collection and disbursement accounts. These accounts are managed by the SDU vendor and use the Commonwealth's federal identification number. The vendor has developed procedures to safeguard the assets in the accounts. However, given the size of the accounts, the many transactions involved, and the unusual situation of a private vendor managing Commonwealth accounts, we recommend that DPW make provision in its annual audit plan to audit these accounts to ensure that appropriate controls have been implemented to safeguard these assets. The Department should require the vendor to cover the costs of this audit because the SDU contract already requires the vendor to pay for an independent audit.
13. **Improve communication among all parties responsible for child support collection, disbursement, and enforcement.** Improved communications between all parties, but particularly between DPW and the county courts

and DRS offices, is key to the long-term success of the state's efforts to collect and disburse child support payments. DPW has used the "County Eight," a committee representing various DRS offices, as a sounding board and a means of communicating policies to the DRS offices. We recommend that the inter-governmental agreement currently being negotiated between DPW, the courts, and the counties include revised procedures to assure DRS offices have greater input into the policies and procedures that impact their operations and clients. We also recommend additional training opportunities for DRS staff, which could be another forum for improved communications.

14. **Improve the existing system for establishing and communicating policies and procedures.** While e-mail and other ways for rapid communication are desirable, they should not be used as a substitute for updated policy and procedural manuals. We found instances in which SDU staff appeared to be communicating procedures that have policy significance without any indication that they had been reviewed and approved by DPW staff. This can result in policies and procedures that are inconsistent with established federal and state policies. Allowing the vendor to make operational decisions that affect child support payments and the workload of county DRS staff can also raise the appearance of conflict of interest. We, therefore, recommend that DPW staff establish a procedure to review significant communications between SDU staff and the county DRS offices, particularly those communications in which SDU staff comment on state or federal policies or which SDU staff deem significant enough to send to all DRS offices.

III. Additional Information

A. Origins of the State Disbursement Unit

The Social Security Act requires that states participating in the federal program providing cash assistance for needy families operate a child support enforcement program under an approved state plan. Such a plan must meet requirements set forth in Title IV, Part D of the Social Security Act.¹ For this reason, the required state child support enforcement program is often referred to as the “IV-D program.”

The Federal IV-D Program

The act authorizes the use of federal funds to partially reimburse states for activities carried out under approved IV-D plans. It also permits the state agency designated to administer the program to enter into cooperative agreements with appropriate courts and other entities to assist the state in carrying out the plan. In Pennsylvania, the Department of Public Welfare (DPW) administers the Commonwealth’s IV-D program.

Title IV, Part D of the Social Security Act addresses three different types of child support cases. These include:

- mandatory IV-D cases,
- voluntary IV-D cases, and
- non IV-D cases.

The mandatory IV-D cases include individuals receiving Temporary Assistance for Needy Families (TANF).² Such cases must participate in the IV-D program as a condition of TANF eligibility. The mandatory IV-D cases also include cases where federal funds are used to serve children in foster care.³ The voluntary IV-D cases include those individuals who directly apply for IV-D services.

In 1988, amendments to the Social Security Act provided for “non-IV-D cases.” The amendments required that states, as a condition of having an approved

¹42 U.S.C.U. §§651 *et seq.*

²Prior to TANF, the program provided services to individuals receiving Aid to Families with Dependent Children (AFDC).

³For purposes of the IV-D program, the term “support” refers to the support and maintenance of a minor child that is owed to or on behalf of the child. It also includes support for the absent parent’s spouse (or former spouse) with whom the child is living, but only if a support obligation has been established with respect to the child and is being enforced by the IV-D program. In the IV-D program the term “support” does not include alimony. The IV-D program also includes provisions for medical support orders. The requirements for such orders differ from the requirements in the IV-D program for child support maintenance. Since orders for medical support do not always involve specific payments, we have excluded them from this report.

IV-D program, provide, with exceptions, for wage withholding in all support orders issued in the state after January 1, 1994. These cases, however, are not subject to enforcement by the IV-D program. The federal Department of Health and Human Services (DHHS) refers to cases covered through this provision as non-IV-D cases.

The 1988 amendments required that a “public entity” administer wage withholding for non-IV-D cases. Such an entity could include a IV-D agency, clerks of court, or a “private entity” such as a bank since a bank is a publicly accountable entity under both state and federal law. Under the 1988 amendments, states were permitted to designate multiple entities to administer wage withholding for such cases. The entity responsible for wage withholding for the non-IV-D cases was required to disburse payments promptly, and fees could be established for the services. However, the specific time frames for disbursement that applied to IV-D cases were not applied to the non-IV-D cases.⁴

Federal Requirements for State Disbursement Units

In 1996 and 1997,⁵ Congress further amended the Social Security Act to require states to operate a “state disbursement unit” to collect and disburse monthly or periodic child support payments under support orders. States could meet this requirement in one of three ways:

- (1) A state IV-D agency⁶ could operate the unit.
- (2) A contractor responsible directly to the state IV-D agency could operate the unit.
- (3) A state could link local disbursement units through an automated information network.

For a state to operate the state disbursement unit (SDU) through an automated information network of local disbursement units, two conditions had to be met. First, employers had to be given one location to which they could send wage withheld support payments. Second, the state had to obtain an exemption from the Secretary of the Department of Health and Human Services (DHHS). The Secretary could grant such an exemption if a state demonstrated that the proposed system would not cost more, or take more time to establish or operate, than a centralized system. DHHS gave states until April 1, 1998, to submit their exemption requests.⁷

The Social Security Act required states that process support administratively to have their SDUs in place by October 1, 1998. However, a state such as Pennsyl-

⁴ACSE-AT-94-02, March 11, 1994.

⁵The 1997 amendments are technical amendments to the 1996 amendments. As such, some are considered in place as of the dates specified in the 1996 amendments.

⁶Congress also allowed two or more states to operate a state disbursement unit under a cooperative agreement.

⁷DHHS provided instructions to states for requesting exemptions in OCSE-AT-97-07 issued May 15, 1997.

vania that processed the receipt of child support payments through local courts could continue to process payments through the courts through September 30, 1999.

The act requires that the SDU collects and disburses monthly or periodic payments under support orders for mandatory IV-D, voluntary IV-D, and non-IV-D cases as described above. Specifically, the act provides for the following:

- receipt of payments,
- recording the payment,
- prompt disbursement of the payment, and
- responding to requests for information on the current status of support payments made through the SDU."

The Social Security Act further requires the SDU to use:

Automated procedures, electronic processes, and computer-driven technology to the maximum extent feasible, efficient, and economical, for the collection and disbursement of support payments, including procedures:

- (1) for receipt of payments from parents, employers, and other states, and for disbursement to custodial parents and other obligees, the state agency, and the agencies of other states;
- (2) for accurate identification of payments;
- (3) to ensure prompt disbursement of the custodial parent's share of any payment; and
- (4) to furnish to any parent, upon request, timely information on the current status of support payments under an order requiring payments to be made by or to the parent.

The SDU must disburse child support payments to IV-D and non-IV-D cases within two business days⁹ after receipt from the employer or other periodic source. This requirement applies if sufficient information identifying the payee is provided with the payment. The timeliness rule does not apply to arrearages¹⁰ that are under appeal.

The 1996 amendments require the state disbursement unit, to the extent feasible, to operate in coordination with the state's automated child support enforcement system for IV-D cases. The 1996 amendments further require states to maintain case and order registries as a component of their computerized child support enforcement systems. The order registry must include non-IV-D orders estab-

⁸42 U.S.C.U. §654b.

⁹Business day means a day on which state offices are open for regular business.

¹⁰Child support that has not been paid.

lished or modified in the state on or after October 1, 1998. The 1996 amendments permit states to meet the order registry requirement for non-IV-D orders through an automated network of local linkages.

The 1996 amendments require states to submit data from their case and order registries to the federal case registry. The act requires that the following data be provided for each participant in the federal registry:

- State case identification number.
- State member identification number.
- Case Type (IV-D, non-IV-D).
- Social security number and any necessary alternative social security number.
- Name, including first name, middle name, last name, and any necessary alternative names.
- Sex (optional).
- Date of birth.
- Participant (custodial party, non-custodial parent, putative father, child).
- Family violence indicator (domestic violence and/or child abuse).
- Indication of an order.
- Locate request type (optional).
- State Federal Information Processing Standard (FIPS)¹¹ and, optionally, county code.
- Other information specified by the Secretary of the Department of Health and Human Services.

The Social Security Act does not authorize the state IV-D agency to enforce non-IV-D orders, even though such orders are to be included in the state order registry. The act, however, does require the state IV-D agency to enforce mandatory and voluntary IV-D cases when child support is not paid. For example, it requires the IV-D agency to refer IV-D cases for license suspension, interception of federal and state tax refunds, and seizure of assets and public and private retirement funds. The act further authorizes the use of the required IV-D computerized support enforcement system to initiate automatic enforcement procedures when support payments are not timely. In Pennsylvania, this system is called PACSES, i.e., Pennsylvania's Child Support Enforcement System.

¹¹FIPS refers to the Federal Information Processing Standards Publication issued by the Bureau of Standards. The publication lists unique codes for each state and county.

Federal Requirements for Employers

The 1996 amendments to the Social Security Act require that employers responsible for wage withholding for child support submit payments to the SDU. Under the amendments, employers have seven business days (from the date the amount of the withheld wage would have been paid to the employee) to submit withheld wages to the appropriate SDU(s). “Timely-paid” is to be demonstrated by postmark, or in the case of electronic payment, the date the electronic transmission is proven to have been initiated by the employer.¹²

Prior to 1996, the act included several other relevant requirements for employers that continued under the 1996 amendments. Employers are required to withhold wages following receipt of proper wage withholding notices. They are permitted to make a single payment of withheld wages, but are to identify the portion of their payment that is attributable to each individual employee. Employers are permitted to deduct a fee for their withholding activities. The act, moreover, provides that employers cannot be required to vary their normal pay and disbursement cycles to comply with federal requirements for wage withholding of child support.

The act also prohibits employers from withholding wages above the amount permitted under the Consumer Credit Protection Act. (This act limits the maximum amount that can be deducted as child support/alimony from earnings.¹³ The limit ranges from 50 percent of disposable earnings to 65 percent.¹⁴) If an employer receives more than one wage withholding order for an employee and sufficient funds are not available to cover the total amounts of the order, the employer must prorate the total available funds across all of the cases.

Other Related Federal Policies. The Social Security Act and federal regulations contain other provisions that can affect the payments disbursed through the state disbursement unit. Such policies, and the way they are interpreted and put into practice by the state and its SDU, can also affect whether a custodial parent receives a child support payment and the amount of the payment.

Collection Date. The Social Security Act provides options for states in defining the collection date for child support payments. The act permits the state to use the date of payment collection by the state disbursement unit; in other words, the

¹²House Conference Report 104-725.

¹³15 U.S.C. §1673(b).

¹⁴Fifty percent of disposable earnings is the maximum percentage allowable if the payer provides proof that he/she is providing more than half the support of dependents other than those for whom the support is to be deducted, and if the payer has not accrued an arrearage. Sixty-five percent of disposable earnings is the maximum percentage allowable if the payer has not provided proof that he/she is providing more than half the support of dependents other than those for whom the support is to be deducted, and if the payer has accrued an arrearage.

date the state disbursement unit posts the payment it has received. It also permits states to use the withholding date as the collection date when:

Current support is withheld by an employer in the month when due and is received by the state disbursement unit in a month other than the month when due.¹⁵

“Family First” Distribution. The 1996 amendments to the Social Security Act included new policies concerning the distribution of child support payments collected for families that are receiving, or previously had received, cash assistance. Prior to the 1996 amendments, the act required that persons receiving cash assistance permanently assign to the state (and federal government) the family’s rights to child support payments. Such assignment applied to the time the family received assistance. It also included the governments’ right to arrears that accumulated prior to the time the family received cash assistance.

The “Family First” policy, as some of the 1996 amendments are often called, changed the rules for assignment when families no longer receive welfare. Designed to encourage the payment of child support, the amendments prohibit states from requiring families to assign to the government any right to arrears which accrue after the family ceases to receive assistance. Arrears that accrued prior to a family receiving welfare would again become due to the family when they ceased receiving assistance. Welfare arrears, moreover, are the last arrears to be paid when child support payments are made and distributed.¹⁶

The Social Security Act, however, includes an important exception to the “Family First” policy. The act permits states, through the federal Department of Treasury, to intercept IRS returns of defendants who owe certain arrears. In cases where welfare arrears have been assigned to the government, the act gives priority to the federal and state government when IRS intercept funds are distributed. In other words, when IRS funds are appropriately intercepted, they are first used to pay arrears that have been assigned to the government as a condition for receiving welfare rather than arrears owed to the custodial parent.

Allocation of Collections Across Multiple Cases. Federal statute and regulations require allocation of amounts withheld by employers across all orders in wage withholding situations. Federal requirements, however, do not specify how much of the withheld wages are to be assigned to each case when an employee has multiple support obligations and the cap established by the Consumer Credit Protection Act has been reached. They only require that each case receive some of the withheld wages.

¹⁵42 U.S.C.U. §654b(c)(1).

¹⁶The act provides various time frames for states to implement the “Family First” amendments.

Federal statutes and regulations, moreover, do not address distributions when there are multiple support orders with arrearages in more than one state.¹⁷ They also do not address whether payments other than withheld wages must be posted to individual payees and allocated across all cases involving that payee.

Automatic Offsets to Recover IV-D Program Fees Prohibition. Federal statutes require that child support payments first go to pay current child support. Federal regulations explicitly prohibit the recovery of IV-D program fees before monthly support obligations and arrearages are satisfied. As such, states cannot establish “automatic offset accounts” in their automated child support enforcement system to prevent monthly collections and payments on arrears from being disbursed to the family before IV-D program fees have been paid.

Other types of recovery or offset accounts, however, are not addressed in federal statute or regulations. For example, federal statutes and regulations do not specifically prohibit the use of offset accounts when funds have been wrongly applied to an incorrect payor or incorrect case. When the person incorrectly receiving the funds incurs a debt for repayment, the state can permit that person to agree to an offset of their next child support payment rather than require immediate repayment of their debt.

Prompt refunds to noncustodial parents for improperly withheld income. Federal regulations require that states have procedures “for promptly refunding to noncustodial parents amounts which have been improperly withheld.”¹⁸ DHHS explained its understanding of this requirement in the preamble to 1992 regulations that added the term “promptly” to regulations that were initially promulgated in 1985. DHHS indicated:

This provision does not refer only to withheld amounts retained by the state. Any amounts improperly withheld, even if they have been sent to the custodial parent, must be promptly refunded by the state to the absent parent. Subsequent to the refund, the state may attempt to recover any amounts sent to the custodial parent. Federal funding is not available under 45 CFR §304.20 for these refunds. OMB Circular A-87 precludes federal funding for “any loss arising from uncollectible accounts and other claims and related costs.” However, this does not preclude the state from negotiating directly with the absent parent under state law to apply the refund to other arrearages or future support.¹⁹

State Compliance With Federal Requirements for SDUs and Federal Fiscal Penalties. Under the 1996 amendments to the Social Security Act, states

¹⁷OCSE-AT-98-24, Response to Question 13.

¹⁸45 CFR §303.100(a)(8).

¹⁹Federal Register, Vol. 57, No 133, Friday, July 10, 1992, p. 30675.

that failed to establish SDUs faced significant fiscal penalties. They faced the loss of all federal child support funding and disapproval of their IV-D plans. They also faced loss of their TANF funds because operating a child support enforcement program under an approved state plan is a prerequisite to receive federal funds under the TANF program. For these reasons, the Department of Public Welfare acted quickly to implement the state's SDU.

Pennsylvania was one of 39 states with SDUs in place as of November 1999. Several of these states already had such units in place prior to the federal requirement. New York and Wisconsin, for example, had their SDUs in place prior to the federal mandate. Among those states that did not meet the federal deadline were populous states such as California, Michigan, Ohio, and Texas.

Several states, including Pennsylvania, that met the federal deadline immediately encountered implementation problems. In some states, state governors and legislatures provided state emergency funding to assure that families in need received funds when their child support payments were not processed in a timely manner.

In late November 1999, therefore, Congress enacted legislation, effective October 1, 1999 (the deadline for judicial states to implement the federally required SDUs), that substantially reduced the penalties for states that did not have SDUs in place. Under the alternative penalties, states that demonstrate good-faith efforts to comply with the SDU requirements and submit a corrective action plan to DHHS are assessed relatively modest fiscal penalties.²⁰ Such penalties are further reduced if the state complies with the SDU requirements by April 1, 2000. States that qualify for the alternative penalties, moreover, are not in jeopardy of losing any TANF funds.²¹

State Legislation Authorizing an SDU

The Department of Public Welfare has administered the state's IV-D Plan since the mid-1970s. For the first time, however, Act 1997-58 provided a specific state legislative base for the state's IV-D program as part of Title 23,²² the Commonwealth's Domestic Relations Code, that addresses matters such as marriage, divorce, adoptions, and support matters generally. The act designated the Department of Public Welfare as the state agency responsible for developing and implementing a federally approved IV-D plan for child support. It also authorized DPW, either directly or through cooperative agreements, to perform certain activities, including securing support for children receiving assistance. It permitted DPW to:

²⁰The alternative penalties are four percent of the federal share of expenditures for the IV-D program if the state fails to achieve compliance for the first fiscal year. This penalty increases to 30 percent if the state fails to achieve compliance in five years and any subsequent years.

²¹OCSE-AT-00-03, issued on January 19, 2000.

²²23 Pa.C.S.A. §§4371 *et seq.*

Make available child support...services to any individual not receiving assistance to the extent required by federal law and upon application submitted to the department on forms provided by the department, the payment of any application fee established by the department and the agreement to pay costs in excess of any fee out of any recovery made by the department.²³

Act 1997-58 provided for the establishment of a state disbursement unit. It directed DPW to:

Establish and operate a state disbursement unit for collection and disbursement of payments on child support orders consistent with federal law. The state disbursement unit shall also monitor support orders for enforcement action consistent with federal law The department may require that such collections and disbursements of support as the department may specify, including those related to persons not receiving public assistance be processed through the state disbursement unit.²⁴

The section of the act providing for the state disbursement unit also set forth certain provisions for the allocation and distribution of collections. Such provisions were later amended by Act 1998-127. In general, these provisions set forth the Commonwealth's "Family First" policies by describing how collections in Pennsylvania are to be treated in cases when there are arrears that have been assigned to the Department of Public Welfare and the family no longer receives cash assistance. Beginning after October 1, 1998, arrears payments are distributed in the following way:

- First to arrears that occurred *after* the family ceased to receive assistance (with such arrears going to the family rather than the federal and state government).
- Second to arrears that occurred *before* the family received assistance (with such arrears going to the family rather than to the federal and state government).
- Third, to the arrears that occurred *during* the period the family received assistance (with such arrears going to the federal and state government).

As provided for in the Social Security Act, the Commonwealth retained the right to collect through the IRS Refund Offset Program any arrears assigned to the government as a condition of receiving cash assistance. Only to the extent that such amounts exceed the amount of cash assistance paid to the family are the IRS intercept funds paid to the family by the Commonwealth.

²³23 Pa.C.S.A. §4373(b)(5).

²⁴23 Pa.C.S.A. §4374(a) and (b).

When it enacted Act 58, the General Assembly provided direction to the Department of Public Welfare in implementing provisions in the statute. It specified that:

The department shall construe and implement this subchapter [Title 23 Subchapter E, Title IV-D Program and Related Matters] in order to comply with Title IV-D of the Social Security Act...The department shall take all steps necessary to implement a federally approved state plan for child support. The department may issue regulations and orders necessary to implement a federally approved state plan for child support. The department may issue interim regulations if federal law or regulations supersede existing statutes, regulations, or court rules.²⁵

B. Pennsylvania's Child Support Collection and Disbursement System

In Pennsylvania, the collection and disbursement of child and spousal support involves several governmental units. These include local courts, executive branch agencies, and the State Treasurer.

State law assigns authority over matters such as child and spousal support to the courts of common pleas and their domestic relations sections.²⁶ They are responsible for establishing and enforcing orders for child and spousal support. They are also authorized to issue orders to employers directing them to withhold wages for child and spousal support.

The Department of Public Welfare (DPW) administers the Commonwealth's federal IV-D program that provides for collection and disbursement of child support payments. The Department carries out its IV-D program responsibilities in part through cooperative agreements with the courts of common pleas and the commissioners in Pennsylvania's 67 counties.²⁷

Within DPW itself, several units are involved in the administration of the Commonwealth's IV-D program. They include the Bureau of Child Support Enforcement and the Bureau of Program Support in the Office of Income Maintenance (see Exhibit 1).

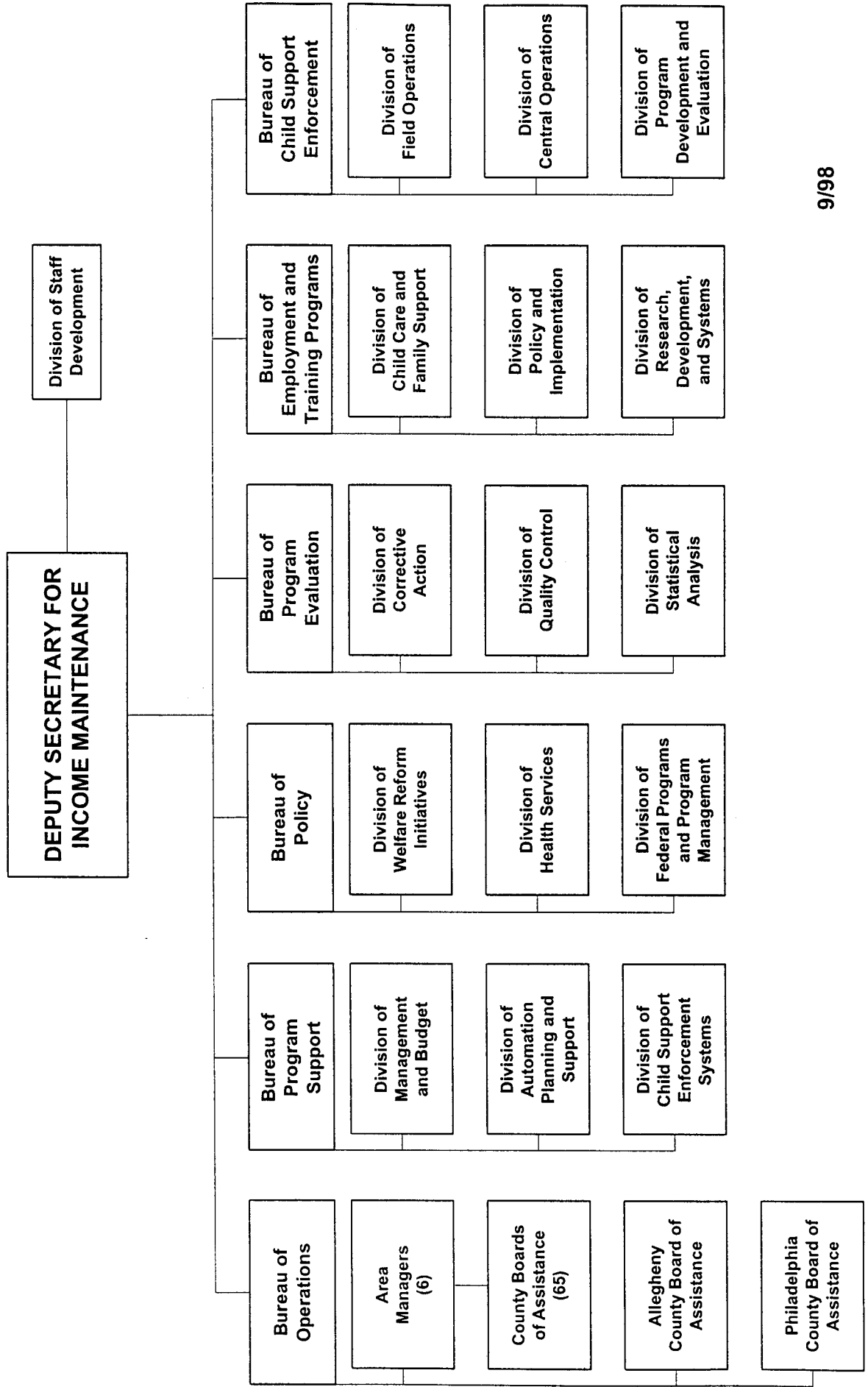
- The Bureau of Child Support Enforcement supervises the Title IV-D State Plan in Pennsylvania. It also has overall responsibility for policy and

²⁵23 Pa.C.S.A. §4372(b).

²⁶23 Pa.C.S.A. §4305; 23 Pa.C.S.A. §4346.

²⁷Counties receive federal IV-D funds through the state to carry out the IV-D program. In general, they are required to use local funds to match the federal dollars they receive to administer the IV-D program.

Department of Public Welfare



programmatic activity associated with the general administration of the Title IV-D program.

- The Bureau of Program Support's Division of Child Support Enforcement Systems is responsible for the operations of Pennsylvania's Automated Child Support Enforcement System, known as PACSES. This unit is also responsible for monitoring the state's contract with the state disbursement unit vendor.

Other state agencies are also involved with the Department in administering the federal IV-D program. Such agencies include, for example, the Department of Labor and Industry, the Department of Revenue, Comptroller Operations in the Governor's Office of the Budget, and the State Treasurer's Office.

State Collection of Child Support

There are several different types of child support collections. They are received in different ways.

Central Collections. The Department of Public Welfare in cooperation with the Department of Labor and Industry, the Department of Revenue, Comptroller Operations, and the State Treasurer, collects certain types of child support payments. Such collections include:

- Intercepting Internal Revenue Service (IRS) income tax refund checks as a result of specific delinquent child support obligations.²⁸
- Intercepting Unemployment Compensation (UC) benefits.²⁹
- Intercepting Pennsylvania Lottery winnings exceeding \$2,500.³⁰

Periodic and Monthly Collections. As of October 1, 1999, the Department's state disbursement unit vendor became responsible for the collection of all periodic payments for child support as required by federal statute and regulations. Examples of periodic payments include child support payments that employers withhold and submit from noncustodial parents' wages and payments made directly by noncustodial parents under a court order to pay child support.

²⁸The Department of Public Welfare receives IRS intercepts at various times throughout the year, usually on a monthly basis. The payments show in PACSES when Pennsylvania's Treasury Department receives them. The funds automatically go on hold until a reconciliation process is completed by DPW's Comptroller's Office. This reconciliation process can take from 7 to 21 days depending on the complexity of the adjustments needed. After reconciliation occurs, PACSES distributes the IRS intercepted funds. Such funds, however, are not immediately disbursed. They are placed on distribution hold for six months to allow those who may have legal claim to the federal funds to recover them.

²⁹This activity is carried out in conjunction with the Department of Labor and Industry. UC intercepts are transferred to DPW on a daily basis and posted onto PACSES.

³⁰This activity is carried out in conjunction with the Department of Revenue.

Over-the-Counter Lump-Sum Payments. Over-the-counter lump sum payments usually are made at the direction of an officer of the court. Such over-the-counter payments include, for example, payments ordered by the court to dismiss arrest warrants issued by the courts for failure to pay child support. They usually must be made directly to court personnel.

The Role of the State Disbursement Unit in Pennsylvania's Child Support Collection and Disbursement System

DPW awarded a contract in April 1999 to Lockheed Martin IMS to assist it in carrying out certain collection and disbursement activities and to serve as the federally required SDU. Lockheed started to work immediately with the Department to comply with federal deadlines.

- In June 1999, plaintiffs and defendants received notices advising them as to when they should start sending child support payments to the SDU.
- Effective August 2, 1999, all support checks were printed at the SDU and all payers without wage attachments were required to send their child support payments to the SDU.
- As of October 1, 1999, all employers were required to send wages that were withheld for child support to Pennsylvania's SDU.

Lockheed Martin IMS had been involved in the collection and disbursement of child support in New York and Wisconsin prior to federal requirements for such units. Lockheed had also been selected to assist seven other states (Arizona, Arkansas, Colorado, Florida, Georgia, Massachusetts, New Hampshire)³¹ in implementing their SDUs. DPW also chose Lockheed because of its familiarity with the PACSES system.³²

Changes Resulting From the Implementation of the SDU

The SDU does not receive and post central collections (IRS, UC and Lottery intercepts) onto PACSES. Such collections continue to be received and posted onto PACSES by state agencies in the same manner as before. However, the SDU does perform the following activities previously carried out by counties:

- Receiving and identifying payments, including lump-sum over-the-counter payments and payments to discharge bench warrants.
- Posting payments that are received onto PACSES.
- Depositing collections into a designated bank account.

³¹The SDU activities carried out by Lockheed Martin varies in each of the states.

³²Lockheed Martin IMS is the Commonwealth's vendor for the state disbursement unit and also for PACSES.

- Disbursing payments (including refunds) to the appropriate party (such as a custodial or non-custodial parent, a DRS, another state, etc.). Such payments include periodic and monthly support collections, centrally collected intercept funds, and payments derived from county maintained escrow accounts.
- Maintaining automatic voice response systems (AVRs) to advise both custodial and non-custodial parents of the payments that have recently been received and disbursed.
- Providing customer services.
- Updating lists of employers involved in wage withholding.

The SDU vendor's collection and disbursement activities differ from the activities carried out by the counties in the following ways. The SDU:

- Relies on automated processes to open and post payments, rather than manually posting such payments onto PACSES.
- Records the date it receives and posts a payment as the collection date, rather than the wage withholding date or the date specified on the check for payment.
- Forwards payment coupons to noncustodial parents that are not subject to wage withholding by their employer to submit along with their monthly child support payment to facilitate automated receipting and posting of payments onto PACSES.³³
- Forwards payment coupons to employers with less than 20 employees to submit along with wages that have been withheld for use in automated posting of payments.³⁴
- Routinely posts payments to the member's Social Security number, rather than to the member case number(s).
- Returns checks to employers and others that do not have the information sought by the vendor for posting of the payment.
- Deposits collections and disburses payments from a bank account controlled by the SDU vendor, rather than county government.
- Arranges for receipt of collections through EFT (Electronic Fund Transfers), EDI (Electronic Data Interchange), and credit cards as well as checks and money orders. Counties were not able to offer all of these options.
- Does not accept cash payments. Counties would accept cash payments.

³³Counties did not forward coupons to non-custodial parents.

³⁴Counties did not forward coupons to employers.

- Disburse payments through check or EFT, rather than only by check.

Additional information about the operations of the SDU can be found in Appendix B.

The advent of the SDU required changes to parts of the PACSES system. County DRS staff were no longer permitted to perform certain activities in PACSES' collection and disbursement subsystems. Following the implementation of the SDU, DRS staff cannot:

- Post collections.
- Back-out a posted collection that was not for child support (e.g. a check that was intended to pay the phone company) that has been distributed and disbursed improperly.
- Set up member offsets to intercept subsequent payments to cover funds that were incorrectly distributed to the member or to cover the cost of a previous check for which there were not sufficient funds (NSF).
- Reverse and hold receipts posted by the SDU if the receipt had gone through PACSES distribution.

With the advent of the SDU, only DPW and its vendor's staff can perform such activities.

While DPW restricted the activities of DRS staff to accommodate SDU operations, SDU is not responsible for all collection and disbursement activities. DRS staff continue to be responsible for the financial management of a case. Such activities include, for example, responsibility for auditing cases and preventing overpayments by a defendant when a case is subject to closure. DRS staff also play a role in the management of IRS intercept funds.

DPW requires the SDU to provide limited customer services activities. DRS offices, moreover, provide certain customer services as part of their case management responsibilities.

Deciding What Happens to Child Support Collections

The SDU vendor disburses (i.e., issues a check or transfers funds electronically) all child support collections. However, the vendor does not decide how much of the collection is paid to the custodial parent(s). It also does not decide how much of the payment is to go to pay current support or to pay arrears, including welfare arrears. Such decisions are made by a distribution subsystem that is part of PACSES.

PACSES became operational statewide on February 1, 1999, when Philadelphia and Delaware counties were brought onto PACSES. The Department created this statewide system by converting data from prior county-based systems onto PACSES. For newly established orders, the county DRS offices input the data onto PACSES. For TANF recipients, PACSES receives information to open cases through automated interfaces between PACSES and DPW's automated Client Information System (CIS).

The Department developed its statewide automated child support enforcement system to comply with provisions in the Family Support Act of 1988.³⁵ The Department of Health and Human Services requires that systems like PACSES provide for:

- Automated generation of documents without caseworker intervention.
- A case history in chronological order of all activities pertaining to a case with such activities automatically recorded in the case history file.
- System initiated actions whereby the system initiates the next appropriate action without caseworker intervention. If a caseworker decision is needed, options are presented to the caseworker and a timeline for taking action is established.
- Rejection of caseworker edits to system initiated actions and state established time limits for editing records of manually initiated actions, not to exceed one workday.
- Electronic data interchange.

PACSES is programmed to automatically distribute child support payments unless manually overridden by authorized parties. The distribution system in PACSES identifies and prioritizes the support obligation(s) to which each receipt should be applied. It then determines the amount of the receipt to apply to each group of obligations of the same priority.³⁶ Subsequently, it authorizes the disbursement of such receipts by the state disbursement unit to particular cases for specific obligations. It also authorizes refunds to various state appropriations for assigned welfare arrears. In other words, PACSES decides:

- Which case is to receive the payment,
- The amount to be paid for current support,
- If current support has been paid, how to distribute the remainder of the payment (e.g., does it go to pay specific arrears, fees, or is it placed on hold to be used to pay current support in future months).

³⁵Pub. L. 100-485, 102 Stat. 485.

³⁶The PACSES distribution subsystem looks at current support and current arrears due, and arrears consolidated for all obligations of the same priority.

When payments are received from noncustodial parents with multiple cases, PACSES decides:

- How the payment is to be divided among the cases for current support,
- How the payment is to be divided among the cases to pay various types of arrears and outstanding fees.

Prior to December 1999, PACSES relied on its calculation of the “monthly support obligation” when performing distribution.³⁷ Since December 1999, it has based distribution on the number of actual accruals in each month. PACSES and child support policies are very complex. Moreover, there is no single screen on the PACSES system that displays how PACSES divides up a collection in complex situations. Examples of complex situations include when there are multiple cases for the same payor, when a payment is for more than the current month’s child support, and when payments are posted on a date other than the date PACSES uses to consider when current support in a month is due.

Collections and Their Relationship to Enforcement Activities

The SDU is not responsible for monitoring receipt of child support payments and referring for enforcement activities. Such determinations are made by PACSES based, in part, on the data provided by the SDU.

PACSES continues to rely on its “monthly support obligation” calculation when referring for enforcement activities, even though it no longer uses this calculation for distributing payments. PACSES automatically reviews cases with financial obligations for delinquency on the overdue date for the payment. If no payment was recorded in its financial management subsystem, then the financial obligation balances are checked to determine if payments are more than one month in arrears.³⁸ If total arrears exceed the amount equal to the support payable for one month, the case is referred for enforcement remedy.

PACSES offers a variety of remedies to encourage a delinquent party to pay child support. The following are some of the available remedies:

- Defendant or employer delinquency notices
- Defendant enforcement conference
- Defendant or employer contempt hearing

³⁷PACSES’ monthly support order at times might differ from the order of the court because of the way in which PACSES calculates the amount. For obligations that charge weekly, the PACSES distribution subsystem multiplies the weekly amount by 4.345 (the number of weeks in a month). Biweekly orders are multiplied by 2.173; semi-monthly orders by 2.

³⁸This review occurs ten days after the financial obligation is accrued.

- Income Attachment
- Bench Warrant
- Bond and Security
- Account Garnishment
- Liens
- License suspension
- Credit Bureau Reporting
- Unemployment Compensation Intercept
- IRS Intercept
- Lottery Intercept

The worker in the DRS can elect which of the available remedies to pursue when alerted by PACSES to payment delinquency. The following enforcement remedies, however, are automatically initiated by PACSES on all delinquent cases that meet certain criteria:

- IRS Intercept
- Unemployment Compensation Intercept
- Credit Bureau Notification

Monitoring the SDU Project

While the development, implementation and operation of the SDU is the responsibility of the vendor, the Commonwealth is responsible for monitoring and auditing the SDU project. Approximately six Commonwealth staff are assigned to provide these services.

The contract between Lockheed Martin IMS and the Commonwealth identifies specific tasks that must be completed by the contractor and includes specific performance standards for certain of these tasks (refer to Appendix C). Commonwealth staff monitors the operation of the SDU through site visits, participation in management meetings, and review of management reports.³⁹

³⁹Such reports include the Daily Operational Report, the Employer/Non-Wage Withholding Transmittals Report, Notice Processing Report, the Bank Statement and Reconciliation, the Customer Services Report, and the Mailing Operations Report.

Contract and Fiscal Information

DPW's SDU Contract

The Department entered into a three-year contract with Lockheed Martin IMS to serve as the SDU. (Lockheed was one of two vendors to bid on the SDU contract.) Lockheed carries out SDU responsibilities through six subcontractors. They include J&B Software (TMS Image), Deloitte Consulting (outreach activities), First Union Bank (banking services), PRTW (receiving, opening, sorting and batching incoming mail, and staffing the customer service unit), Xerox (printing of checks and coupons) and Renaissance (Voice Response System) and Ideaworks (project control).

The maximum cost the Commonwealth can incur under the contract is \$59.467 million dollars over the three-year period. This includes an initial milestone payment of \$5.95 million payable after one month of full statewide processing. The contract also provides for monthly payments to the vendor following receipt of the contractor's invoice describing the services provided by the vendor.

DPW reimburses the vendor based on a price per unit for the following services:

- Collections processed
- Disbursements processed
- Withholding transmittals processed
- Billing statement/payment coupons processed
- Notices processed

The contract also provides for payments on other than a unit price basis for banking services, customer services, mailing operations postage, and the first check for which there are not sufficient funds.

Commonwealth staff reviews the monthly invoices for services submitted by the vendor prior to authorizing payment. The cost per unit for each component is compared to the pricing schedule in the contract. If all prices are accurate and the total service units match those on the management reports, the invoice is approved for payment by the Commonwealth's Project Director.

As part of the review of the vendor invoice, the bank charges are reviewed and compared with interest posted to the SDU accounts. Interest posted to the SDU accounts is used to offset current bank charges. Interest from the accounts that is earned in a month and in excess of the bank's service charges is used to offset the cost of the SDU's current month's processing. This excess interest, therefore, reduces the amount paid to the vendor from designated state budget

appropriations. Under the vendor's contract, monthly bank charges in excess of the posted interest are the responsibility of the contractor.

Between August 1999 and April 2000, the total Commonwealth payments (including the interest) to the SDU vendor amounted to \$15.8 million. This total includes:

- \$5,950,000 for a milestone payment
- \$2,627,478 for SDU postage costs⁴⁰
- \$2,180,000 for customer services
- \$3,123,893 for collections processed⁴¹
- \$1,876,808 for disbursements processed⁴¹
- \$157,770 for withholding transmittals processed⁴¹
- \$259,423 for billing statement/payment coupon processed⁴¹

Between August 1999 and April 2000, total interest paid on the SDU account totaled \$1,078,444. Of this total, \$664,470 covered the banking charges for this time period and \$413,974 was applied against the vendor invoices for services.

SDU Bank Accounts

There are three SDU bank accounts, all of which include the Commonwealth's federal identification number but are managed by the SDU vendor. The primary SDU concentration account is where all SDU collections are deposited and held. This account earns daily interest on the balance in the account. Funds are transferred out of this account to the disbursement account when SDU generated payments clear the bank. Another account is set up to handle electronic transfers of funds into and out of the SDU bank. Any balance in this account is transferred into the SDU concentration account each evening.

⁴⁰Postage costs are separately reimbursed through funds budgeted by DPW's Office of Income Maintenance.

⁴¹This total includes monthly billings for services as well as an additional vendor billing of \$713,655 in April to adjust upward the unit costs for volume variances from the contract assumptions of the number of collections, disbursements, withholding transmittals and billing statement/coupons processing.

IV. Appendices

APPENDIX A

The Department of Public Welfare's Cooperative Agreement With the County Commissioners and the Courts of Common Pleas*

The Cooperative Agreement outlines the IV-D program responsibility of the Domestic Relations Sections of the Courts of Commonwealth Pleas and those of the Department of Public Welfare. It also provides information on how counties are reimbursed for their IV-D program costs.

Title IV-D Services Provided by the DRS

Application Services. The DRS receives applications from those persons applying for title IV-D service.

Location Services. The DRS finds parents who are not paying support and locates their income and assets when necessary to establish or enforce child support orders.

Complaint Processing Services. The DRS assists individuals with the filing and processing of support complaints.

Paternity Services. The DRS establishes paternity by agreement of the persons involved in a child support case and, when necessary, by requesting a court order for genetic testing, and referring the matter for further judicial proceedings.

Financial Services. The DRS conducts a financial assessment of the child's needs and the persons' ability to provide support.

Establishment of Support Services. The DRS establishes an order of support, including medical support, by agreement of the persons.

Medical Support Services. DRS recommends that health benefits are included in all new or modified child support orders.

Modification of Support Order Services. Whenever a substantial change in circumstance is reported to the DRS, the county initiates proceedings to review and, if appropriate, modify support orders in accordance with state and federal law.

Enforcement Services. The DRS is to enforce child support court orders through any or all of the following: (1) initiating proceedings for an income attachment or unemployment compensation intercept; (2) directing an employer to enroll dependant(s) in available health insurance and to deduct the required premium payment from the employee's income tax offset for all cases meeting the certification criteria; (3) entering or assisting in entering liens against the real or personal property of the obligor; and (4) requesting that DPW suspends, refuses to renew or revokes the professional or other licenses of delinquent obligors which are issued by an entity or agency.

Inter/Intra-state Services. The DRS refers and monitors cases in other states and counties for provision of Title IV-D services.

Legal Services. The DRS provides legal services upon request to assist in the establishment and enforcement of support orders through a staff attorney or through another independent entity, such as the district attorney or private contractor.

Appendix A (Continued)

Monitoring Requirements. The DRS monitors actions taken to locate absent parents, and when necessary, establish paternity, and establish and enforce support obligations, including provisions for health insurance or medical support obligations for all cases in accordance with federal program performance standards.

Title IV-D Administrative Services Provided by the DRS

Reporting Eligibility Information. The DRS must report to DPW the necessary information to determine whether DPW support obligees and applicants are eligible for child support assistance payments and to determine whether such services should be continued.

Reporting Medical Insurance Information. The DRS must obtain and forward to DPW information regarding the obligor's health benefits which may be available to the obligee or to the obligor's minor dependents included in the court order, for those who receive assistance from DPW.

Remitting Collections. Prior to the start of the SDU, the DRS was responsible for remitting all monies due to the obligee and/or the DPW as assignee. DPW has a regulatory duty to notify the DRS of the assignment (or reassignment) of support rights to or from DPW.

Maintaining Confidential Records. The DRS must keep information concerning applicants and recipients of Title IV-D services confidential and insure that such information is used only as provided by federal law and regulation.

Maintaining Case Record Standards. The DRS must maintain case records in compliance with federal law and regulations.

Maintaining Accounting and Fiscal Records. The DRS must maintain an adequate accounting system and supporting fiscal records to assure that claims for reimbursement are in accordance with the state's cooperative agreement and applicable federal requirements.

Retaining Records. The DRS must retain all records required in the state's cooperative agreement for at least four years except as otherwise noted.¹

Accessing to Records. The DRS must allow DPW, the Pennsylvania Auditor General, authorized representatives of the Department of Health and Human Services, and Comptroller General of the United States to access all books, documents, papers, or other records which are pertinent to the functions of the DRS.

Submitting Reports. The DRS must submit complete and accurate monthly and quarterly reports to DPW in the form required by federal regulations and law.

Cooperating with DPW Staff. The DRS must cooperate with DPW in the performance of DPW's IV-D program responsibilities. The DRS must also, to the extent possible, provide adequate workspace, computer access, and copying facilities for DPW employees who are assigned work at the DRS.

Complying with Children and Youth Requirements. The DRS must agree to comply with written protocols mutually agreed to by the county children and youth services agency and the DRS.

Appendix A (Continued)

Activities Performed by DPW

General Activities. DPW is to provide general direction and supportive services such as technical assistance to the DRS.

Referral Services. As part of the referral process, DPW must insure that DRS procedures for initiation, establishment, enforcement, and modification of child support, medical support, and paternity are explained to welfare applicants/recipients. In addition, DPW, in consultation with the DRS, must make sure that referrals are conducted properly and the information gathered is sufficient to allow DRS to proceed with the opening of a Title IV-D case and/or the filing of a complaint for support, scheduling of a support conference, and the establishment of a paternity and an order for support.

Issue Notices of Discontinuance. Prior to the complete or partial discontinuance of welfare benefits to any person, DPW is to provide complete and accurate notices of discontinuance to the DRS. Such notices of discontinuance are to advise the DRS of the termination date of cash and/or medical assistance benefits and the reason for termination.

Respond to DRS Request for Information. DPW is to provide timely responses to all DRS requests for information.

Distribute and Collect Support Payments. DPW is to oversee the state collections and disbursement unit (SDU).

Maintain A Central Registry. DPW is to maintain a central registry responsible for receiving, distributing, and responding to inquiries on all incoming interstate IV-D cases in accordance to federal regulations and state law.

Parent Locator Services. Upon written or electronic requests from a DRS, DPW is to provide timely state and federal parent locator services in all cases of absent parents referred by the DRS. DPW is also to maintain a central file of information for the location of absent parents and make this information available to the DRS.

Unemployment Compensation Intercept. DPW serves as the liaison with the Department of Labor and Industry's Office of Employment Security for maintaining, expediting, and improving the unemployment compensation intercept program.

IRS Income Tax Refund Offset Program (TROP). DPW serves as the liaison between the DRS and the Internal Revenue Service for the purpose of maintaining, expediting, and improving the IRS Income Tax Refund Offset Program.

Full IRS Collection Services. DPW is to provide application services for full IRS collection processes on any case referred to DPW by the DRS.

Training. DPW is to provide regularly scheduled quarterly training workshops.

Publicity. DPW is to publicize the Title IV-D Child Support Enforcement Program through printed and electronic media.

Interface with Other Commonwealth and Other State Agencies. DPW is to develop and implement a protocol in conjunction with other Commonwealth agencies and other states for establishing and enforcing support orders and for the potential suspending, refusing renewal, or revoking of any license of a delinquent obligor.

Qualified Medical Child Support Order (QMCSO). DPW is to use the QMCSO statewide to direct employers and insurers to enroll dependents of insured or insurable obligors in available health insurance plans.

Appendix A (Continued)

Hospital Paternity Acknowledgements. DPW is to provide to the DRS on a monthly basis all in-hospital paternity acknowledgment case information reported and sent to DPW by hospitals conducting business within the county in which the DRS is located.

Birthing Expenses. DPW is to provide to the DRS all child-birthing expenses that DPW has incurred in cases it has referred to the DRS for child support services.

Statewide Automated Child Support Enforcement System. DPW has in place a statewide-automated data processing and information retrieval system that is compatible with the Unified Judicial System.

Title IV-D Advisory Committee. DPW has established an Advisory Committee whose purpose is to review and provide commentary on all proposed DRS memoranda developed for issuance by DPW to county DRSs. The Committee consists of the Director of the Bureau of Child Support Enforcement in DPW, the Chairperson of the Domestic Relations Association of Pennsylvania (DRAP) IV-A/IV-D Committee, four additional DRS representatives appointed by the DRAP Board, and a representative from the County Commissioners Association of Pennsylvania.

Submit Reports. DPW is to submit complete and accurate quarterly reports to comply with the federal government reporting requirements.

Case Assessment and Prioritization. DPW may review and approve a case assessment and prioritization system for implementation by a county DRS in accordance with federal regulations.

Reimbursement for Title IV-D Services Provided by the DRS

The DRS prepares an annual budget or program plan, which is submitted to DPW for review and approval. Every year, the DPW Comptroller's Office encumbers funds on the basis of estimated expenditures submitted by the DRS in its approved annual program plan.

The DRS submits an invoice every month to DPW requesting reimbursement for the costs of carrying out Title IV-D services as outlined in the cooperative agreement and its approved program plan. DPW reimburses the DRS the appropriate federal reimbursement rate, for the allowable expenditures claimed on the invoice in accordance with federal regulation. The DRS is not entitled to any reimbursement for expenditures, which are not federally reimbursable under Title IV-D, or applicable federal regulation. The county government is responsible for providing the nonfederal share required to match the approved federal IV-D reimbursement.

The DRS is also entitled to earn a portion of the incentives monies paid to DPW by the federal government to fund county DRS operations. Recently, the federal government capped the total federal incentive payments available to states.

*The current agreement is due to expire on September 30, 2000.

¹If any audit, claim, negotiation, or other action involving the records has been started before the expiration of the four-year period, the records shall be retained until completion of the action and resolution of all issues which arise from it or until the end of the regular four-year period whichever is later.

Source: Developed by LB&FC staff based on the October 1, 1995, cooperative agreement.

APPENDIX B

Overview of DPW's SDU Vendor's Collection and Disbursement Process

Payments From Defendants: Under SDU processes, defendants can satisfy their support order by check, money order, credit card, pay-by-phone, or recurring automatic withdrawal.

Defendants who pay by check or money order must mail their payment to the SDU's post office box in Harrisburg. Non-wage attached defendants receive coupons generated by the SDU each month showing the amount of child support due. These coupons are to be returned with the payment. The payment must include the defendant's PACSES identification number or social security number in order to be properly credited to their account.

Non-wage attached payors can set up automatic withdrawal from their bank account to satisfy their child support obligation. Non-wage attached payors also can pay by phone. They must use a valid credit or debit card.¹ The client must call each month they wish to pay by credit card, as there is no automatic mechanism available to charge their credit card every month.

Payments From Employers: Federal and state laws require mandatory income withholding by employers for all support orders entered by the court. If both plaintiff and defendant agree, a waiver for this requirement can be entered. However, if the payor becomes delinquent in an amount equal to one month's support, the court will enter a wage attachment regardless of the agreement of the parties to a waiver.

Employers with 20 or fewer wage-attached employees receive coupons from SDU each month. These coupons show the name, social security number, and PACSES member ID for each wage attached employee. There is a space next to each employee listing for the amount being sent for that employee. There is also a place on the coupon to indicate that an employee listed no longer works for the employer. The employer may send one check covering all employees who have had child support withheld from their wages.

Employers with more than 20 wage-attached employees are to generate a listing showing the name, social security number, PACSES member ID, and amount withheld for each employee. This list should accompany the payment to the SDU. These larger employers do not receive monthly coupons or a listing from the SDU.

Employers can remit payments by check, electronic funds transfer (EFT), or electronic data interchange (EDI). The SDU has developed an outreach program to encourage employers to use EFT or EDI for directly transferring child support payments from the employer's bank account to SDU's account at First Union National Bank.

Employer checks are sometimes received at the SDU that are out of balance or do not contain sufficient information to correctly post the payments. A group of SDU

Appendix B (Continued)

employees first attempt to resolve the problem by contacting the employer. Checks that are not resolved within three days are returned for the employer to correct.

Transfers From Counties. Most payments processed by the SDU are received at its Harrisburg collection site. However a small percentage of payments are received in person at the county level. This permits defendants to submit a payment on the day of a court hearing, in response to a court negotiated agreement and accommodates the occasional walk-in payor.

The county fills in a standard over-the-counter payment form that identifies the case and debt to which the collection is to be applied. The county must forward the collection along with the completed form to SDU for processing. Payments that must be posted the same day as collected are deposited in the county's bank account. The OTC payment form must be faxed to a special fax number at SDU where an SDU employee posts the payment. The SDU then sweeps the county bank account that night to transfer the funds to the SDU account. Payments that do not have to be posted the same day are mailed with the OTC payment form to SDU and processed normally.

Intercepted Funds. In some cases funds to cover child support obligations are intercepted from other sources and do not go through the SDU posting process. These funds are transferred directly from the intercepting agency to Pennsylvania's Treasury Department. PACSES is notified that these funds have been intercepted. Following a reconciliation process, PACSES proceeds with the distribution process and notifies the SDU if a disbursement should be processed. Funds intercepted for Pennsylvania child support payments include Internal Revenue Service refunds, Unemployment Compensation, and PA Lottery winnings.

SDU Collection Processing

The SDU collection processing includes receipt of mail on a daily basis, mail opening and sorting, payment identification, on-line posting of payments to PACSES, deposit of payments into the SDU bank account and all functions required to maintain security and control over this entire process.

Receipt of Mail: A courier picks up the mail from the US Postal Service and delivers it to the SDU mailroom three times each day. When the mail is received at the SDU mailroom, SDU employees review each piece of mail to ensure that it has been delivered to the appropriate SDU post office box. Odd sized and other envelopes that must be hand opened are designated for manual opening.

Payments are removed from their envelopes either by a hand opening process or using the mail extraction machine. The mail extraction machine opens most of the items. As the items are opened, the machine operator sorts the items based on the source of the payment (employer, defendant, or interstate) and how the payment will be processed.

Appendix B (Continued)

Special handling is provided for correspondence only, payments received with correspondence, cash payments, and payment coupons received with no payment enclosed. Every envelope is reviewed before being placed in the shredding bin to ensure that documentation and checks were not left in the envelope during the extraction process.

Each group of payments is bundled with a Batch Header that follows that group of payments through the entire payment processing operation. Batch Headers are designated for Defendant, Employer, Interstate, and Employer List. Quality Assurance clerks in the mailroom check each batch before it is forwarded to the scan room to ensure that documents are in the proper order and ready to be scanned. After the quality assurance process, the mailroom supervisor transports the batches to the scan room.

Scanning Process: The scanning process is designed to capture payment data from remittance documents and prepare funds for deposit. The software used by the vendor to process child support payments in SDU is able to read and decode pre-printed coupons and checks as well as handwritten data. Many payments can be completely processed and balanced without human intervention.

Payments that cannot be processed through character recognition are presented as electronic images to data entry operators who then enter the data into the system. Only payments requiring additional attention are seen by data entry operators. Items not readily identifiable at this stage go to research for more in-depth research. The images are archived for later retrieval.

All checks and money orders are passed through the scanner for a second time. The second pass is used to encode and endorse the checks and money orders for processing. An audit trail is printed on each document and an electronic image is captured for archiving. As items leave the scanner they are separated into groups of 300 items (called pocket cuts) and identified with a tracking number and the total dollar amount of the items in the group.

The system next verifies that all payments in the original batches are included in a pocket cut. This ensures that every payment is accounted for and that the PACSES data file balances with the bank deposit. Once all pocket cuts are reconciled, a transmission file is created to transmit the payment data to PACSES.

Bank Deposit: The system totals all of the payments and records this information on pre-encoded deposit slips for delivery to First Union Bank for deposit into the SDU Child Support Collections Account. A bonded courier picks up the locked carriers and delivers the checks and money orders to First Union's processing center. Cash and foreign checks must be processed separately and are delivered to the appropriate bank office for processing. The courier receives a printed receipt acknowledging the total deposit received by First Union. These receipts are returned to SDU.

Appendix B (Continued)

Disbursement Processing

The SDU provides on-site printing of checks and electronic disbursement of funds based on PACSES generated disbursement data. PACSES provides a disbursement file to SDU each day, Tuesday through Saturday. SDU disbursements generally are electronic disbursements and paper checks.

Electronic Disbursements: Lockheed Martin IMS relies on First Union Bank to handle the electronic funds transfers for SDU. Using the disbursement information generated by PACSES, SDU sorts the file by disbursement type and sends the information on electronic fund transfers to First Union Bank for disbursement. Electronic disbursement includes direct deposit to payee bank accounts, direct deposit to payee debit accounts, disbursement to other state child support agencies and disbursement to payee Electronic Benefits Transfer account. The EFT will be sent to and received by the plaintiff's bank on the same day as the check would have been printed and mailed. Disbursement information on these payments is available through automated voice response at SDU.

Disbursement by Check: The SDU's check printing operation is located in a secure area separate from the payment processing area. Using the disbursement information provided by PACSES, checks are printed on ThermoSeal check stock. As the checks come off the printers, they enter a folder/sealer that uses heat and pressure to create a self-mailing document. The post office ready checks are put into postal racks and onto mail trucks for delivery to the post office.

SDU's check printing application includes an end-of-day report which summarizes that day's production in a daily Check Production Log, a daily Pulls and Voids Report, and a Disbursement Processing Production Summary. This application also produces a file that is forwarded to First Union Bank to be used for disbursement reconciliation.

¹Only Visa and MasterCard are accepted by the SDU.

APPENDIX C

Non-Performance Sanctions

<u>Measurement of Performance Standard</u>	<u>Sanction for Failing to Meet Standard</u>
Pick up all mail each day received at the post office box Monday through Friday per agree upon schedule.	\$1,000 per day
99.9% of receipts processed on the same day.	\$5,000 per day
99.9% of collections deposited on the same day.	Average collection amount per receipt for the previous month times the interest rate for the current month times the number of background collections plus \$5,000 per day.
99.9% of debt designated collections on PACSES accurately the following day after receipt.	\$200 per debt designation.
Correspondence correctly forwarded to counties/state agencies the same day it is received.	Corrective Action Plan.
Accurate entry of change of employment status into PACSES the same day of receipt.	Corrective Action Plan or \$100 per occurrence per day.
Identifying the correct PACSES account number to which a payment must be credited.	Corrective Action Plan.
All collections reconciled daily and bank account reconciled monthly within 10 business days.	\$5,000 per day.
No receipting errors that cause an overpayment.	Overpayment paid by vendor.
Data entry error rate of less than 0.3% per month.	\$2,500 per month.
100% of returned checks must be recorded into PACSES within 1 business day of receiving the return.	Corrective Action Plan or \$100 per day.
Vendor must resolve 95% of collection exceptions within 3 business days.	Corrective Action Plan or \$100 per day.
Vendor must deliver unacceptable collections to the post office the same day it is delivered.	Corrective Action Plan.
All disbursements received from PACSES printed and mailed or disbursed each day.	\$5,000 per day.
All disbursements reconciled daily and bank account reconciled monthly within 10 business days.	\$5,000 per day.

Appendix C (Continued)

<u>Measurement of Performance Standard</u>	<u>Sanction for Failing to Meet Standard</u>
100% of stale checks recorded into PACSES before the next bank statement.	Corrective Action Plan.
100% of returned checks recorded into PACSES within 1 business day.	Corrective Action Plan.
Entry of change of payee address into PACSES on same day of receipt.	Corrective Action Plan or \$100 per day.
All employer/non-wage withholding transmittals received from PACSES printed and mailed on agreed upon schedule.	\$1,000 per day.
All billing statements/coupons received from PACSES printed and mailed on agree upon schedule.	\$1,000 per day.
All notices received from PACSES printed and mailed on agreed upon schedule or per federal regulations.	\$2,500 per day.
Customer service is evaluated based on the courtesy shown to callers, the accuracy of the information provided and the adherence of staff to established vendor procedures for dealing with clientele as measured by observation, correspondence, and supporting management reports.	Corrective Action Plan.
Satisfactory evaluations from participants in outreach programs.	Corrective Action Plan.
99.9% of all employer updates are added/updated accurately the same day they are received.	\$1,000 per day.
Daily reports due the next business day; monthly reports due on the 1 st business day of the next month.	\$50 per report per day late.

Source: The Department of Public Welfare's SDU RFP and contract.

APPENDIX D

State Collection and Disbursement of Child Support Payments Questionnaire for DRS Directors

1. Based on your county's experiences, have the following benefits resulted from the Commonwealth's change from county collection and disbursement of child support payments to state collection and disbursement?

Benefits for Parents	<u>Major Benefit</u>	<u>Minor Benefit</u>	<u>Not a Benefit</u>	<u>Don't Know/Not Applicable</u>
Collections and disbursement approvals are processed more quickly than before.				
Custodial parents receive their checks more quickly than before.				
Non-custodial parents receive accurate information on a monthly basis about the amount of child support they have paid and the amount owed.				
Benefits for Employers				
Wage withholding and submission of payments has been simplified for employers.				
Child support payments can be collected and disbursed electronically.				
Benefits for DRS Offices				
The county DRS office has reduced its staff and reduced its costs.				
The county DRS staff can now focus on activities other than collections and disbursements.				
More non-custodial parents are paying child support than before.				
Other Benefits (please list)				

Comments:

Appendix D (Continued)

2. Based on your county's experiences, have the following problems resulted from the Commonwealth's change from county collections and disbursements of child support payments to state collection and disbursement?

Problems for Parents	Major Problem	Minor Problem	Not a Problem	Don't Know/Not Applicable
Non-custodial parents can no longer make walk-in payments for their monthly support.				
Custodial parents can no longer come into the DRS office to obtain their child support check.				
Child support collections have been delayed or "lost" in the mail.				
Child support disbursements have been delayed in the mail.				
Child support disbursements have been delivered to the wrong address or been stolen.				
Child support collections have been applied and disbursed to the wrong cases.				
Custodial parents have experienced significant delays in receiving their child support when payments have been misapplied.				
Payments made directly to the custodial parent and recognized by the court have not been credited properly, and as a result the non-custodial parent's account shows arrears.				
Non-custodial parents have been improperly referred by the child support automated system for enforcement action (such as license suspension) because their payments have not been accurately or timely credited.				
Seasonal workers are unable to make "advance payments" for monthly child support during months when they are employed.				
Problems for Employers				
Employers are unfamiliar with what they must do to correctly forward payments to the state collection and disbursement vendor.				
Employers can no longer credit employees or their own accounts when withheld wages have not been applied to the correct case, or a payment has been made for someone who is no longer employed.				
Employers have had difficulty modifying their payroll systems.				
Problems for DRS Offices				
"Purge payments" are more difficult to process.				
Monthly support payments in some cases have not gone to the family but have gone to pay welfare arrears.				
The volume of DRS work has increased.				
Other Problems (please list)				

Appendix D (Continued)

Comments:

3. The Department of Public Welfare relies on a vendor (SCDU) to conduct some state collection and disbursement activities, including customer service for custodial and non-custodial parents, employers, and DRS staff. Based on calls your office has received for assistance and your office's own experience, has the vendor been responsive to the questions and concerns of:

	<u>Yes</u>	<u>Somewhat</u>	<u>No</u>	<u>Do Not Know</u>
Custodial parents				
Non-custodial parents				
Employers				
DRS staff				

Comments: _____

4. The Department of Public Welfare and its vendor rely on the state's automated child support enforcement system (known as PACSES) to assist with state collection and disbursement of child support payments. Do you think the PACSES system has caused problems for collection and proper disbursement of child support? Yes ___ No ___

Comments: _____

5. Has the state clearly communicated its policies and procedures for state collection and distribution of child support to:

a. DRS offices ? Yes ___ No ___ If no is checked, please explain: _____

b. The Courts? Yes ___ No ___ If no is checked, please explain: _____

APPENDIX E

State Collection and Disbursement of Child Support Payments Questionnaire for the Courts of Common Pleas

1. Based on the court's experiences, have the following benefits resulted since the Commonwealth changed from county collection and disbursement of child support payments to state collection and disbursement?

	<u>Major Benefit</u>	<u>Minor Benefit</u>	<u>Not a Benefit</u>	<u>Don't Know/Not Applicable</u>
More non-custodial parents are paying child support than before.				
County DRS staff can now focus on activities other than collection and disbursements.				
Orders and notices are generated by the automated child support enforcement system making it easier for the courts.				
<u>Other Benefits</u> (please list)				

2. Based on the court's experiences, have the following problems resulted since the Commonwealth changed from county collection and disbursement of child support payments to state collection and disbursement.

	<u>Major Problem</u>	<u>Minor Problem</u>	<u>Not a Problem</u>	<u>Don't Know/Not Applicable</u>
The courts are unable to rely on the payment information being up-to-date for monitoring and enforcement.				
Court orders are not being implemented as agreed to by the courts and the involved parties.				
Payments that have been made directly to the custodial parent and have been recognized by the courts are not properly credited to the non-custodial parent's account.				
Lump sum payments that have been ordered by the court are not distributed to the custodial parent as ordered.				
The court is not allowed to order a defendant to make a payment to a particular case when the defendant has multiple cases.				
<u>Other Problems</u> (please list)				

Appendix E (Continued)

3. Have the Department of Public Welfare and its child support collection and disbursement vendor clearly and adequately communicated their policies and procedures to the courts? Yes ____ No ____ If no is checked, please explain.

4. The Department of Public Welfare and its vendor have made major efforts to address some of the problems with the implementation of state collections and disbursements. Have you noticed improvements in the past 4 months?

Major Improvements ____ Minor Improvements ____ No Improvements ____

Please identify those problems that to your knowledge have not been satisfactorily resolved.

5. Do you have any suggestions to improve the current state collection and disbursement system for child support payments? _____

Name of Person Completing the Questionnaire _____

County _____ Telephone Number _____

The identity of individuals responding to this questionnaire will remain confidential and will not be shared with DPW.

APPENDIX F

State Collection and Disbursement of Child Support Payments Questionnaire for Wage Withholding Employers

1. Please indicate the method your company uses to submit child support payments to the Department of Public Welfare's State Collection and Disbursement Unit (SCDU) vendor.

One check is provided for all employees who have wages withheld.	
Separate checks are provided for each employee.	
Electronic Funds Transfer (EFT)	
Other (please identify)	

2. Please indicate the method your company uses to provide the information required by SCDU to process child support payments.

Child support payments are submitted with the payment coupons provided by SCDU.	
The information is provided on diskette using a program developed by SCDU.	
The information is provided on a list that the company generates based on copies of court orders for wage withholding.	
Other (please identify)	

3. Did you or your staff participate in the employer outreach sessions conducted by SCDU prior to the start of the state's collection of child support payments?

Yes ____ No ____

- a. Would you be interested in participating in employer outreach sessions if they are held in the future? Yes ____ No ____
- b. If you were able to participate in the employer outreach sessions, what types of information did you find most helpful?

4. Have you used SCDU's Customer Service Unit to obtain help with payment problems that may have occurred? Yes ____ No ____

- a. If you have used the Customer Service Unit, did you find it to be helpful and able to resolve the problems? Yes ____ No ____
- b. If no, please explain. _____

Appendix F (Continued)

5. Have your child support payments ever been returned by SCDU because the payment amount and the information provided were out of balance? Yes ___ No ___

a. If yes, what caused the problem? _____

b. How was the problem resolved? _____

6 Have you ever made a child support payment on behalf of the wrong employee or in the wrong amount for an employee? Yes ___ No ___

a. If yes, what caused the problem? _____

b. How was the problem resolved? _____

7. Have you ever had an employee complain that SCDU did not show receipt of a payment that you had submitted for that employee? Yes ___ No ___

a. If yes, what caused the problem? _____

b. How was the problem resolved? _____

8. Have you made a payment to SCDU on behalf of someone who is no longer your employee? Yes ___ No ___

a. If yes, what caused the problem? _____

b. How was the problem resolved? _____

9. Do you think that SCDU is an improvement over the prior county system?

Yes ___ No ___ No Opinion ___

Please explain: _____

10. What suggestions do you have to improve the state's collection of child support payments from employers?

Name of Person Completing the Questionnaire _____

Company _____ Telephone Number _____

Approximate number of employees in your company _____

The identity of individuals responding to this questionnaire will remain confidential and will not be shared with DPW.

APPENDIX G

Agency Response to This Report



05-27-2000 RCVD

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
P.O. BOX 2675
HARRISBURG, PENNSYLVANIA 17105-2675

FEATHER D. HOUSTOUN
SECRETARY

717-787-2600/3600

JUN 27 2000

Mr. Philip R. Durgin, Executive Director
Legislative Budget and Finance Committee
400 Finance Building
Harrisburg, Pennsylvania 17120

Dear Mr. Durgin:

I would like to thank you for your letter dated June 14, 2000 that transmitted your draft report of the Legislative Budget and Finance Committee (LBFC) performance audit of the child support Statewide Collections and Disbursement Unit (SCDU). I appreciate the opportunity to comment on the findings and recommendations contained in your report, as well as provide you with additional information pertinent to this process.

INTRODUCTION

The 1996 federal welfare reform law requires all states to implement a central collection and disbursement process for child support payments. In October 1999, Pennsylvania implemented the Pennsylvania SCDU in response to the federal mandate. As with any major system, the process was not without minor start-up problems. However, Pennsylvania's system is considered a leader – in fact, it is considered a model – for the entire country in terms of child support collection, processing, and disbursement.

In any given month, nearly 600,000 payments, representing almost \$90 million, are processed by the SCDU and disbursed to the families who need them. Of these payments, more than 98.5 percent are processed without problem and disbursed within 24 hours. Since implementation, over \$900 million in child support payments have been collected and disbursed.

While the vast majority of children who are owed child support in Pennsylvania now benefit from the centralized system, some families may, from time to time, experience a delay in receiving their support payments. There are a number of reasons for this; however, SCDU works very hard to address individual issues and correct any problems promptly.

JUN 27 2000

As with any system or program, it is important to constantly monitor and review performance, and to make adjustments when necessary and appropriate. The Department of Public Welfare (DPW) agrees with the LBFC that we must strive to provide timely and accurate collection and disbursement of child support payments. We also agree that, in many cases, families rely on child support payments to help make ends meet. The DPW has worked closely with its prime contractor for the SCDU, Lockheed Martin IMS, to develop a program that is not only performance-driven, but customer-focused.

The SCDU's operations boast a sophisticated system of checks and balances that ensures timely posting and distribution, tight quality control measures, and extensive customer support. In addition, each of Pennsylvania's 67 county Domestic Relations Sections (DRSs) benefits from real-time tracking of cases and information sharing with the central unit. The SCDU also provides ongoing technical assistance that is available to individual counties that experience difficulties, and upgrades and enhances the system regularly.

As the system continues to evolve, we expect to make further improvements to the SCDU in Pennsylvania. The DPW appreciates the efforts of the LBFC to help in shaping an even better SCDU. We are committed to working together to monitor and adjust the system when needed and appropriate to make sure that support payments reach Pennsylvania's families.

The following is my response to the findings and recommendations as they appear in the draft report.

- 1. The DPW, its state disbursement unit (SDU) vendor, and county domestic relation section (DRS) staff have taken steps to address many of the initial implementation problems.**

The DPW appreciates this recognition of our responsiveness. The DPW and the SCDU vendor responded quickly to start up problems. For example, when mail was returned to the SCDU as a result of incorrect addresses, a special team was assigned to update the child support address records. When a clerical error at the SCDU's bank caused a delay in cashing SCDU checks, affecting less than 20 payees, the issue was resolved in a few days and has not reoccurred.

JUN 27 2000

2. Parents do not have one place they can turn to for answers to questions about their child support payments.

Parents can, and should, turn to the DRSS of the county court that manages their case for answers to all their child support payment questions. Only the DRSS have the authority to perform child support enforcement. When the SCDU first began, many customers were so excited to have a new office taking new action on their case that they called the SCDU with all sorts of questions. Now, most customers have learned to call the SCDU for payment verification, and the county for enforcement action.

The DPW never intended to have the SCDU customer service representatives be more than a backup to the SCDU automated voice response (AVR) system for communicating information to customers. The SCDU customer service representatives provide verification that a payment was received, the amount of the payment received, and the date to expect a support check. It was initially anticipated that customer questions about the amount of the support payment received, the need for enforcement services, and other case management concerns would be directed to and resolved by the DRSS. Furthermore, advance information was sent to all persons who pay and receive child support explaining this distinction. When it was discovered that more was being expected of the SCDU customer service representatives, the payment information was given to the DRSS' AVR system as well so that customers could get what they needed, no matter which place they called.

3. The SDU vendor appears to be adhering to the federal requirement that fully identified monthly and periodic payments be disbursed within two business days, but many factors can cause payment delays.

The DPW agrees with the finding. When the SCDU returns employer checks, specific instructions are included so the employer understands how to correct the error and resubmit the payments properly. In addition, information is included on how the employer can submit future payments electronically, along with contact names and phone numbers of SCDU representatives that employers can call with questions.

The legislation that mandated a change to a central processing unit was at the urging of large employers and payroll companies that wanted to reduce the number of checks they had to process, yet many employers and individual payors too, were slow to adapt to the new high-speed automated payment-processing system that is like those that handle credit card payments. This type of system depends on the submission of appropriate identifying documentation with the payment. Despite a comprehensive outreach effort to employers and individual payors prior to implementation, many early payments were submitted without the appropriate documentation (i.e., no coupons, no Social Security number or PACSES identification number on the check).

During the first few months of operation, unidentifiable payments were high, accumulating to 16,500 payments and totaling about \$2.4 million. Through extraordinary efforts by the vendor, the Commonwealth team, and many of the DRSs, these unidentifiable payments have been thoroughly researched and have been reduced to the current balance of slightly over 5,000, totaling about \$670,000. It is expected that this total will steadily decrease as continued employer and payor outreach has reduced the monthly influx of new unidentifiable payments to around 1,200, allowing for the SCDU to process more unidentifiable payments monthly than they receive.

4. Families can lose a child support payment because there is not a policy and process for correcting all misapplied payments.

The federal government communicated its policy to all the states in an official September 15, 1997 Action Transmittal, No. 97-13. The federal policy allows the states to recoup an overpayment of child support to a custodial parent from the next monthly support payment – only if the custodial parent agrees to allow the state to do so. Because some misapplied payments are a result of inaccurate information from employers, the DPW has not sought taxpayer funds to cover such errors.

Prior to the SCDU, county DRSs, not encumbered by the federal policy, could use both recoupment and available accumulated incentive funds to cover errors. Since the DPW returns 95 percent of federal incentive funds earned to the county DRSs, there is no similar pool of money at the state level to correct these types of errors without using state tax dollars.

The refunding of amounts improperly withheld by employers is not the same issue as the one regarding the recovery of misapplied payments. With regard to misapplied payments, the employer rightfully withholds the support payment from an employee, but incorrectly identifies it as someone else's payment. The recovery of that disbursement, not the actual payment, is at issue and is restricted by the federal government.

We recognize that other states' practices differ, based on differing interpretations of advice provided by different federal agencies. For example, the IRS controls recovery of IRS refunds, not the federal Office of Child Support Enforcement (OCSE). The LBFC report acknowledges that auditors were unsuccessful in obtaining clarification from the federal government as to the apparent conflict between some states' procedures and the federal policy.

JUN 27 2000

5. **The SDU vendor posts checks on the day received, rather than the date the wages are withheld or the date on the check. The posting date, therefore, becomes the "collection date," which can cause some families to lose a monthly child support payment.**

The federal Balanced Budget Act and federal regulations specify for purposes of distribution that the collection date is the date that the support payment is received at the SCDU.

Pennsylvania did not elect the option to use the employers' date of income withholding (i.e., pay date) as the collection date because this would have required employers to track and report the income withholding date, a substantial burden. This had been the practice in the past, but it was abandoned because employers found the requirement too cumbersome. Furthermore, given that 65 percent of support payments are collected through employers, this practice was difficult to accurately monitor and enforce. Moreover, such a practice would make other problems (such as the impact of where the pay date falls in the month on the amount the family receives) even worse.

That said, the DPW will seek federal guidance regarding the collection date of employer-resubmitted checks. It should be noted that United States Treasury checks are normally dated the first day of the month, and on occasion are received at the SCDU a few days earlier. Since the checks cannot be legally negotiated until the check date, the SCDU has been instructed to hold those payments and post as of the check date.

6. **Even if a court orders that future payments be immediately passed through to the custodial parent, PACSES is not programmed to routinely allow them.**

State law says that support payments collected must be paid according to the court order. Moreover, according to federal law, the DPW cannot designate amounts received as a payment on future months' obligations until the current monthly support obligation and all arrears are satisfied. Otherwise, the court order must expressly provide for a process whereby support amounts may be collected and disbursed prior to the legal accrual of that debt.

7. Employers have encountered problems, particularly regarding payment coupons.

The DPW has worked with the SCDU vendor, who has now corrected this software problem. Since the problem was identified, the SCDU staff has manually reviewed all employer coupons received to ensure that updates of employee status are performed promptly, and have corrected all files that were in error since the identification of the problem. The DPW recognizes that there are sometimes discrepancies between employer records and employee lists associated with employers on the child support system, a result of the conversion of data from the old county DRS systems. The DPW now has an Employer Maintenance Unit to resolve these discrepancies. Additionally, SCDU employer outreach staff perform data reconciliation site visits upon request by employers.

8. DPW has not required its vendor to comply with all the provisions of the SDU contract.

The implementation of the SCDU, in order to meet the federally mandated time frame and avoid enormous financial sanctions, required a gargantuan effort by the vendor, the Commonwealth, and the DRSs. Provisions of the contract were enforced as needed to deal with obstacles and opportunities as they arose. With regard to unidentified payments, the DPW found that returning checks to the payors who failed to identify properly the payments was more effective than just depositing the money and sending a notice. The SCDU vendor still has the obligation to resolve the issue within three days, even if the resolution involves returning the check.

Regarding customer service, the DPW has not changed the intended purpose of the SCDU AVR system and its Customer Service Unit.

Regarding the SCDU account, before the SCDU began, the DPW, with approval from the Governor's Budget Office and the Department of Treasury, agreed to use the Commonwealth federal identification number. The vendor is still responsible for accuracy of the accounts.

9. Changes in federal cash assistance policies have resulted in some confusion.

Federal law only permits the DPW to refund support collected that is above and beyond the total amount of cash assistance issued to the family. The DPW implemented these federal distribution regulations in October 1998, in accordance with federal law. However, amounts collected in excess of the current monthly support obligation that are payable on arrears due to the family are distributed to the family in that month.

JUN 27 2000

10. The SDU vendor controls bank accounts holding significant funds that use the Commonwealth's federal identification number.

As stated in our response to Finding 8, the DPW received approval from the Governor's Budget Office and the Department of Treasury to use the Commonwealth's federal identification number on the SCDU account.

11. DPW has not provided adequate information to parents to alert them to the changes in the child support collection and distribution system and the consequences of their enrollment in the IV-D program.

The DPW provided clear and timely notification to parents and employers about the change to a centralized child support collections and distribution system. Providing information on all aspects of the child support system has traditionally been the responsibility of the DRSs, due to the disparity of local rules and practices for providing these services. Most DRSs have modified their informational brochures to include the changes to the system. The Pennsylvania Child Support Enforcement System (PACSES) also provides a "rights and responsibilities" form that can be used in lieu of a local form.

As for the consequences of participating in the federal Title IV-D program, Pennsylvania interprets the federal regulations to mean that all persons seeking support for a child(ren) or a spouse and child(ren) must be enrolled in the Title IV-D program.

12. Because the SDU posts payments to member numbers rather than case numbers, it will be difficult, if not impossible, to reconcile certain interstate cases.

Pennsylvania, like most other states, uses member-based posting of support payments received from nonresidents. We are awaiting federal guidance and direction before changing to case-based posting for interstate payments. Pending federal direction and uniformity, the DPW defers to the Supreme Court's Rules of Civil Procedure, which states that in cases with more than one family receiving support, all children must be treated equally, and no family may receive preference in child support payments. As a result, the court, and therefore the SCDU, may consider a proportional reduction in the amount payable to each family. In such instances, a family will receive all support due under the court order when all court orders for that obligor are enforced and paid.

JUN 27 2000

- 13. Noncustodial parents can be referred for enforcement action, even when they have fully paid their child support as required by the court order.**

The PACSES is programmed to trigger an enforcement remedy if payments are not posted to a member's case. The PACSES also alerts county officials of enforcement activity and allows them to override enforcement actions if they deem such overrides appropriate. Most enforcement mechanisms in the PACSES require a judge's signature before the enforcement action begins.

- 14. DRS offices have also faced significant challenges under the new system.**

The SCDU allows the DRSs to redirect staff from processing payments to child support enforcement, which only the counties have the authority to do. However, the DPW will continue to provide ongoing support to the DRSs during this transition.

- 15. DPW will be implementing additional changes to the child support enforcement system that will rely on information provided through its SDU vendor's collection processes.**

The DPW believes that the fundamental problem impacting the proper posting of payments – and, therefore, the proper crediting of accounts – is a direct result of insufficient identifying information on payments received without coupons. Although efforts to educate child support customers continue, ultimately individual obligors must assume personal responsibility for the enforcement consequences of failing to adhere to modern, highly automated billing requirements. These are the same as those recognized and adhered to when making payment on other personal obligations such as a mortgage, a vehicle, or a credit card.

RECOMMENDATIONS

- 1. Revise the way customer services are provided to the public by reestablishing county DRS staff as the primary point of contact.**

We agree that the need exists to provide callers with comprehensive, accurate, and timely information when questions require more information than is available through the AVR system. The DPW will work with the counties to reevaluate customer service methods and options to include a clear delineation of tasks and responsibilities to respond to customer concerns.

JUN 27 2000

- 2. Assure that all families that have their payments posted to the wrong account (misapplied payments) expeditiously receive their child support, and that the noncustodial parents' accounts are properly credited so that improper referrals for enforcement do not occur.**

We agree that misapplied payments present hardships to families that depend on support income, but we are bound by federal policy to recover overpayments only with the agreement of the recipient. However, we will:

- direct the SCDU to issue a notice for all misapplied payments, not only ones that result from a SCDU contractor error. The notice will request the customer to return the original check to the SCDU, pay the overpayment in a lump sum, or agree to an offset on future support payments.
 - assess the potential for legislation to establish a revolving fund using undistributable child support collections, which should avoid placing an additional burden on taxpayers to cover misapplied payments that were not the fault of the SDU contractor.
- 3. Require its SDU vendor to assume financial responsibility for misapplied payments resulting from the vendor's failure to add or remove employees from an employer's payment coupon.**

As stated in our response to Finding 7, the software that was causing this problem has been corrected, and employer files have been updated. All misapplied payments that we are aware of have been made right. The DPW will continue to monitor this situation to assure that there is no recurrence of misapplied payments.

- 4. Expand on its policies to allow reversals of collection dates in situations where the families lose monthly support payments to welfare arrears as a result of the posting practices of its SDU vendor.**

Although we agree that this may be helpful, federal law and regulations establish the collection date as the date payment was received in the SCDU. The DPW will provide additional information to obligors and employers about the significance of submitting payments on, and not before, the due date contained in the court order for support. We believe providing this information reduces the need for additional steps to identify properly a payor's intent. Additionally, the DPW will continue to work with the U.S. Treasury to accomplish an electronic funds transfer method of transmitting funds to ensure processing these payments on time.

- 5. Work with its SDU vendor to develop improved "exceptional processing procedures," including how it posts payments made in interstate cases and lump sum payments ordered by courts.**

There is an unresolved issue with payment posting for interstate cases, but until federal direction is received, the DPW cannot impose the needed uniformity on all the states. The federal OCSE is aware of this issue and will resolve it through regulation. In the interim, the Supreme Court's Rules of Civil Procedure and federal regulations require all families to receive at least a portion of payment received from an obligor. Many other states have a practice similar to Pennsylvania's. The DPW is actively participating in the federally-sponsored workgroup that meets regularly to resolve interstate problems such as this. We will continue to bring this issue to the attention of that group for resolution.

We do have procedures in place for carefully dealing with lump-sum payments. The DPW established exceptional processing for lump-sum payments at SCDU implementation. Courts can specifically identify the lump-sum payment and provide specific posting instructions to SCDU to ensure the appropriate distribution of the payment.

- 6. Pay the custodial parent the interest earned on payments placed in the suspense account that are more than 30 days old.**

The DPW disagrees with this finding. Not only would the cost to issue the interest payments exceed the interest amount to be paid, the amount of interest paid to a given family would be negligible to the extent of having no economic impact (i.e., several cents). In addition, this would add to the overall taxpayer burden, as the interest earned in the accounts now goes to offset the cost of the SCDU contract.

- 7. Improve the information it provides to families about the state's child support collection and disbursement system, particularly how some of its operations can affect the child support they expect to receive.**

We agree that families should have easy access to a comprehensive, understandable explanation of the support collection and disbursement process. New publications are being written, including a "customer's rights and responsibilities" brochure. The DRSs have always provided this information to customers, and we will encourage those offices to continue to do so using the new pamphlets provided by the DPW.

8. Develop processes to expedite release of lump sum future payments for non-welfare families.

We agree and will abide to all court orders that include special provisions for payments collected on future obligations. Otherwise, county DRSs can manually intervene to disburse lump-sum future payments for non-welfare families.

9. Provide additional information to employers concerning the operations of the state collection and disbursement unit and how its processing procedures can affect them and their employees.

Before the SCDU implementation, the contractor did extensive employer outreach, and it should be noted that the employers who took advantage of the briefings offered are now generally the ones that submit payments correctly. In addition, the DPW agrees to maintain and build upon its current practices, which include:

- seven (7) full time SCDU employer Customer Service Representatives.
- five (5) full time SCDU employer outreach staff.
- presentations by SCDU employer outreach staff at American Payroll Association meetings.
- employer site visits by SCDU outreach staff for problem resolutions due to data discrepancies (50 visits to date).
- employer site visits by SCDU outreach staff to discuss and implement electronic funds transfer and direct deposit processes.

10. Require its SDU vendor to provide notes to the appropriate DRS staff when entering a change onto PACSES that could affect a child support payment.

The DPW will work closely with the county court's DRSs to ensure optimal communication on SCDU updates to PACSES data so that county staff can more easily determine changes made at the SCDU.

11. Revise its contract with its SDU vendor to reflect changes to its understanding of contract provisions.

The DPW agrees with this recommendation.

12. Audit the bank accounts controlled by its SDU vendor into which all child support collections are placed prior to disbursement.

The DPW agrees with this recommendation.

JUN 27 2000

13. Improve communication among all parties responsible for child support collection, disbursement, and enforcement.

We agree and recognize the need for adequate and timely communication with all business partners.

14. Improve the existing system for establishing and communicating policies and procedures.

The DPW agrees that electronic communications are no substitute for written procedures. However, e-mail communication was recognized during SCDU implementation as an appropriate mechanism to address critical operational issues. The DPW will ensure that written procedures are prepared to document the procedures established via e-mail.

I would like to thank you for the opportunity to comment on this report. If you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,



Feather O. Houstoun