

N00H00
Child Support Enforcement
Department of Human Resources

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$17,555	\$17,662	\$18,224	\$562	3.2%
Contingent & Back of Bill Reductions	0	0	-28	-28	
Adjusted General Fund	\$17,555	\$17,662	\$18,195	\$534	3.0%
Special Fund	14,773	14,792	11,660	-3,132	-21.2%
Contingent & Back of Bill Reductions	0	0	-1	-1	
Adjusted Special Fund	\$14,773	\$14,792	\$11,659	-\$3,133	-21.2%
Federal Fund	56,133	55,400	60,009	4,609	8.3%
Contingent & Back of Bill Reductions	0	0	-56	-56	
Adjusted Federal Fund	\$56,133	\$55,400	\$59,954	\$4,553	8.2%
Adjusted Grand Total	\$88,461	\$87,854	\$89,808	\$1,954	2.2%

- The fiscal 2014 allowance of the Department of Human Resources (DHR) Child Support Enforcement Administration (CSEA) increases by \$2.0 million, or 2.2%, compared to the fiscal 2013 working appropriation, after accounting for an across-the-board reduction in health insurance due to favorable cost trends. Increases in general (\$533,554) and federal (\$4.6 million) funds are partially offset by a decrease of \$3.1 million in special funds.
- A portion of the special fund decrease (\$70,083) and general fund increase result from the use of Budget Restoration Funds, created in the Budget Reconciliation and Financing Act of 2012, to support the cost-of-living adjustment provided to State employees in January 2013. These expenses would have otherwise been general fund expenses and are budgeted with general funds in the fiscal 2014 allowance.
- Major changes in the fiscal 2014 allowance occur in the areas of personnel and Cooperative Reimbursement Agreements.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 12 Actual</u>	<u>FY 13 Working</u>	<u>FY 14 Allowance</u>	<u>FY 13-14 Change</u>
Regular Positions	690.00	693.20	693.20	0.00
Contractual FTEs	<u>8.22</u>	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>
Total Personnel	698.22	694.20	694.20	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	49.56	7.15%
Positions and Percentage Vacant as of 12/31/12	45.30	6.53%

- There are no changes in the number of regular positions or contractual full-time equivalents in CSEA in the fiscal 2014 allowance. However, in fiscal 2013, DHR has transferred positions between programs, including 3.0 positions transferred from CSEA to the Office of Inspector General, as part of DHR’s commitment to improving accountability in child support enforcement announced in December 2011.
- CSEA’s turnover expectancy decreases from 7.28 to 7.15% in the fiscal 2014 allowance.
- As of December 31, 2012, CSEA had 45.3 vacant positions, a vacancy rate of 6.53%. To meet its turnover expectancy, CSEA needs to maintain 49.56 vacant positions in fiscal 2014. At its current level of vacancy, CSEA may have difficulty meeting its turnover expectancy.

Analysis in Brief

Major Trends

Total Collections Increase: After a modest increase in total collections in federal fiscal year (FFY) 2011, CSEA improved total collections by \$25.2 million, or 4.8%, in FFY 2012. Increased collections occurred in nearly all jurisdictions in the State and in cases associated with both the Temporary Cash Assistance (TCA) program and non-TCA related cases.

CSEA Improves in Federal Performance Measures and Other Key Activities: In FFY 2011, CSEA experienced limited or no improvement in performance in four key measures of agency performance (percent of current support paid, cases with arrears for which a payment is received, cases with a support order, and cases with paternity established) compared to the prior year. However, CSEA improved performance in each measure in FFY 2012. The most substantial improvement came in the percent of cases with paternity established, an increase of 5 percentage points.

Case Closure Activity Reduces Arrearages and Caseload: Although cumulative arrearages tend to increase over time because not all child support owed is paid each year, for the second consecutive year cumulative arrearages declined. In FFY 2012, the decrease in cumulative arrearages totaled \$210.1 million, or 13.8%. CSEA attributes this decrease to improvements in the case closure process, which has also reduced the number of cases with arrears and the total caseload.

Issues

Status of Corrective Actions for Audit Findings: In September 2011, the Office of Legislative Audits (OLA) released a fiscal compliance audit for CSEA containing 11 findings, 5 of which are repeated from the previous audit. Language in the fiscal 2013 budget bill withheld funds until the DHR completed all actions planned to resolve the audit findings. Through September 1, 2012, OLA believed that CSEA had completed actions to resolve 5 of the findings. Since that time, CSEA has continued to take actions to resolve the findings.

Implementation of Suspension of Child Support for Incarcerated Obligor: Chapter 670 of 2012 authorized CSEA to suspend child support payments for obligors sentenced to be incarcerated for 18 months or longer who are not on work release, do not have sufficient means to pay the support, and did not commit the crime with the intent of being incarcerated or otherwise impoverished. Arrearages would not accrue during the suspension, and the order is required to resume 60 days after release. DHR has proposed regulations to implement this law, as well as established necessary interfaces to learn of newly incarcerated obligors. However, the immediate impact of this change is limited because it only applies to new or modified orders for individuals sentenced after October 1, 2012.

Recommended Actions

	<u>Funds</u>
1. Add budget bill language restricting the general fund appropriation until corrective actions related to the audit are completed.	
2. Reduce funding for the Central Disbursement Unit based on anticipated savings from the new child support distribution process.	\$ 1,400,000
Total Reductions	\$ 1,400,000

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Child Support Enforcement
Department of Human Resources

Operating Budget Analysis

Program Description

The child support enforcement program establishes paternity when children are born to unmarried parents, establishes child support orders, and collects and distributes both current and arrears child support payments. The Child Support Enforcement Administration (CSEA) administers and monitors child support services provided by local departments of social services and other offices, provides technical assistance, formulates policy, develops and implements new programs, and ensures compliance with regulations and policy. CSEA also operates several centralized programs including:

- locating noncustodial parents;
- establishing paternity;
- enforcing support orders;
- collecting and disbursing payments; and
- processing interstate cases.

The key goal of CSEA is to enable, encourage, and enforce parental responsibility.

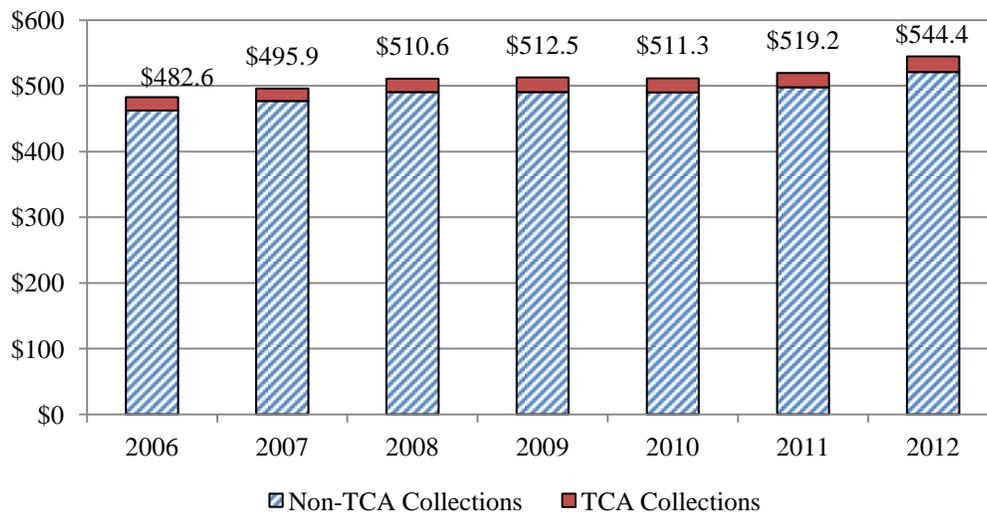
Performance Analysis: Managing for Results

In December 2011, the Department of Human Resources (DHR) announced several changes to CSEA designed to improve agency performance. At that time, DHR set a goal for CSEA to be in the top 10 of child support enforcement performance among states. In federal fiscal year (FFY) 2011, DHR's performance generally fell near the middle to bottom of the pack in most performance measures with its highest ranking at 16 (percent of current child support paid). DHR intended to improve performance through (1) adoption of best practices; (2) focusing on successful programs; and (3) increasing accountability in local offices. CSEA has made strides in resolving several audit findings, discussed further in Issue 1, that should lead to improved collections, including more effectively using wage withholding orders and bank account seizures. The improvements resulting from these initiatives are apparent in the FFY 2012 performance of CSEA.

1. Total Collections Increase

As shown in **Exhibit 1**, after a modest increase in total collections in FFY 2011, CSEA’s total collections increased by \$25.2 million, or 4.8%, in FFY 2012. The majority of the increase occurred through improvements in wage withholding. In addition, the change in child support guidelines may have also led to increased collections, as the guidelines began to impact the caseload with new or modified support orders. Nearly all jurisdictions experienced higher collections in that year, with only Dorchester, Kent, and Worcester counties having decreases in collections. Charles County had the largest percentage increase at 8.2%, and Prince George’s County had the largest dollar increase at approximately \$3.9 million.

Exhibit 1
Total Collections
Federal Fiscal 2006-2012
(\$ in Millions)

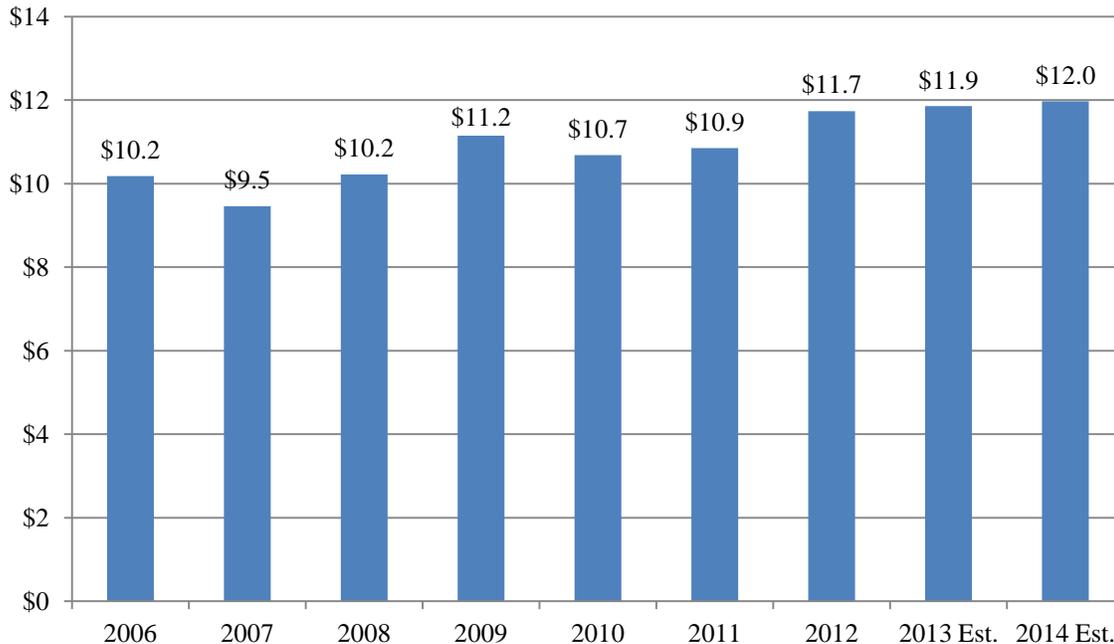


TCA: Temporary Cash Assistance

Source: Department of Human Resources; Governor’s Budget Books

The increase in collections between FFY 2011 and 2012 occurred among cases associated with both the Temporary Cash Assistance (TCA) program (8.1%) and non-TCA cases (4.7%). The collections on cases associated with TCA are used to reimburse costs of the TCA program; 50.0% of the collections are provided to the federal government, and the State retains the other 50.0%. As shown in **Exhibit 2**, the State’s share of collections has increased in most years, consistent with the change in TCA related collections shown in Exhibit 1. In FFY 2012, the State’s share of collections increased by \$0.9 million. DHR anticipates TCA collections, and the resulting State share of those collections will increase by 1.0% in FFY 2013 and 2014.

Exhibit 2
State’s Share of Temporary Cash Assistance-Related Collections
Federal Fiscal 2006-2014
(\$ in Millions)

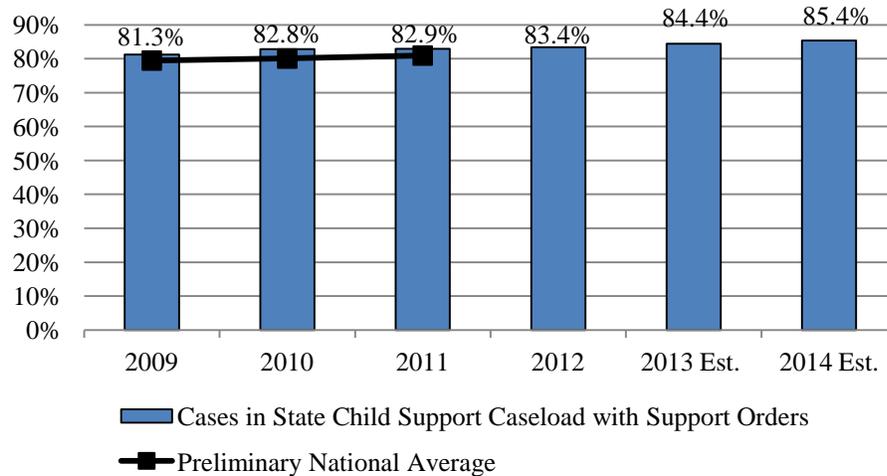


Source: Department of Human Resources; Governor’s Budget Books

2. CSEA Improves in Federal Performance Measures and Other Key Activities

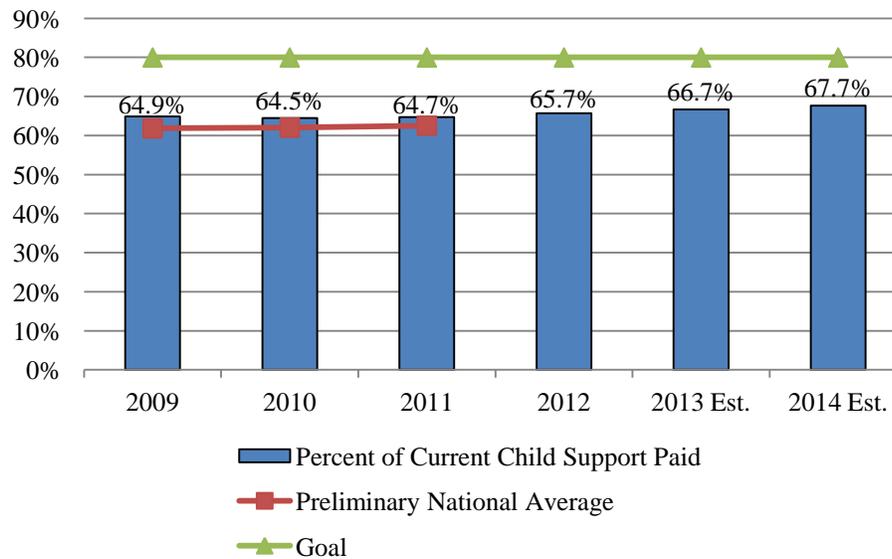
The improvements in child support performance are also evident in several of the performance measures used by the federal Office of Child Support Enforcement (OCSE) in determining federal incentive payments – the percent of the child support cases with a support order, current support paid, and cases with arrears for which a payment is received, as shown in **Exhibits 3, 4, and 5**. After only minimal or no change in performance in each of these measures between FFY 2010 and 2011, larger improvements occurred in FFY 2012. In FFY 2012, CSEA continued to exceed the goal of 80% of the child support caseload with a support order. Although CSEA’s performance in the percent of current child support paid and percent of cases with arrears for which a payment is received remains well below the goal, CSEA’s performance improved by nearly 1.0 percentage point in the area of current support paid and nearly 2.5 percentage points in cases with arrears for which a payment is received.

Exhibit 3
Child Support Caseload Under Order
Federal Fiscal 2009-2014



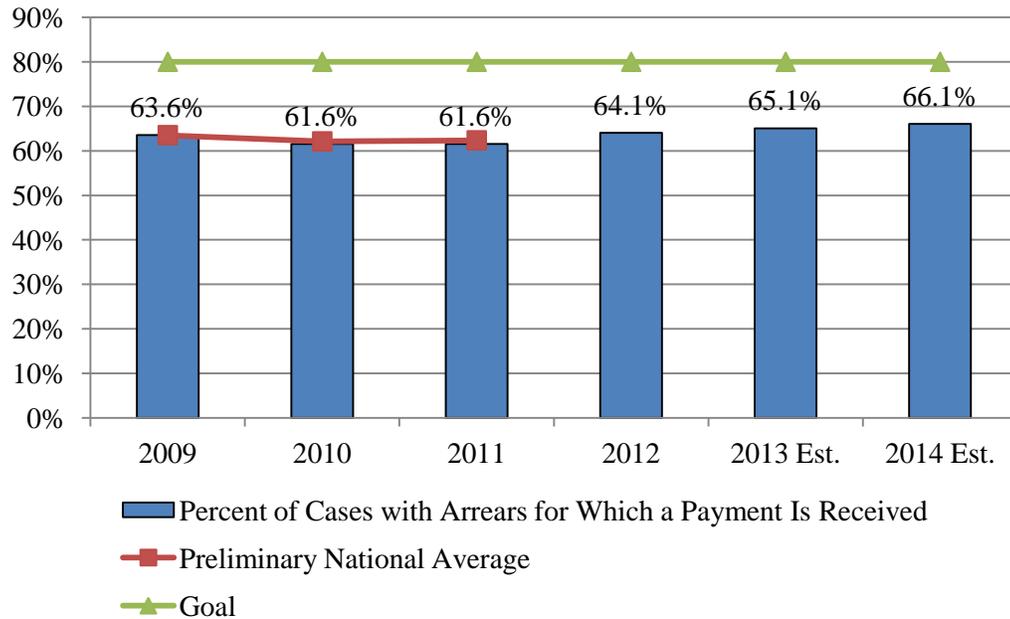
Source: Department of Human Resources; Governor’s Budget Books

Exhibit 4
Current Child Support Paid
Federal Fiscal 2009-2014



Source: Department of Human Resources; Governor’s Budget Books

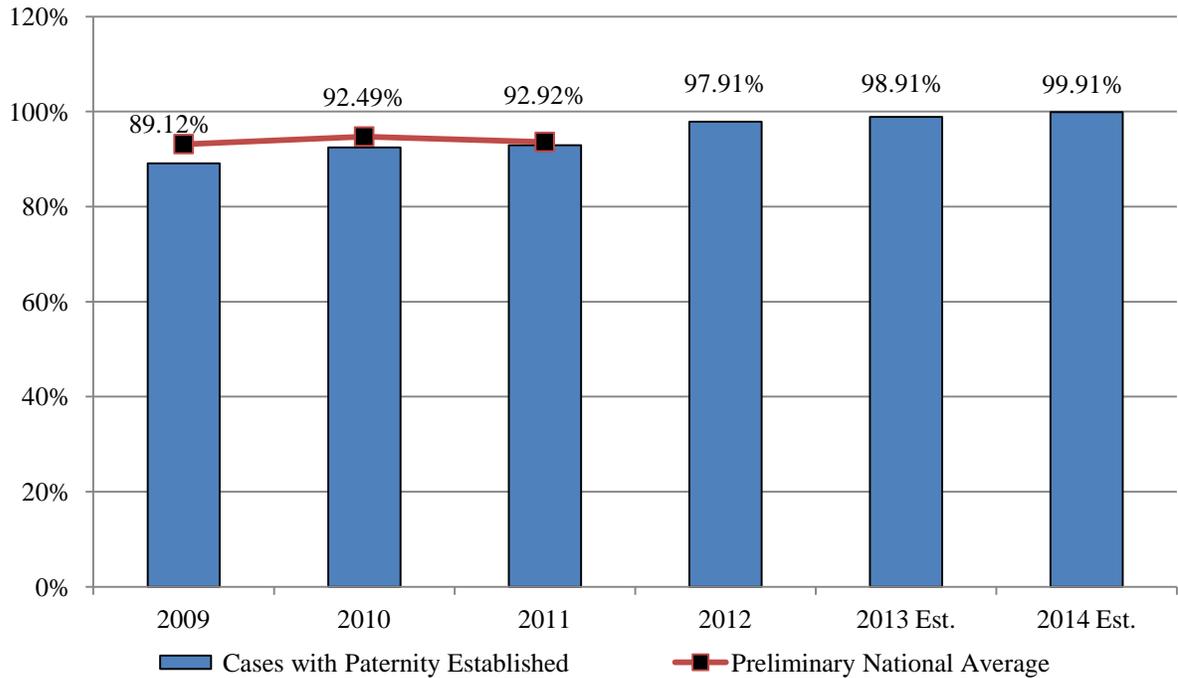
Exhibit 5
Cases with Arrears for Which a Payment Is Received
Federal Fiscal 2009-2014 Est.



Source: Department of Human Resources; Governor’s Budget Books

CSEA’s performance in the percent of the State child support caseload with paternity established showed even greater improvements between FFY 2011 and 2012 than other measures. As shown in **Exhibit 6**, CSEA’s improvement in this measure was almost 5 percentage points, reaching 97.9%. CSEA attributes the improvement in this area to increasing the awareness in local offices of the importance of establishing paternity.

Exhibit 6
Child Support Caseload with Paternity Established
Federal Fiscal 2009-2014 Est.



Source: Department of Human Resources; Governor’s Budget Books

CSEA plans to continue to improve performance in these areas through proposed legislation which would:

- add retirement accounts to the type of financial institution accounts that can be seized by CSEA (SB 71);
- allow CSEA to establish a legal finding of paternity, without a court order, if the results of genetic testing establish paternity with a probability of at least 99% (SB 178); and
- allow CSEA to establish a temporary support order based on the child support guidelines, or deviations provided under law, pending the outcome of the judicial determination of support (SB 181).

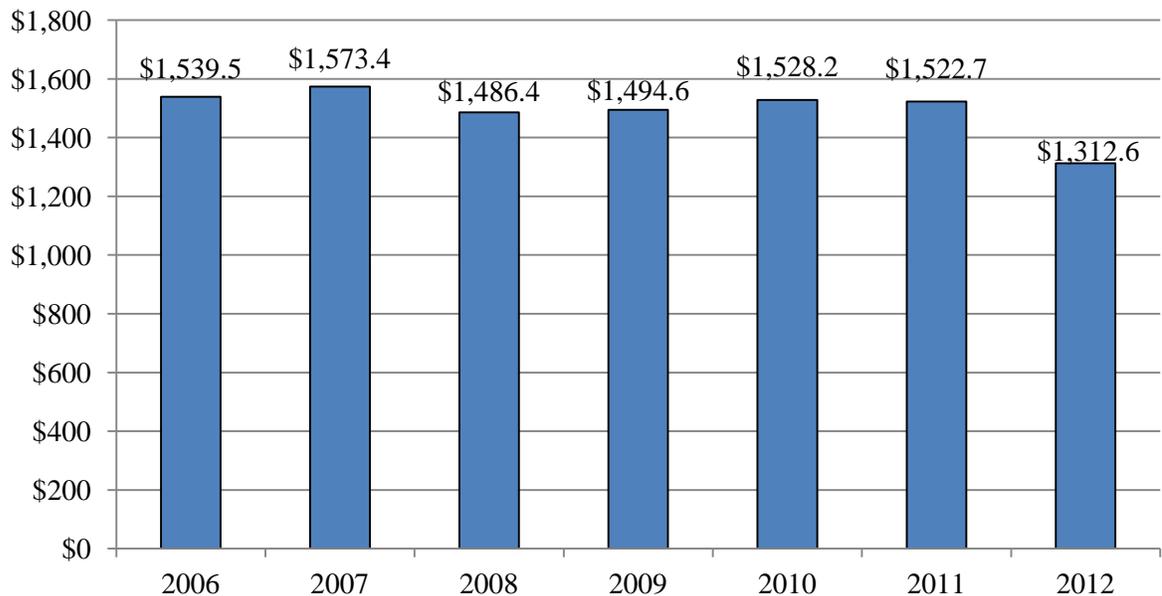
In addition, CSEA is receiving technical support from the federal OCSE, which will result in recommendations on how the agency could improve performance. CSEA also plans to undertake

business process reviews in Anne Arundel, Baltimore, Montgomery, and Prince George’s counties based on practices from the top ten performing states. The contract to perform the business process review is expected to be awarded in March 2013. CSEA is also working to improve operational efficiencies in local offices, automate currently manual processes, and closely monitor the performance of the Baltimore City contractor.

3. Case Closure Activity Reduces Arrearages and Caseload

Historically, cumulative arrearages have tended to increase over time. As shown in **Exhibit 7**, this trend has reversed in recent years with decreases between the last day of FFY 2010 and 2011, and again in FFY 2012. The decrease between the last day of FFY 2011 and 2012 totaled \$210.1 million, or 13.8%.

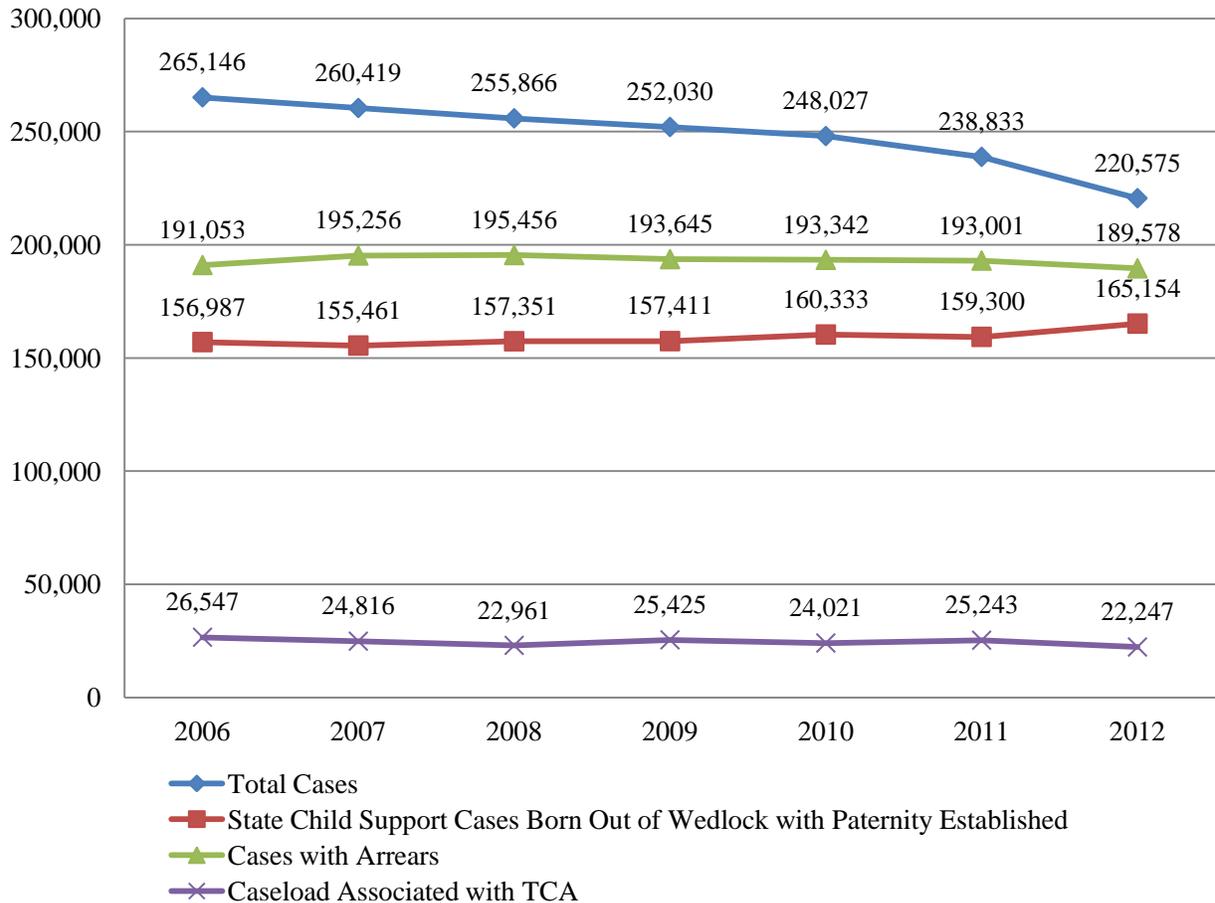
Exhibit 7
Cumulative Arrearages
Federal Fiscal 2006-2012
(\$ in Millions)



Source: Department of Human Resources

As shown in **Exhibit 8**, the number of cases with arrears has decreased in each of these years. As also shown in Exhibit 8, the decline in the total child support caseload, occurring in all recent years, has accelerated in FFY 2011 and 2012, with decreases of 3.7 and 7.6%, respectively. CSEA indicates that each of these decreases result from enhancements to its case closure process to make the process more effective while staying in compliance with federal case closure rules.

**Exhibit 8
Child Support Caseload
Federal Fiscal 2006-2012**



TCA: Temporary Cash Assistance

Source: Department of Human Resources; Governor’s Budget Books

Fiscal 2013 Actions

Section 25 of Chapter 1 of the First Special Session of 2012 (the Budget Reconciliation and Financing Act (BRFA) of 2012) required the Governor to abolish at least 100 vacant positions as of January 1, 2013, saving at least \$6 million in general funds. DHR’s share of the reduction was \$519,275 in general funds, some portion of which is attributable to CSEA. CSEA had no positions

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abolished from the statewide requirement; however, 1 position abolished from DHR Administration was budgeted in CSEA at the time of its abolition, and the savings (\$59,119) accrues in CSEA.

Proposed Budget

As shown in **Exhibit 9**, CSEA's fiscal 2014 allowance increases by \$2.0 million, or 2.2%, compared to the fiscal 2013 working appropriation, after accounting for an across-the-board reduction in health insurance expenses due to favorable cost trends. General (\$533,554) and federal (\$4.6 million) fund increases are partially offset by a special fund decrease of \$3.1 million.

The general fund increase and special fund decrease are distorted by the Budget Restoration Fund. The Budget Restoration Fund was created in the BRFA of 2012. In CSEA, the Budget Restoration Fund is used to support a portion (\$70,083) of the cost-of-living adjustment (COLA) provided to State employees in January 2013. These expenditures would have otherwise required general funds and are budgeted as such in the fiscal 2014 allowance.

Personnel expenditures account for the majority of the increase in CSEA's fiscal 2014 allowance, \$1.1 million. The personnel increases largely result from employee retirement (\$925,083), employee and retiree health insurance (\$483,222), and the annualization of the fiscal 2013 COLA (\$369,351). The increases in personnel are partially offset by reductions in other areas, the largest of which is regular earnings (\$640,632), primarily due to filling vacancies at lower salary levels, the annualization of savings from the position abolished due to Section 25 of the BRFA of 2012, and positions transferred to other programs in fiscal 2013. Although several positions have been transferred out of CSEA and into other DHR programs in fiscal 2013, the appropriation has not yet been adjusted to reflect the transfers.

Exhibit 9
Proposed Budget
DHR – Child Support Enforcement
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Total</u>
2013 Working Appropriation	\$17,662	\$14,792	\$55,400	\$87,854
2014 Allowance	<u>18,224</u>	<u>11,660</u>	<u>60,009</u>	<u>89,893</u>
Amount Change	\$562	-\$3,132	\$4,609	\$2,039
Percent Change	3.2%	-21.2%	8.3%	2.3%
 Contingent Reductions	 -\$28	 -\$1	 -\$56	 -\$85
Adjusted Change	\$534	-\$3,133	\$4,553	\$1,954
Adjusted Percent Change	3.0%	-21.2%	8.2%	2.2%

Where It Goes:

Personnel Expenses

Employee retirement	\$925
Employee and retiree health insurance net of an across-the-board reduction due to favorable cost trends	483
Annualization of the fiscal 2013 cost-of-living adjustment	369
Reclassification	23
Unemployment compensation and overtime	-2
Turnover adjustments	-5
Social Security contributions	-44
Accrued leave payout	-56
Regular earnings primarily due to the annualization of the Section 25 position abolition, filling of vacancies at lower salary levels, positions transferred to other programs, and other salary adjustments	-641

Contractual Services

Cooperative reimbursement agreements to align with recent experience partially offset by the elimination of the remaining funding for the Baltimore City States Attorneys Office due to the transition of legal service support to the State	929
University of Maryland School of Social Work research and data analysis contract	43
Income intercept program primarily due to a rate increase for federal tax refund intercepts by the Internal Revenue Service	35
Additional contract for armored courier services	25
Cost of intergovernmental agreement with Anne Arundel County government for administrative support services due to the office's location in a county facility	-14

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Security guard services in Prince George's County	-36
Elimination of statewide contract for interstate process service because it is now a function of local offices.....	-110
Administrative Expenses	
Supplies to more closely reflect recent experience	111
Rent	7
Postage, telephone, and cell phone expenditures to reflect recent experience.....	-35
One-time equipment purchases due to the transition of the legal service support function from the Baltimore City State's Attorney's Office to the State.....	-49
Other.....	-3
Total	\$1,954

Note: Numbers may not sum to total due to rounding.

Child Support Reinvestment Fund

The Child Support Reinvestment Fund, a special fund, holds the federal incentive payments received by CSEA for performance. These payments are received based on performance in the second preceding year; for example, incentive payments received in FFY 2014 would reflect FFY 2012 performance. DHR anticipates receiving money into this fund each year but has recently had no fund balance. As a result, it would be expected that only the funds received by the department each year could be used to support expenditures. Unlike most fund sources used for child support expenses, DHR cannot use the Child Support Reinvestment Funds to draw down the typical 66% federal participation.

In FFY 2012, DHR received \$7.17 million in Child Support Reinvestment Funds, while it spent \$14.35 million in fiscal 2012. DHR was able to spend this higher level because it essentially borrowed \$7.18 million of the amount it expects to receive in FFY 2013 to use in fiscal 2012. As shown in the fiscal 2014 *Governor's Budget Books*, CSEA only anticipates receiving \$7.24 million from the Child Support Reinvestment Funds in FFY 2013. As a result of the borrowing of these funds for use in fiscal 2012, only \$62,600 of the anticipated revenue in FFY 2013 is actually available for use in fiscal 2013. In addition, CSEA's fiscal 2013 appropriation already included a higher level of appropriation from the Child Support Reinvestment Fund than was expected to be received in that year. In combination, this results in a potential shortfall of \$11.6 million in CSEA's fiscal 2013 budget; \$3.9 million of general funds would be needed to cover this shortfall because the 66% federal financial participation in child support expenditures will support the remainder. **DHR should explain how it will cover this shortfall in fiscal 2013.**

The fiscal 2014 allowance reduces planned Child Support Reinvestment Fund expenditures by \$4.6 million to a level slightly below the amount of revenue expected to be received in that year. As a result, no further deficit will accrue unless DHR continues to borrow from the next year to pay current year expenditures.

Child Support Offset Fund

As discussed earlier, the State may retain 50% of the child support collections from cases associated with TCA. These collections, budgeted as a special fund (Child Support Offset), are then typically expended in DHR's Assistance Payments program, and in some years the State offices of CSEA, to offset a portion of the cost of the TCA program. Typically, DHR spends these funds equal to the level of the State share of collections that year. As a result, the Child Support Offset fund had no unencumbered fund balance at the close of fiscal 2012, nor does DHR expect a balance at the close of fiscal 2013.

DHR's fiscal 2013 working appropriation of the Child Support Offset is \$12.7 million (\$10.0 million in the Assistance Payments program and \$2.7 million in the State offices of CSEA), and the fiscal 2014 allowance equals \$14.2 million (\$10.0 million in the Assistance Payments program and \$4.2 million in the State offices of CSEA). As shown in Exhibit 2, DHR expects to receive only \$11.9 million in fiscal 2013 and \$12.0 million in fiscal 2014 from the State share of the TCA collections. If DHR received this State share of TCA collections, it would experience shortfalls of \$0.8 million in fiscal 2013 and \$2.2 million in fiscal 2014. DHR has, however, conservatively estimated the increase in TCA collections in each of these years at 1.0%. The actual year-to-year change has varied considerably in recent years, ranging from a decrease of 7.1% in fiscal 2007 to an increase of 9.1% in fiscal 2009; in fiscal 2012, the increase compared to the prior year was 8.1%. If TCA-related collections were to grow at the same rate in fiscal 2013 and 2014 as they did in fiscal 2012, DHR would have a sufficient level of collections to meet the fiscal 2013 appropriation, and a shortfall of only \$0.45 million would remain in fiscal 2014.

DHR indicates that it would address any potential fiscal 2014 shortfall with savings from the implementation of a new child support distribution process, referred to as the Electronic Payment Issuance Card (EPIC). DHR could cover the fiscal 2014 shortfall from these savings only if DHR continues to increase TCA related collections at the rate which it increased collections in fiscal 2012. **DHR should comment on how the shortfall would be covered in the event that the savings from the implementation of EPIC are not sufficient to eliminate the shortfall in either fiscal 2013 or 2014.**

EPIC

In January 2013, as noted earlier, DHR launched a new child support distribution process, EPIC. Custodial parents who currently receive child support checks by mail will be issued an EPIC. DHR will allow custodial parents to apply for a hardship exemption, under which the individual would continue to receive checks, in limited circumstances which include situations in which there is not a financial institution within 10 miles of the individual's home or place of employment. In addition, custodial parents that receive a child support payment through a direct deposit into a bank account can continue to receive the child support through this method. Custodial parents will receive a monthly statement from the bank managing the program. The custodial parents will also be able to check account balances by phone. These options will assist custodial parents in determining the amount of the payment received in the event that the noncustodial parent does not provide the full amount of the child support order each month.

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The child support payments will be available on EPIC shortly after receipt from the noncustodial parent. EPIC could then be used anywhere Visa debit cards are accepted, including at Automated Teller Machines (ATM), banks, and grocery stores. DHR indicates that EPIC will eliminate the need for custodial parents without a bank account to rely on check cashing services. In addition, EPIC will provide custodial parents with access to the child support payments more quickly than the former check process. Although some services with the card have no fees (such as store purchase, certain ATM withdrawals, and balance inquiries), some services will have a fee (including certain ATM and other cash withdrawals and card replacements).

DHR anticipates this new process will generate savings of \$1.4 million in check printing and mailing, of which \$476,000 is from the Child Support Offset Fund and \$924,000 is from the federal fund match. The fiscal 2014 allowance of CSEA does not reflect these savings, contributing to the appearance of a shortfall in the CSEA from the Child Support Offset Fund in that year. Accounting for the savings from the EPIC will reduce the potential shortfall in fiscal 2014 in the Child Support Offset Fund, even eliminating it if the shortfall is actually the \$0.45 million expected if TCA-related collections continue to grow at the fiscal 2012 level. **The Department of Legislative Services (DLS) recommends reducing \$1.4 million in total funds in CSEA to recognize the savings from the implementation of EPIC.**

Issues

1. Status of Corrective Actions for Audit Findings

In September 2011, the Office of Legislative Audits (OLA) released a fiscal compliance audit for CSEA covering the period from September 1, 2007, to October 20, 2010. The audit contained 11 findings, of which 5 were repeats. Although the CSEA audit had a substantial number of findings and repeat findings, the number of audit findings fell from the two previous audits. Despite the improvement, the audit contained a number of findings of concern to the General Assembly and, as a result, language was added to the fiscal 2013 budget bill withholding funds until DHR completed actions necessary to resolve audit findings. DHR was required to submit a report by November 15, 2012, on the date each planned action was completed, and OLA was required to review the report prior to its submission and comment on whether the actions were sufficient to correct the audit findings.

The information reviewed by OLA reflected actions taken as of September 1, 2012, to allow OLA time to review the actions prior to the submission date. DHR has continued to take actions to correct the findings following that date for findings that were not yet resolved.

Findings Resolved Before the Submission of the Report

Although DHR believed that through September 1, 2012, it had completed actions to resolve 8 of the 11 findings, including 2 of the 5 repeat findings, OLA believed corrective actions were complete for only 5 of the 11 findings, including 1 of the 5 repeat findings. For the majority of the remaining findings, OLA indicated that the corrective actions were in progress. However, for 1 finding, OLA noted that DHR had made only minimal progress. The five actions which appeared to have been completed based on OLA's review were related to:

- utilizing wage withholding orders;
- effectively using bank account seizures as a collection tool;
- establishing procedures to ensure that two large local offices investigated and resolved inaccurate noncustodial parent social security numbers recorded in the State Child Support Enforcement System (CSES);
- establishing procedures to intercept payments to State vendors; and
- establishing adequate controls in CSES to prevent or detect unauthorized changes to critical data.

There are three findings that DHR had taken additional action on after September 1, 2012, which appeared to resolve the concern of OLA expressed in the follow-up review. For one of these,

although DHR had taken steps that appeared to resolve the finding regarding child support payments made to individuals who were deceased, DHR has planned to implement a modification to CSES to prevent the payment of child support in these cases.

Withheld Funds

Based on the information provided, three findings appear to be unresolved. DHR is continuing to take action to resolve these findings. As it relates to professional license suspension, the final resolution date is not always under DHR's control. Because action was still ongoing at the time of the report submission, the budget committees decided to continue to withhold the funds until DHR provides evidence of:

- the implementation of the data exchange process with the Maryland Department of the Environment and the Office of the Attorney General;
- the improved driver's license suspension process, including the timely provision of the rejected referral reports to the local offices (within 10 days); and
- the approval of the planned Baltimore City contract amendment by the Board of Public Works (BPW).

The requirements included only actions that were under the control of CSEA. As of this writing, DHR has not provided evidence of these changes to the budget committees, and the funds continue to be withheld.

Status of Corrective Actions on Unresolved Findings

Professional License Suspension

Through September 1, 2012, OLA found that DHR had established processes with 7 of the 15 licensing agencies that it first discussed in the fiscal compliance audit. OLA noted that DHR was continuing to work with 7 of the remaining 8 agencies to establish a process for data exchange for the license suspension, and 1 of the agencies is not being pursued because it does not issue professional licenses. Since September 1, 2012, DHR has begun a data exchange with 2 additional agencies, and data exchanges with 3 agencies are expected to begin in March 2013. The starting date for 2 of the planned but not implemented exchanges was delayed while DHR pursued another priority. For the remaining 2 agencies, further work is required to complete the actions, and DLS has recommended budget bill language withholding funds in the Judiciary and the Department of Health and Mental Hygiene Health Professional Boards and Commissions unless the electronic exchange of licensing data for the purpose of professional license suspension is implemented by January 1, 2014.

Exhibit 10 describes the status of the data exchange process for each of the 15 licensing agencies identified by OLA in the fiscal compliance audit.

Exhibit 10
Status of Professional License Suspension Data Exchange Process

<u>State Licensing Agency</u>	<u>Type of License</u>	<u>Status</u>
Clerks of the Court	Trader and Peddler	Completed
Comptroller of Maryland	Motor Fuel	Completed
Department of Agriculture	Nutrient Management, Veterinarians, Veterinarian Technicians	Completed
Department of Natural Resources	Commercial Fishing	Completed
Department of Labor, Licensing, and Regulation	Home Improvement, etc.	Completed
Maryland Insurance Administration	Insurance Producers and Motor Club Representatives	Completed
Public Service Commission	Taxi Drivers, For-hire Drivers	Completed
State Department of Education	Child Care Providers	Completed
Department of Transportation	Driving Instructors, Car Dealers	Completed
Department of the Environment	Well Drillers, Sanitarians, Oil Control, etc.	Expected completion March 2013; exchange was delayed by diversion of resources to another DHR priority
Office of Attorney General	Securities Commission	Expected completion March 2013; exchange was delayed by diversion of resources to another DHR priority
Secretary of State	Notary Public	Development of a data exchange process complete; CSEA anticipates exchange will begin March 2013
Court of Appeals	Lawyers	Continuing to develop an agreement on a process for the exchange of data but there are no plans for an electronic data exchange at this time; actions ongoing if a license is found during the normal case processing
Department of Health and Mental Hygiene	Various Health Occupations	Memoranda of Understanding signed with Board of Dietetic Practice, Board of Examiners in Optometry, Board of Pharmacy, Board of Physical Therapy Examiners, and Board of Physicians Exchanges not yet implemented No activity reported for other health occupation boards

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<u>State Licensing Agency</u>	<u>Type of License</u>	<u>Status</u>
Department of Human Resources	Child Placement Agencies	Not applicable The office issues licenses to agencies not individuals

CSEA: Child Support Enforcement Administration
DHR: Department of Human Resources

Source: Department of Human Resources; Secretary of State

Driver's License Suspension

Another finding of OLA was that CSEA did not adequately review and process driver's license suspension referrals that are rejected by the Motor Vehicle Administration (MVA). Prior to September 1, 2012, DHR had taken several steps to resolve this finding including:

- providing instruction to staff on how to proceed when suspension criteria is met, but other enforcement activities are in process;
- quarterly monitoring of the reports by DHR's Office of Inspector General;
- ongoing work with MVA to reduce or eliminate the number of referrals that are rejected, including matching based on Social Security numbers and assessing the accuracy and reliability of possible matches provided by MVA for rejected referrals; and
- incorporating timely follow-up on rejected referrals into performance evaluations.

Following this date, CSEA modified the possible match report to filter out matches that are not relevant. CSEA plans to continue to work with MVA to identify additional refinements for the data exchange methodology. OLA noted in its follow-up that improvement had been made in the local offices' timely follow-up of the rejected referrals; however, CSEA was not always timely in providing the reports to the local offices. Beginning in February 2013, CSEA plans to provide the rejected referrals to the local offices within 10 days of receipt from MVA, rather than the previous quarterly distribution. This is consistent with the requirement of the budget committees for the release of funds.

Baltimore City Privatization Contract Monitoring

OLA noted that, as of September 1, 2012, DHR had made only minimal progress in resolving the finding that CSEA had not taken sufficient action to ensure that the contractor hired to provide child support services in Baltimore City complied with certain contract requirements. DHR disagreed with this assessment. Actions taken by DHR by September 1, 2012, included:

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- notifying the contractor of its failure to achieve performance requirements;
- withholding a payment due to failure to complete case corrections in the required timeframe;
- renegotiating the contract to raise performance targets and tie payments to performance;
- weekly monitoring of the federal performance measures;
- regular meetings with the CSEA Executive Director and Director of Baltimore City Operations to review performance; and
- a contractor-implemented change to the caseload management approach designed to improve worker accountability and customer service.

Despite disagreeing with OLA's assessment, DHR has continued to take action to resolve this finding, including continued work on the planned contract amendment (which was approved by BPW on February 20, 2013), a contractor revised and updated quality control review plan, and notice to the contractor that cases that are out of compliance must be corrected within 30 days and failure to correct the cases will result in the withholding of \$5,000 per case per month per functional area until corrections are completed.

The Joint Audit Committee reviews audits released by OLA. In a letter dated December 5, 2012, the Joint Audit Committee, concerned about the number of repeat audit findings in recent audits, requested that DLS recommend budget bill language withholding a portion of an agency's administrative appropriation if it had four or more repeat audit findings in its most recent fiscal compliance audit. **Consistent with that request, DLS recommends withholding funds in CSEA until corrective actions for all repeat findings are completed.**

2. Implementation of Suspension of Child Support for Incarcerated Obligor

For several years, concerns have been expressed by researchers, policy organizations, and government agencies about the accumulation of child support arrearages during periods of incarceration of the obligor (the parent required to pay child support). The accumulated arrearages and child support obligations are believed to discourage individuals from entering the legitimate workforce after exiting prison, in part because child support agencies are able to withhold up to 65% of the individual's pay for child support.

A 2007 policy brief by the Center for Law and Social Policy (*Staying in Jobs and Out of the Underground: Child Support Policies that Encourage Legitimate Work*) noted that 55% of state prisoners throughout the country have a minor child, with approximately half having an active child support case. To the extent that the child support order continues while the individual is in prison, arrearage balances accumulate. For example, the 2007 policy brief notes that child support arrearages generally double while obligors are in prison (from \$10,000 to \$20,000).

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A 2005 report by the University Of Maryland School Of Social Work (*The Intersection of Incarceration & Child Support: A Snapshot of Maryland's Caseload*) found that of child support cases active in September 2004, 16.2% involve an obligor who was currently or had previously been incarcerated. The share of the caseload involving current or formerly incarcerated obligors was higher for cases that were associated with TCA than those who were not (28.9% of current TCA cases compared to 10.3% of cases not associated with TCA). In addition, the arrearages of the current or previously incarcerated obligors represented 25.3% of arrearages in Maryland. Those obligors that are incarcerated have higher arrears on average than obligors that are not incarcerated by approximately \$4,800.

The Council of State Governments 2005 *Report of the Re-entry Policy Council: Charting the Safe and Successful Return of Prisoners to the Community* emphasized the importance of collaborations between state child support agencies and state corrections departments to ensure that individuals entering and exiting incarceration with child support orders are identified, that individuals entering incarceration are supported during a suspension or modification process, and that individuals are encouraged to make regular payments after release. The council encouraged states to improve processes for adjusting and reviewing orders.

According to a July 2012 publication by OCSE (*“Voluntary Unemployment,” Imputed Income, and Modification Laws and Policies for Incarcerated Noncustodial Parents*), only 14 states do not allow for a reduction of a child support order when an obligor is incarcerated. For states in which the reduction process is described, most require the incarcerated individual to request a modification or suspension, although some states provide outreach or assistance in the process. A limited number of states appear to have processes allowing for automatic referral for a review of the support order (Arizona and Michigan) upon incarceration.¹ Oklahoma and Idaho have procedures that allow initial orders to be deferred until a certain period of time after release.

The Maryland Task Force on Prisoner Reentry recommended legislation in its 2011 final report to automatically temporarily suspend child support payments for incarcerated obligors with no ability to pay if the individual is incarcerated for 12 months or longer. The recommended process would require an opportunity for the custodial parent to object to the suspension.

Chapter 670 of 2012

Chapter 670 of 2012 allows CSEA to suspend payments and prevent the accrual of arrearages during incarceration and for 60 days after release if:

- an obligor's sentence is 18 months or longer;
- the obligor is not on work release and does not have sufficient resources to make a payment; and

¹ The level of detail in the descriptions by state varies, so additional states may have an automatic process.

- the obligor did not commit the crime with the intent of being incarcerated or becoming impoverished.

The adjustments can occur without court action. However, the custodial parent (the obligee) must be sent written notice of the change and have a right to object prior to the adjustment. The law became effective October 1, 2012. The Attorney General explained that, to ensure that the law does not conflict with a federal law, the law should only apply to new support orders issued or modified after the effective date of the legislation. According to CSEA, as a result, an individual is only eligible for the modification and suspension if the order is entered or modified after the law became effective and the individual is sentenced after the law became effective. Therefore, CSEA indicates several months will pass before the impact of the law begins to be felt.

Implementation

Despite the fact that the law has limited applicability currently, CSEA is moving forward with implementation. On November 30, 2012, DHR published proposed regulations to implement this law in the *Maryland Register*. These regulations establish the eligibility for the adjustment, the responsibilities of CSEA, and the options for objection by the obligee. Under the proposed regulations, the obligee must object and request an investigation within 20 days of the notice of the change by CSEA. The investigation can only occur on one of the following grounds:

- the sentencing occurred prior to October 1, 2012;
- the sentence was less than 18 consecutive months;
- the obligor has resources to pay the child support;
- the obligor was on work release; or
- the obligor committed the crime with the intent of being incarcerated or impoverished.

The obligee must provide documents relevant to the objection, and CSEA must investigate the claim. The obligee has the opportunity to file an objection in the circuit court if the obligee disagrees with the outcome of the investigation. As of this writing, final action on the proposed regulations has not been published.

CSEA has established a process under which it receives information on newly incarcerated parents and the actual release date of an individual from the Department of Public Safety and Correctional Services through an electronic interface. If an obligor is determined, through the interface, to be incarcerated for longer than 18 months, the child support office can then evaluate the case to determine if the individual is eligible for the modification and suspension of payments. The interface will also be used to determine, based on the actual release date, if 60 days have passed after release for payments to resume. **DHR should discuss how the implementation of this legislation will assist the State in improving child support performance.**

Recommended Actions

1. Add the following language to the general fund appropriation:

provided that since the Department of Human Resources Child Support Enforcement Administration (CSEA) has had four or more repeat findings in the most recent fiscal compliance audit issued by the Office of Legislative Audits (OLA), \$100,000 of CSEA's administrative appropriation may not be expended unless:

- (1) CSEA has taken corrective action with respect to all repeat audit findings on or before January 1, 2014; and
- (2) a report is submitted to the budget committees by OLA listing each repeat audit finding along with a determination that each repeat finding was corrected. The budget committees shall have 45 days to review and comment to allow for funds to be released prior to the end of fiscal 2014.

Explanation: The Joint Audit Committee has requested that budget bill language be adopted for each unit of State government that has four or more repeat audit findings in its most recent fiscal compliance audit. Each such agency is to have a portion of its administrative budget withheld pending the adoption of corrective action by the agency, and a determination by the OLA that each finding was corrected. OLA shall submit reports to the budget committees on the status of repeat findings

Information Request	Author	Due Date
Status of corrective actions related to the most recent fiscal compliance audit	OLA	45 days before the release of funds

	<u>Amount Reduction</u>
2. Reduce funds for the Central Disbursement Unit based on the anticipated savings from the new child support distribution process. In January 2013, the Department of Human Resources announced the implementation of an Electronic Payment Issuance Card for distribution of child support payments. The new card is expected to produce savings of \$1.4 million in check printing and mailing costs. The savings from this process is not included in the fiscal 2014 allowance. This reduction recognizes	\$ 476,000 SF \$ 924,000 FF

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those savings. If the level of savings is not sufficient to reduce expenditures by this level, a deficiency appropriation or budget amendment could allow for additional spending authority in this area.

Total Reductions	\$ 1,400,000
Total Special Fund Reductions	\$ 476,000
Total Federal Fund Reductions	\$ 924,000

Current and Prior Year Budgets

**Current and Prior Year Budgets
DHR – Child Support Enforcement Administration
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$17,126	\$12,436	\$55,429	\$0	\$84,991
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	429	2,337	2,008	0	4,774
Reversions and Cancellations	0	0	-1,305	0	-1,305
Actual Expenditures	\$17,555	\$14,773	\$56,133	\$0	\$88,461
Fiscal 2013					
Legislative Appropriation	\$17,662	\$14,716	\$55,165	\$0	\$87,543
Budget Amendments	0	76	235	0	312
Working Appropriation	\$17,662	\$14,792	\$55,400	\$0	\$87,854

Note: Numbers may not sum to total due to rounding.

Fiscal 2012

In total, CSEA's fiscal 2012 expenditures were \$3.5 million higher than the legislative appropriation. General fund expenditures of CSEA were \$429,430 higher than the legislative appropriation. Increases in general fund spending in CSEA were associated with salary and wages adjustments in the State offices of CSEA (\$359,862) and the \$750 one-time bonus provided to State employees (\$191,762). These increases were partially offset by lower than expected expenditures for rent in Anne Arundel and Prince George's counties (\$122,173) and a small reversion.

Fiscal 2012 special fund expenditures of CSEA were \$2.3 million higher than the legislative appropriation. Increases in the appropriation occurred by budget amendment in the following areas:

- contractual services for a medical support contract and call center contract in the State offices of CSEA (\$2.0 million);
- salary and wage adjustments in the local offices of CSEA (\$180,484);
- the local share of federal incentive payments (\$125,005);
- a contractual full-time equivalent in Carroll County (\$20,997); and
- salaries and wages for the \$750 one-time bonus provided to State employees (\$7,051).

CSEA also cancelled a minimal amount of special funds.

CSEA's fiscal 2012 federal fund expenditures were \$703,890 higher than the legislative appropriation. Increases totaling \$2.0 million occurred through budget amendments due to higher than expected expenditures for Cooperative Reimbursement Agreements (\$1.6 million), the \$750 one-time bonus provided to State employees (\$335,024), and contractual services for a medical support contract (\$126,650). These increases were partially offset by cancellations of \$1.3 million due to lower than expected expenditures for leases and salaries.

Fiscal 2013

The fiscal 2013 appropriation of CSEA has increased by \$311,541 total funds (\$76,372 special funds and \$235,169 federal funds) associated with the 2% COLA provided to State employees in January 2013.

**Object/Fund Difference Report
DHR – Child Support Enforcement**

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	690.00	693.20	693.20	0.00	0%
02 Contractual	8.22	1.00	1.00	0.00	0%
Total Positions	698.22	694.20	694.20	0.00	0%
Objects					
01 Salaries and Wages	\$ 44,406,466	\$ 45,482,782	\$ 46,619,338	\$ 1,136,556	2.5%
02 Technical and Spec. Fees	504,868	156,225	148,961	-7,264	-4.6%
03 Communication	553,733	593,051	557,956	-35,095	-5.9%
04 Travel	56,402	87,715	81,651	-6,064	-6.9%
06 Fuel and Utilities	105,862	124,575	126,685	2,110	1.7%
07 Motor Vehicles	46,190	84,517	84,994	477	0.6%
08 Contractual Services	38,272,428	36,103,939	36,982,316	878,377	2.4%
09 Supplies and Materials	545,313	363,511	473,635	110,124	30.3%
10 Equipment – Replacement	897	0	0	0	0.0%
11 Equipment – Additional	86,857	49,118	0	-49,118	-100.0%
12 Grants, Subsidies, and Contributions	7,353	85	85	0	0%
13 Fixed Charges	3,874,560	4,808,720	4,817,502	8,782	0.2%
Total Objects	\$ 88,460,929	\$ 87,854,238	\$ 89,893,123	\$ 2,038,885	2.3%
Funds					
01 General Fund	\$ 17,555,320	\$ 17,661,851	\$ 18,223,532	\$ 561,681	3.2%
03 Special Fund	14,772,691	14,792,040	11,660,302	-3,131,738	-21.2%
05 Federal Fund	56,132,918	55,400,347	60,009,289	4,608,942	8.3%
Total Funds	\$ 88,460,929	\$ 87,854,238	\$ 89,893,123	\$ 2,038,885	2.3%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

**Fiscal Summary
DHR – Child Support Enforcement**

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
06 Local Child Support Enforcement Administration	\$ 44,624,887	\$ 46,356,709	\$ 47,369,987	\$ 1,013,278	2.2%
08 Support Enforcement –State	43,836,042	41,497,529	42,523,136	1,025,607	2.5%
Total Expenditures	\$ 88,460,929	\$ 87,854,238	\$ 89,893,123	\$ 2,038,885	2.3%
General Fund	\$ 17,555,320	\$ 17,661,851	\$ 18,223,532	\$ 561,681	3.2%
Special Fund	14,772,691	14,792,040	11,660,302	-3,131,738	-21.2%
Federal Fund	56,132,918	55,400,347	60,009,289	4,608,942	8.3%
Total Appropriations	\$ 88,460,929	\$ 87,854,238	\$ 89,893,123	\$ 2,038,885	2.3%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.