
Management Audit of the Child Support Enforcement Agency

A Report to the
Governor
and the
Legislature of
the State of
Hawaii

Report No. 92-22
November 1992

THE AUDITOR
STATE OF HAWAII

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Submitted by

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Foreword

In 1989, this office conducted an operations audit of the child support payment process because of numerous complaints about the collection and distribution of child support payments by the Child support Enforcement Agency. We found serious deficiencies at the agency that undermined the long-term reliability of its payment processing operations.

This current management audit of the Child Support Enforcement Agency reexamines the agency's operations and its management because of the importance of the agency's mission and its effective operation. Hawaii's families and children depend on moneys the agency collects on their behalf, and delays in payment have a serious impact on their lives.

We wish to express our appreciation for the cooperation extended to us by the Department of the Attorney General, especially the staff at the Child Support Enforcement Agency, and the other state and county departments that assisted us in this audit.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

Congress established the child support enforcement program to protect children by requiring parents to support their children to the best of their ability. The thrust of the program is that children have a right to support from their parents and parents have a moral and financial obligation to care for their children.

Hawaii's Child Support Enforcement Agency (CSEA) collected more than \$55 million in child support in 1992.¹ These moneys directly benefit children and their families by helping families to remain self-sufficient and off public assistance. The agency collects for custodial parents who request services and forwards the payments directly to the custodial parents. The agency also collects for families on welfare (Aid to Families with Dependent Children or AFDC). Except for a \$50 pass-through to the welfare parent, the payments are used to reimburse the State for its welfare payments, thereby reducing the cost of welfare for taxpayers.

In an era of declining state and federal revenues and recessionary pressures on both government and families, it is more important than ever that the agency operate as efficiently and effectively as possible. When checks are late or do not arrive at all, it is Hawaii's children who suffer. In the case of AFDC families, the State is not reimbursed for its costs.

Impetus for the Audit

This audit was performed pursuant to Section 23-4, Hawaii Revised Statutes, which requires our office to conduct post audits of the transactions, accounts, programs, and performance of all state agencies. The State Auditor initiated this audit of Hawaii's Child Support Enforcement Agency because of indications of serious deficiencies that impair the agency's ability to carry out its important mission. In April 1991, a new administrator was appointed. She has shown leadership in taking a number of initiatives for Hawaii's child support enforcement program. But despite the efforts of the agency's many dedicated staff, the program continues to be plagued by problems.

In 1988 the agency failed an audit by the federal Office of Child Support Enforcement in several key areas. It faces nearly \$750,000 in penalties from the federal government unless it improves.²

A 1989 operations audit by the State Auditor found that the agency had inordinate delays in processing child support payments. The long-term

reliability of payment processing operations was in question. Automation was hampered by a backlog of manual ledgers and an electronic data processing system that had six different programming languages with no program documentation. The agency also had difficulties in recruiting, training, and retaining staff.³

A 1990 audit of the Department of the Attorney General by a public accounting firm found deficiencies in payment processing, disbursement, accounting, cashing, automation, and inadequate policies and procedures.⁴

Furthermore, between July 1990 and May 1992, the Ombudsman received 319 complaints about the agency. Both custodial and absent parents complained about problems in support checks, incorrect income tax offsets, incorrect wage withholding, and difficulties in gaining access to the agency. The Ombudsman reports that complaints about the agency make up the third largest category of cases in its office.

National Perspective

Congress established the child support enforcement program in 1975 as Title IV-D of the Social Security Act. Initially, the program focused on services to families receiving welfare assistance under the AFDC program. Except for the first \$50 collected in monthly child support, welfare families assign the support payments to the state and federal government for reimbursement of the AFDC assistance.

In 1984, Congress amended the law to make child support enforcement services also available to non-AFDC families. These payments would go directly to the families to help them remain self-sufficient. In 1988, the law was further amended to enhance child support collections by measures such as expedited legal processes, mandatory immediate wage withholding, and requiring agencies to have a federally approved automated system by September 30, 1995.

Hawaii's Child Support Enforcement Agency

Chapter 576D, Hawaii Revised Statutes, establishes the State's child support enforcement program. The program was originally with the Department of Social Services and Housing, now the Department of Human Services. Act 332 of 1986 relocated the program to the Department of the Attorney General.

The agency, with 165 positions, is the largest division in the Department of the Attorney General. As of December 31, 1991 it had a caseload of 53,832 cases of which 40,509 were non-AFDC cases and 13,323 were AFDC cases.⁵ For FY1991-92, the agency had deposits of more than \$55 million and issued checks for about \$54 million.⁶

The agency is officially organized into branches with sections that are responsible for specific functions, such as locating parents or enforcing support. It is in the process of reorganizing into teams that would perform all needed functions on a case. It has a branch office in each county.

Hearings to establish, modify, or terminate child support are carried out by the Office of Child Support Hearings within the Department of the Attorney General. The hearings office is currently organized and budgeted under the agency, but will be reorganized as a separate division of the department.

To assist in establishing paternity, the agency has cooperative agreements with the county corporation counsels of Honolulu and Hawaii, the special counsel of Kauai, and on Maui, the attorney general's Family Support Office. It also has a cooperative agreement with the Civil Recoveries Division of the Department of the Attorney General to help collect delinquent child support.

The agency coordinates with the Department of Human Services on all welfare cases requiring child support services. The agency also coordinates with several other state agencies in fulfilling its functions: the Family Court includes a child support order in all divorce decrees involving children; the Department of Labor and Industrial Relations assists in identifying employers of absent parents and absent parents receiving unemployment compensation; and the Department of Accounting and General Services assists in offsetting state income tax refunds to recover delinquent child support. Various other state agencies assist the agency in locating absent parents, primarily by making their databases available.

Objectives of the Audit

Our objectives in this audit were to:

1. Examine the current case management process to identify areas in which service can be improved, and
2. Review the overall effort to transfer an automated child support enforcement system from another state.

Scope and Methodology

The audit focused on the agency's management of case processing. We sampled the processing of cases as they moved through each phase of the child support enforcement process in the Oahu branch. Our sample consisted of those cases that were being worked on by the agency during

our fieldwork. Because any case may transit in and out of the various processes several times during the years that child support is due the custodial parent, we feel the cases in our sample faced problems that were representative to some degree of those faced by all cases during their lifetime. As a standard, we used the 75 percent substantial compliance criteria of the Federal Office of Child Support Enforcement, Audit Division. The 75 percent standard requires the CSEA to have taken an action or actions in 75 percent of the sample cases reviewed for each criterion.

In drawing our sample and developing the data, we relied on computer-processed information from the agency. Our review of controls and tests of the data cast doubt on its validity. Therefore, ours is a non-statistical sample and does not purport to represent the actual status of the agency with any stated level of statistical confidence. We are nevertheless confident that the problems identified by our sample are representative of those that have afflicted the agency during the period the audit covered.

We examined the agency's organization and interviewed the administrator and staff who carry out the child support enforcement functions, including branch staff on the neighbor islands. We examined staffing and compared job descriptions to actual work performed.

We reviewed the extent to which existing electronic data processing (EDP) functions supported case management. We also reviewed the proposed new EDP system acquisition to identify any significant deviations from industry standards.

Our audit included interviews with staff of the county corporation counsels; the Department of Human Services; the Department of Personnel Services; the Attorney General's Administrative Services Office, Personnel Office, and Civil Recoveries Unit; and the Judiciary's Family Court.

Concurrent with our audit, we contracted with the CPA firm Deloitte & Touche for a financial audit of the Department of the Attorney General which included the agency. We incorporated some of their findings on the Child Support Enforcement Agency into this report.

Our work was performed from February 1992 through September 1992 in accordance with generally accepted government auditing standards.

Chapter 2

Financial Management

The primary mission of the child support enforcement program is a financial one of collecting and disbursing moneys to parents. Strong financial management is its key to program success. Financial management means that the agency must have “internal controls” or techniques and procedures to ensure that it meets goals; complies with laws, regulations, and policies; prevents waste, loss, and misuse of its resources; and maintains reliable data on its activities. Management controls are particularly important where an agency has fiduciary responsibilities for administering funds on behalf of others.

Summary of Findings

1. The agency has neglected its fiduciary responsibilities. It does not appear to understand the importance of financial management and gives it a very low priority. As a result, client accounts are often inaccurate.
2. The agency’s internal controls are so weak that at any given point it does not know how much money it has, how much it has collected, or how much it has disbursed. We believe the system is not salvageable.
3. Staffing for financial operations is inadequate in numbers and in kind.

Financial Management Is Seriously Deficient

The Child Support Enforcement Agency’s primary function is a fiduciary one of collecting payments on behalf of others and disbursing these payments correctly. The agency does not appear to take this trust function seriously. It simply does not conduct its financial operations in a timely and responsible manner.

Agency operations show little evidence of financial management. The agency lacks internal controls to ensure the accuracy of case records, collections, and payments. It has made little effort to safeguard the money it collects from loss, theft, or misappropriation. It has no controls to check the accuracy and reliability of its accounting data. Financial information in the agency’s computer files contain errors and are incomplete. These deficiencies impact harshly on families that rely on the agency for their child support payments.

The agency appears not to have made successfully the transition from a welfare program to a financial one. Originally, child support enforcement was a welfare program in the Department of Human Services. The program focused on recouping the cost of welfare from absent parents. Today, over 75 percent of the approximately 54,000 cases are non-welfare families. The agency's main responsibility is to be the agent that collects and pays money to custodial parents.

For the agency to operate effectively, it must put its financial house in order. At the most basic level, it must have accurate account balances. Unless the agency maintains accurate account balances for all its clients, it cannot take effective enforcement action. For example, many complaints result each year when the agency intercepts income tax refunds to parents who are behind in their payments. Agency staff say that many of the offsets are incorrect, and they have to refund what was offset. The inaccuracies result in a flood of complaints that increase the agency's workload.

Client accounts not reconciled

The agency has yet to complete conversion and reconciliation of the individual client accounts that were transferred from the Judiciary in 1986. Accounting and cashing functions were formerly done by the Chief Clerk of the First Circuit Court. The court used manual ledgers and prior to the transfer, had a six months' backlog of approximately 10,000 court orders and forms. After the transfer, the agency had to deal with the backlog, reconcile accounts, and convert the manual ledgers to its computer system. Today, approximately 3000 cases remain to be reconciled and converted. The agency estimates it will cost approximately \$1000 to reconcile and convert each case. In 1992, the agency submitted legislation requesting an appropriation to contract for reconciliation and conversion, but it did not pass.

The agency should continue to seek ways to convert manual ledgers and reconcile client accounts and other accounting records as soon as possible. Errors in account balances can continue for years or until the children are no longer dependent. Every mistake made uses even more of the agency's limited resources. Without reconciliation and conversion of active cases, the cycle of mistakes, complaints, correction, and reimbursements will continue.

Other inadequacies

The integrity of client accounts is also affected by the existing electronic data processing (EDP) system which is seriously flawed. The system does not capture in one place all data needed on a case. In addition, information in the agency's computer system is sometimes overwritten by computer interfaces from other agencies. The agency is in the process of acquiring a new automated system, but the new system is not

expected to be operational until October 1994 at the earliest. In the meantime, certain improvements are needed.

The agency should improve security over its data. Until recently, some staff had a "God Code" or universal overwrite code that allowed them to write into electronically stored records. It is our understanding that the new administrator recently eliminated the code. Even though all staff have security codes, it is not clear that there are sufficient controls to prevent staff from unauthorized altering of anyone's records, including their own.

Inadequate staffing is another problem. As will be discussed later, there are not enough account clerks and accounting staff are not appropriately supervised.

Finally, until March 1992, the agency had no agency-wide policy and procedures manual. Toward the end of our audit, the agency produced a section on cashiering in its new manual but the manual gives little guidance on other financial functions.

Controller needed

The agency is seriously handicapped because no one in senior management has the necessary background and experience in financial management. It needs a controller who has thorough knowledge of general accounting methods, principles, and practices and who could design a system that would produce accurate and timely reporting of financial information.

A controller would be responsible for the design and implementation of controls to ensure (1) the accuracy and reliability of accounting data, (2) the safeguarding of assets, and (3) the reconciliation of all accounts. The controller would also ensure that payments are processed and deposited in a timely and efficient manner.

The agency appears to be relying on its planned acquisition of a new EDP system to solve many of its accounting problems. But unless the agency has an accounting system that produces accurate information, the new EDP system can do little to correct these problems.

We believe that the agency should immediately recruit as deputy to the agency administrator a professional accountant with experience as a controller. The individual should be a certified public accountant or someone with an equivalent background. The individual should have at least five years of related experience including experience in supervision and in automated financial applications. We believe that it would take such an individual about six months to become familiar with the agency's processes before he or she can begin designing a financial management system with appropriate internal controls.

The agency administrator should work closely with the new controller on such matters as reorganization, personnel requirements, reclassification of positions, and selection of a new EDP system. The controller's input would be critical in helping to overcome deficiencies that have existed for years.

Financial Auditors Find A Deplorable Lack of Internal Controls

In a related financial audit that was conducted by this office, our financial auditors found a deplorable lack of internal controls leading to two "reportable conditions." Basic and very simple controls could correct these problems.

Financial auditors use the phrase "reportable condition" to describe a significant deficiency that could adversely affect an organization's ability to record, process, and report financial data. Reportable conditions result from weaknesses in the design and operation of an agency's internal control system. The financial auditors found the agency's data to be so unreliable that it was nearly impossible to determine how much money the agency had or what errors there were in the data.

The first reportable condition is the agency's lack of control over its bank accounts and the second is its failure to investigate unidentified support payments. The first condition is so serious that the auditors classified it as a material weakness. A material weakness in the worst possible condition, that is, a situation where significant errors could occur and not be detected. In short, illegal acts such as theft or embezzlement can go undetected.

No controls over bank accounts

The agency has two bank accounts. Payments made by parents are deposited in the accounts and checks are issued to custodial parents from these accounts. The agency has no check register or similar record to keep track of what the balances should be. Consequently, the agency does not know (1) what the proper account balances are, (2) whether all deposits have been properly recorded, (3) whether checks issued have been properly cashed, and (4) whether there are any unusual or erroneous charges to the bank accounts.

The agency does not keep a running balance for these accounts nor are they recorded with the Department of Accounting and General Services as required by law. This is not a new problem. A different 1990 single audit report of the Department of the Attorney General was not issued until May 1991 because of the time it took to determine the appropriate cash balance for the one checking account the agency had at that time.

The agency should have internal controls that would keep it informed about the status of its bank accounts. The simplest control would be a check register that records checks and deposits and maintains a running balance. This would then allow the agency to reconcile the monthly bank statements to the balance in the check register.

Unidentified child support payments

The second reportable condition is that the agency does not investigate in a timely manner payments that it cannot match to a particular case or obligation. When the agency does not know who made a payment or who the payment should go to, it puts the payment in suspense. In 1988, an audit by the federal child support enforcement office found that the agency had not distributed 800 payments that were in suspense.¹ Our financial auditors found more than 1000 payments in suspense. This means that as of June 30, 1992, the agency had received 1000 payments representing \$465,000 that it had not paid out. This balance is far too large for a suspense account. Some of the payments were over three years old. Payments sitting in a suspense file do not reach the children for whom they are intended. The agency should immediately investigate payments it cannot match to cases and obligations and resolve them in a reasonable amount of time.

Staffing Inadequacies Compound Accounting Problems

The agency does not have enough qualified staff to handle accounting and cashing functions. Currently, account clerks, clerk typists and cashiers perform these functions. There does not appear to be enough account clerks to handle the workload, and overlapping duties among the various types of workers have made job classifications meaningless. This has led to conflict among them.

The respective duties of account clerks, clerk typists and cashiers are as follows:

- Account clerks set up “obligations” or the amount of support that has been ordered for each case. They also make adjustments and refunds as needed.
- Clerk typists work on each case as it is received, prepare and refer case files, and, in some cases, enter obligations into the computer system.
- Cashiers receive and process cash and checks. They enter payments into the computer, reconcile accounts, and certify delinquencies.

Insufficient number of account clerks

On Oahu, staff in functional sections are being reorganized into five teams. Under the team concept, members of the team perform all needed functions on each case. There are not enough account clerks for the teams.

Workers report that accounting is backlogged. As of July 1992, the agency had only seven account clerk positions and one was vacant. Only one of the Oahu teams had two account clerks; the other four had one each. The neighbor islands have no account clerks at all; they use clerk typists and other staff for these functions. This staffing complement of seven account clerks processes 22,000 to 24,000 payments per month amounting to more than \$55 million a year.

Account clerks are essential in ensuring that client accounts are accurate and up-to-date. Each team appears to need at least two account clerks and each of the neighbor islands appears to need one account clerk. Having account clerks in the neighbor island offices would allow accounting and cashiering duties to be segregated. Currently, some cashiers on the neighbor islands handle incoming cash and checks as well as enter obligations and make adjustments to accounts. This results in inadequate control over possible illegal acts relating to incoming cash and client accounts.

Overlapping duties

Although three different classifications of personnel are involved in accounting and cashiering, account clerks, clerk typists, and cashiers often do the same work. This has led to dissension since they have different salary ranges. Since they have no account clerks, neighbor island offices use clerk typists and other staff to perform accounting functions. On both Oahu and the neighbor islands, clerk typists adjust accounts, back-up the cashiers, and enter payments into the computer. Clerk typists are unhappy because they have a lower salary range (SR) rating than account clerks but do much of the same work.

There is also friction between account clerks and cashiers. Account clerks have a lower SR 8 rating with a salary range of \$17,712 to \$26,208. Cashiers have an SR 12 rating with a salary range of \$20,724 to \$30,660. Account clerks say this is unfair since they believe they do more accurate work and have a heavier workload. On Oahu, the account clerks have no supervisor; accounting staff simply rotate as supervisors for a few months at a time. Account clerks complain that this results in procedures changing every few months.

It would be appropriate for the new controller to review the staffing for accounting and cashiering functions and decide on the number and types of staff needed. The impact of the new EDP system will have to be considered in developing a staffing plan. In the short term, more account clerk positions may be needed. In the long term when accounting procedures are established and automated, fewer and different types of positions may be appropriate.

Recommendations

1. As soon as possible, the Child Support Enforcement Agency should recruit a high level certified public accountant to be its controller. The controller should be the deputy to the administrator of the agency and responsible for designing and installing an adequate financial management system and an appropriate staffing plan.
2. The agency should continue its efforts to reconcile client accounts.
3. The agency should review the security of its records and protect them from unwarranted alterations.

Chapter 3

Case Management

This chapter examines the process by which the agency establishes and enforces support. The agency is responsible for opening cases, locating absent parents, establishing paternity, setting the amount of support, and enforcing support payments. When cases are poorly managed, families suffer the consequences. In this chapter, we assess the agency's case management and identify areas in which it could be improved.

Summary of Findings

1. The agency's processing of cases is poorly managed. Management controls for ensuring appropriate and timely action on cases are virtually nonexistent.
2. There are serious bottlenecks in establishing the level of support to be ordered and in collecting on payments that are due.
3. If the agency is to improve, it must be appropriately organized with a sufficient number of qualified staff.
4. The agency's planned acquisition of a federally certified automated electronic data processing system appears to be on track.

Case Management Is Poor

The Child Support Enforcement Agency lacks an effective system of managing cases to ensure that they are processed in a timely and appropriate manner. It does not track or monitor cases in any systematic fashion. Needed actions are taken primarily when clients complain. Management of cases is inefficient and has resulted in numerous complaints.

The agency has a history of fragmentation, poor management, and inadequate staffing. It was created by transferring functions from the Department of Social Services and Housing (now the Department of Human Services), the various county corporation counsels; and in 1988, the Family Court and the Circuit Court.

It appears that little was done to effectively carry out the transfer. We found no documentation of planning nor policies and procedures for operating the new agency. Procedures from the former agencies were never properly integrated in the new agency. For example, manual ledgers from the Family Court were never fully converted. The electronic data processing system used six different programming

languages and had no documentation. It was only recently, March 1992, that a procedures manual was finally developed.

The failure of the previous administration to organize the agency into an integrated, well functioning unit, coupled with the absence of written procedures, is largely responsible for problems in case management today. This failure has contributed to friction among staff. Each section had some procedures, but they were neither uniform nor agency-wide. Staff members' roles overlapped or were unclear.

Cases could "fall through the cracks" or bounce from one section to another without anyone taking responsibility for them. Confusion about who was responsible for what combined with the overwhelming number of cases led to cases being forgotten until parents complained.

The agency gives little priority to managing its case processing. Because of staff shortages, employees spend all their time trying to keep up. The caseload and the timeliness of actions are neither managed nor monitored. We believe that this is shortsighted. Unless controls are established, management has no information on how well cases are being processed and cannot approach its work in an organized manner.

Agency management is counting on a new electronic data processing (EDP) system to help it manage cases since the current system is limited. The agency is in the process of acquiring a new system, but it is not expected to be operational until September 1994 at the earliest. In the meantime, there are steps that the agency should take to use its existing automated capability to greater advantage. It could better keep track of its cases and ensure more timely action by improving its aging report and calendaring systems.

The aging report

The aging report is a computer-generated list of all cases currently waiting for some event or action, either on the part of the client or the agency. The report is printed and distributed to all supervisors weekly and is intended to help them manage their case load.

Unfortunately, the report is unwieldy to use. It is not suited to case-oriented searches or queries. The report lists cases by county, then by the function the case is currently undergoing (e.g., intake, locate, paternity establishment, or other functions), and then by alphabet. The history of each case can only be found by manually paging through the agency's KFRI computer system. Workers have to look up each case and go through the entire case history on KFRI and all the notes pertaining to that case to determine what has happened since it was last "touched" by a case worker. This manual process is time consuming and unproductive for an agency that is short of staff.

The aging report is also difficult to use because of the sheer number of cases (22,630) listed. Much of the report is outdated because it contains every case that the agency has not completed. For example, a case initiated three years ago involving an absent parent who has never been located would still be listed on the report, even though the custodial parent no longer resides in Hawaii. Case workers must sift through the report to find the information they need. Most supervisors we interviewed used the report occasionally but not as a case management tool.

For the aging report to be a useful management tool, the agency should establish some criteria for current cases or cases likely to be resolved. It should review the cases listed on the report and separate out those not meeting the criteria.

Calendaring system

The calendaring system is part of the agency's on-line KFRI computer system. Case workers are supposed to use it to ensure that cases meet federally mandated timeframes. As cases move through the various processes case workers are to enter the dates on which a process is to be completed. The system would then prompt the case worker on the due date, but only if the worker remembered to check the calendar.

The agency's new manual requires staff to use the calendar, but many supervisors and workers see the calendar as too time consuming and not a productive use of their time. In addition, many of the staff have not been trained in the system and do not know how to use it. One supervisor was unable to demonstrate the calendaring system for us. An EDP staff analyst also had some difficulty demonstrating it. However, we note that Maui staff reported calendaring to be a valuable tool that they try to use regularly.

The calendar could be useful in ensuring that cases "don't fall through the cracks," especially if it were used in conjunction with an improved aging report. The agency should train all staff in the calendaring system and make sure that they use it as a tool for managing their cases.

Bottlenecks Occur in Processing Cases

We found that the most significant bottlenecks in processing cases were in the Administrative Process Branch and the Support Enforcement Section.

The agency's case processing consists of six major functions: intake/referral, locate/investigate, paternity establishment, administrative process, support enforcement, and interstate services. Every case may not go through all the steps; the circumstances of each case determine which functions are necessary. Following is a brief description of each function:

Intake/Referral

Intake is the entry point for clients. It occurs in one of four ways: 1) clients walk in and request services; 2) clients write and request services; 3) welfare clients automatically enter the system through an interface between the Department of Human Service's HAWI and the agency's KFRI computer systems; and 4) attorneys or other authorized persons request services on behalf of clients. Intake then refers the case to the next function.

Locate/Investigate

In this function, an investigator attempts the following: (1) to locate an absent parent in order to establish paternity, (2) to serve process for a support order hearing with the absent parent, (3) to find the absent parent's employer for employment and income information for a support order, and (4) to locate the absent parent's employer to assign wages once a support order has been established. Should the absent parent disappear or change employers, the process must be repeated.

Paternity Establishment

To establish paternity, the agency may order the alleged father to attend a hearing where he may be presented with evidence of paternity or required to submit to genetic testing.

Administrative Process

Once the absent parent is located and paternity is established, the agency sets the monetary level of child support (if there is no previous court order). If either parent disputes the amount of monetary support, that parent may request an administrative hearing. Hearings are held by hearings officers from the Office of Child Support Hearings.

Support Enforcement

Support enforcement is the collection of delinquent payments from absent parents. A "delinquent payment" is defined as an amount due the custodial parent, equal to the support payable for one month, that is more than 30 days late. Support enforcement officers are responsible for collecting delinquent payments and child support arrearages. An "arrearage" is defined as "past due child support under an existing court or administrative order." The support enforcement officers have various ways to collect delinquent payments and arrearage, including 1) wage income withholding, 2) Federal and Hawaii income tax refund offsets, 3) asset seizure and property liens, and 4) judicial contempt proceedings.

Interstate Services

These services respond to requests for enforcement service from other states. Interstate services are also needed for parents living away from Hawaii who are obligated to pay child support.

We evaluated the timeliness of processing for each function by taking a sample of current cases and comparing the agency's timeliness for each function with federal standards. Figure 3.1 shows the number of days it took for the agency sample cases to complete each function compared with the number of days in the federal standard.

As Figure 3.1 shows, the intake, locate, and paternity establishment processes met federal timeliness standards. However, the agency took more than twice as long to establish a support order and incurred delays in enforcing support orders even though the data show that the agency more than met federal standards.

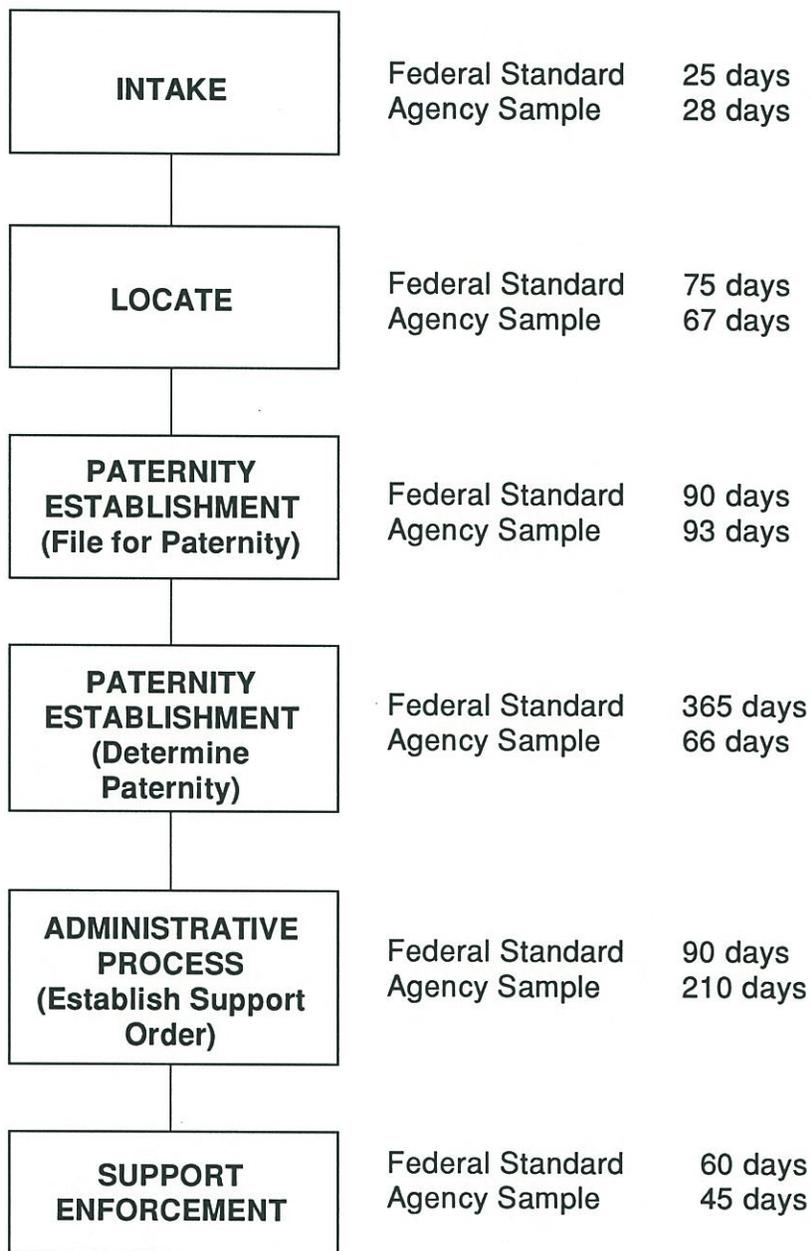
Delays in the Administrative Process Branch

Federal guidelines specify that agencies must establish a support order or complete service of process to begin support proceedings for 75 percent of their cases within 90 days. We found that only approximately 50 percent of the cases we sampled achieved the 90 day goal. This delay in obtaining a support order means the agency cannot collect money from an absent parent. At the time of our fieldwork, staff of the Administrative Process Branch said that they also had a backlog of about eight to twelve months of support orders that needed modification.

In 1988, because of delays in support establishment and in enforcement at Family Court, the federal child support enforcement office ordered Hawaii to establish an expedited administrative process within the agency. Branch staff, agency supervisors, and corporation counsels report, however, that the process the agency established was more complicated and less efficient than that of the Family Court. Agency staff and counsel personnel also report that under the previous branch administrator, they were instructed to return files to the originating agency section to be redone unless files were perfect. This resulted in cases bouncing back and forth between sections.

The Administrative Process Branch prepares its own case file with its own case number in addition to the existing agency case file. The branch would prepare yet a third file if the case were going to a hearing. Although branch staff complain that the files they receive from other sections are not appropriately prepared, the hearings officers report that they often decide against the branch because its cases are not adequately prepared. Hearings officers said that they decide against Oahu Administrative Process Branch and Support Enforcement Office in approximately 90 percent of the tax refund offset cases, whereas on the neighbor islands the rate of adverse findings is closer to 10 percent.

**Figure 3.1
Child Support Enforcement Process**



Delays in support enforcement

We believe that there are also problems in enforcing support orders. The agency met federal timelines for enforcement in our sample; but our sample consisted only of those cases that had requested and received enforcement action. We believe that many more cases required but did not receive enforcement action. In addition, during our audit period, the Ombudsman received numerous complaints about incorrect agency income tax refund offsets. The Ombudsman found the complaints were justified and thought these inaccurate offsets might “just be the tip of the iceberg.”

In enforcing support, the agency is supposed to collect delinquent payments and arrearages. For enforcement to be effective, the agency must be able to identify within 30 days the accounts that are delinquent or in arrears. We found that the agency could do neither reliably. Its accounting system does not readily identify delinquent parents or accounts in arrears. Without correct and timely account information, enforcement is difficult, if not impossible.

Better information for parents

Many parents are neither aware of nor understand the legal requirements imposed on the agency. Administrative processes and support enforcement are naturally lengthy because of due process requirements to protect the rights of the absent parent. Notices must be served, and the parent must be given reasonable time to respond. Some non-AFDC custodial parents do not understand that child support is not like welfare; they will receive payments only if the absent parent can be located and induced to pay support.

For some parents, child support enforcement is only one of many emotionally charged issues. The agency finds itself caught between two bitterly opposed parties who vent their frustration and anger on agency staff. In addition, when parents don't understand enforcement processes, staff must spend many hours answering telephone or written inquiries instead of processing cases.

We believe that staff time spent on explaining agency and legal procedures to parents is time well spent. Staff found parents to be more cooperative and less demanding when they knew what to expect. And as one staff member noted, “For most parents, this is the most legal papers they've ever seen in their life.”

We understand that some states have produced a video tape orienting parents on child support and its enforcement. The agency should consider producing one or a series of informational videos which explain all aspects of the enforcement process, including due process requirements. Informational videos could reduce staff time spent on explaining child support processes and requirements. Parents could view the video while waiting for intake or as a part of the intake procedure.

Other tapes could be viewed as appropriate while parents are being prepared for hearings or other procedures. Once developed, tapes could be shared with Family Court and the Department of Human Services.

New Initiatives Could Improve Case Management

Proposed reorganization

The current administrator of the agency (appointed in April 1991) has proposed several changes that have promise for improving agency operations. The most important of these include a proposal to reorganize staff into teams and a plan to reclassify staff positions.

Prior to August 1991, the agency was organized into sections according to function, for example, the intake section, locate section, and so on. The administrator reorganized staff into five teams that had at least one staff member from each section. Each team is now responsible for all the functions for each case. For example, Team A is responsible for intake, locate, administrative process, support enforcement, and accounting for all absent parents whose surnames begin with A through E and Y through Z. Team B is responsible for absent parents whose surnames begin with F through K. The intent is to give parents a single point of contact with the agency and to fix responsibility for cases to a single group.

Staff in the neighbor island branches have always operated as teams and appear to handle their caseloads more efficiently. We believe that the proposed organization will be more effective, but only if staff were reclassified and reassigned.

Inadequate staffing

Since 1980 every audit of Hawaii's child support enforcement program has found its staffing to be inadequate. Federal demands and agency caseloads increase annually without any corresponding increase in staff. There are indications that more and better qualified staff would be cost-effective and that the agency would be able to generate substantially more income to the State. Current staffing is inadequate in both numbers and type of personnel. The two problems are intertwined and each exacerbates the other.

Inadequate number of staff

Staff shortages have caused such problems as 1) staff being shuffled from team to team and having to operate in a crisis management mode, 2) section supervisors doing staff work instead of supervising and training, and 3) supervisors spending an inordinate amount of time on training new staff due to the high turnover.

The agency is authorized 165 positions. But staff shortages persist because the agency finds it difficult to recruit and retain staff. Until the 1992 legislative session, 55 positions were temporary and many were filled on an emergency hire basis. These positions were without security and in the case of the emergency hires, without benefits. Furthermore, the positions had no career ladder. The 1992 Legislature converted the 55 temporary positions to permanent ones. As of June 15, 1992, the agency had 16 vacancies in permanent positions and 30 vacancies in temporary positions. Staffing in general was a downward spiral as staff shortages created increased workload, leading experienced staff to find more permanent and less stressful employment elsewhere. In addition to stresses normally associated with child support enforcement work, the agency gained the reputation of being a high stress workplace.

In addition, state personnel procedures customarily delay the hiring of new staff. Agency requests must first be processed by the personnel office at the Department of the Attorney General then by DPS. The agency must hire from DPS lists of qualified personnel. It has taken 6 months to a year to fill vacant positions. Supervisors we interviewed expressed concern that converting temporary to permanent positions would cost them experienced staff in the short term because they believe some current temporary and emergency staff are unable or unwilling to pass DPS exams and be placed on DPS lists.

Inappropriate job classifications and descriptions

Many staff perform duties that do not match their position descriptions or job classifications. Position descriptions are not current and date from the time the agency was in the Department of Human Services. Inappropriate classification and incorrect job descriptions hamper case management and contribute to friction among employees.

We have already discussed overlapping duties among clerk typists who do accounting-related work and account clerks who do cashiering work, and cashiers and the resulting friction between the classes.

Considerable overlap also exists in the duties of investigators, legal assistants in the Administrative Process Branch, and support enforcement officers. For example, all three types of employees may be involved when a client requests a hearing, when the absent parent disappears, or when additional income information is needed. Classifying and differentiating among their duties is counterproductive since efficiency is lost when a case is passed from one employee to another.

Most investigators are ranked at SR 20, legal assistants between SR 18 and 20, and support enforcement officers at SR 15. The agency considered making support enforcement officers the supervisors of

newly created teams, because to do their work support enforcement officers must understand what the others do. However, the agency had to give up the proposal because the support enforcement officers have the lowest rank. A separate problem on the neighbor islands concerns support enforcement assistants who are ranked at SR 12 but do the work of support enforcement officers.

Some states have developed a semi-professional child support specialist position to resolve the problem of overlapping duties. The agency should consider working with DPS to develop a new semi-professional child support specialist (or other label) position so that one employee could work a case from beginning to end. A single classification would also provide a career ladder for employees.

We believe that having sufficient qualified staff is essential. Without adequate staff to lead teams and carry out the complex requirements of administrative processing and support enforcement, we expect the agency's problems to continue.

The agency administrator has assigned staff to work on revising job descriptions and reclassifying positions. The staff member assigned to this, however, has other responsibilities and does not expect to complete this effort until later in 1994. In addition, before positions can be reclassified and reassigned, the agency must have an organization approved by the Department of Budget and Finance. The agency should make every effort to expedite this process.

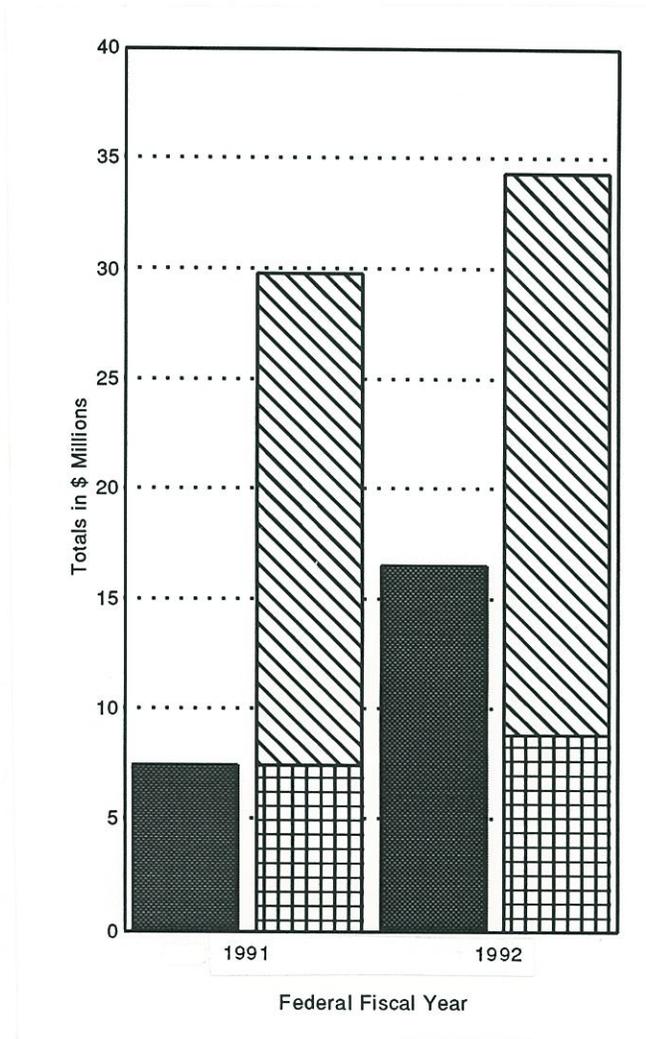
Cost effectiveness of adding resources

The State would gain significantly if the agency were given more staff who are appropriately qualified. The agency more than pays for itself. It collects almost four times what it spends. In 1990, Hawaii had a ratio of collections to expenditures of 3.64¹ which places Hawaii nearly in the middle compared to other states.

In federal FY1991-92, the agency reports it spent \$3,079,397 in state funds and \$5,994,092 in federal funds.² The agency reports collecting \$34,280,000.³ (See Figure 3.2) These collections offset some of the costs of the State's AFDC welfare program—an estimated \$8.5 million in federal FY1991-92.

Cost benefit analyses and studies in states such as California and Texas show that collections increase when child support agencies are given additional resources. We believe that the agency should be allocated more positions, particularly in accounting.

Figure 3.2
Child Support Expenditures and Collections, 1991 and 1992



Collections:

-  Non-AFDC
-  AFDC

Expenditures:

-  State and Federal

Source: From CSEA reports to the Federal Office of Child Support Enforcement.

Acquisition of New EDP System Is On Track

The Family Support Act of 1988 requires states to have a federally certified, comprehensive, automated child support system in place by September 30, 1995. Federal funds will pay for the acquisition of systems it approves at the 90 percent participation rate.

The agency is in the process of procuring a new system. We examined the work the agency has done so far and found the process was on track and following industry standard acquisition practices. The agency has complied with both Hawaii statutes and federal requirements in planning to purchase the new system.

The only major risk has been the agency's desire to implement a first-ever imaging capability with the new EDP system. By the end of our field work period, the administrator had decided to wait until the new system was federally certified before phasing in the imaging component, thereby greatly reducing the level of risk to the new system's timely, successful implementation.

Recommendations

1. The Child Support Enforcement Agency should establish management controls over its case processing. It can begin by improving its aging report and by training and requiring staff to use automated calendaring.
2. The agency should give its reorganization and reclassification priority attention.
3. The agency should consider developing informational videos to inform parents about the complexities of child support enforcement.

Notes

Chapter 1

1. Hawaii State Auditor, *Financial Audit of the Department of the Attorney General*, Honolulu, 1992.
2. Testimony of the Sate Attorney General to the Senate Committee on the Judiciary, March 11, 1992, p.7 and Office of Child Support Enforcement Audit Division, *Program Results/Performance Measurement Audit, State of Hawaii*, Report No. Hi-88-PR/PM, Washington, DC, August 1990.
3. Hawaii, Office of the Auditor, *Operations Audit of the Child Support Agency*, Honolulu, 1989.
4. Kodani, Yim, Shiraki & Hattori, CPAs, *Audit of the Department of the Attorney General State of Hawaii for the Fiscal Year Ended June 30, 1990, May 23, 1991*.
5. Hawaii Child Support Enforcement report to the Federal OCSE, "Program Quarterly Data Report for the Quarter Ending September 30, 1991 and December 31, 1991," OCSE-156 dated February 20, 1992.
6. Hawaii State Auditor, *Financial Audit of the Department of the Attorney General*, Honolulu, 1992, p.5.

Chapter 2

1. Hawaii, Office of the Auditor, *Operations Audit of the Child Support Agency*, Report No. 89-23, p.8, Honolulu, 1989.

Chapter 3

1. U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Support Enforcement, *Fifteenth Annual Report to Congress*, DHHS Publication No. (ACF) 92-33001, p.110.
2. Information derived from Hawaii Child Support Enforcement agency quarterly reports (OCSE No. 131) to the Federal Office of Child Support Enforcement.
3. Information derived from Hawaii Child Support Enforcement agency quarterly reports (OCSE No. 34) to the Federal Office of Child Support Enforcement.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this report to the Department of the Attorney General and its Child Support Enforcement Agency on November 6, 1992. A copy of the transmittal letter to the department is included as Attachment 1. A similar letter was sent to the agency. The response of the department is included as Attachment 2.

The department agrees with our recommendations to improve the Child Support Enforcement Agency's financial management by recruiting a controller and to continue its efforts to reconcile client accounts. The department agrees that the agency's current computer system is incapable of offering sufficient security over its records. The agency has added some review steps as an interim measure until the new computer system becomes fully operational.

With respect to case processing, the department agrees that the agency has experienced difficulty in delivering services. It did not respond to our suggestions to improve the agency's aging report and to make better use of automated calendaring. The department agrees that reorganization and reclassification would be central to a well-functioning operation and plans to begin this process in December 1992 and complete it by mid-1994. The department says it is in the process of developing an informational video.

In its twelve-page response, the department explains the many deficiencies at the agency, particularly the problems with reconciling client accounts and the bank accounts. We note that the department still does not understand the seriousness of the agency's lack of internal controls over its bank accounts. The department says that it has records that would allow the bank accounts to be reconciled. This does not address the lack of internal controls that are needed to ensure that the agency has a running balance for these accounts, ensures that deposits have been properly deposited, checks issued have been properly cashed, and that no erroneous charges have been made. Currently, the agency would not know if theft or embezzlement from the accounts had occurred.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

November 6, 1992

The Honorable Robert A. Marks, Esq.
Attorney General
Department of the Attorney General
425 Queen Street
Honolulu, Hawaii 96813

COPY

Dear Attorney General Marks:

Enclosed for your information is a copy, numbered 9 of our draft report, *Management Audit of the Child Support Enforcement Agency*. We ask that you telephone us by Tuesday, November 10, 1992, on whether you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, November 16, 1992.

The Administrator of the Child Support Enforcement Agency, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,


Marion M. Higa
State Auditor

Enclosure

JOHN WAIHEE
GOVERNOR



ROBERT A. MARKS
ATTORNEY GENERAL

RUTH I. TSUJIMURA
FIRST DEPUTY ATTORNEY GENERAL

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL

425 QUEEN STREET
HONOLULU, HAWAII 96813
(808) 586-1500

November 18, 1992

RECEIVED

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OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
Office of the Auditor
State of Hawaii
465 South King Street, Room 500
Honolulu, Hawaii 96813

Dear Ms. Higa:

Thank you for the opportunity to review and to submit our comments on the findings and recommendations contained in the preliminary draft of the Management Audit of the Child Support Enforcement Agency.

The objectives of the audit were to:

1. Examine the current case management process to identify areas in which service can be improved, and
2. Review the overall effort to transfer an automated child support enforcement system from another state.

In addition to the above-stated objectives, your office contracted with a CPA firm for a financial audit of the Department of the Attorney General, which included the agency. Therefore, in your audit report, you have incorporated some of their findings.

Our response tracks the report, in that we have incorporated our comments and response to the two major areas--case management and financial management. Since the financial management audit report was a subject of another report prepared by the Auditor's office, we will first address the case management audit.

CASE MANAGEMENT

The Department concurs that the Child Support Enforcement Agency has experienced difficulty in its delivery of services, particularly the bottleneck in the

administrative process. In addition to the reasons cited by the Auditor, external factors, which have contributed to perpetuate the difficulty, include changing and more stringent federal regulations and an increasing caseload. Such external factors have complicated the transition of Hawaii's child support program into a consolidated agency.

In addition, the number of cases serviced by the Agency increased 84 percent from 1985 to 1991 and approaches over 60,000 in 1992. Since its inception in 1987, the Agency's collections increased 134 percent to approximately \$49 million in 1991 and approaches \$60 million in 1992. The Agency is required to manually process an average of 27,000 checks per month within 48 hours of receipt. Compounding the difficulties for the Agency is the antiquated computer system that was designed in the early 1980's for the purpose of tracking the obligation and payment history of welfare cases and is unresponsive to the non-welfare cases that comprise over 75 percent of the Agency's cases.

Despite these difficulties, in the last year, the Agency implemented innovative practices in an attempt to improve its delivery of services. These included:

- 1) automated identification of delinquent cases;
- 2) implementation of a procedures manual;
- 3) a cooperative agreement with the Civil Recoveries Division of the Department to collect against the top 100 delinquent accounts;
- 4) a contract with a credit bureau to report delinquencies over \$1,000; and
- 5) the production of an informational video.

1. Automated Identification of Delinquent Cases

During the audit's time period, the Agency modified the automated system to provide a more effective system of managing cases to ensure that cases are processed in a timely and appropriate manner. The automated system now identifies delinquent accounts and produces two reports listing the delinquent payors. One report identifies delinquent payors who have an employer on record.

This report is produced monthly and is assigned to the support enforcement officers for immediate implementation of income withholding. The other report identifies all delinquent payors, including those who are already subject to income withholding, liens, federal and state tax intercepts, and

reporting to credit bureaus. Because more aggressive investigative and enforcement methods are probably indicated for most of these cases, this report is provided to the team that handles the most difficult cases to uncover payors' assets and prepares the cases for legal action.

Refunds from tax offsets will occur and should not be a measure of the Agency's effectiveness. The Agency refers delinquent cases to both the Internal Revenue Services and the Hawaii Tax Department for offsets of the tax refunds. The amount of an individual's tax refund is unknown. If the total amount of the refund from both the state and federal exceeds the delinquent support owed, a refund of the difference is made to the taxpayer. When a joint income tax refund is intercepted, the non-debtor spouse may also request that his or her share of the tax refund be refunded. When determined appropriate, the non-debtor spouse's share is refunded. For the tax year 1991, the Agency modified the tax intercept program to eliminate the incorrect interception of taxes. This modification has led to a reduction of complaints to a trickle.

2. Agency-wide Procedures Manual

The audit incorrectly notes that it was only recently, March 1992, that a procedures manual was finally adopted. The first chapter of the Procedures Manual was issued on October 3, 1991, and additional chapters, including the chapters on accounting and cashiering, were issued in November, 1991. Many previously existing chapters were replaced and additional chapters were added on March 9, 1992. To the extent that the lack of procedures manual contributed to the problems identified in the audit, it should no longer be a factor.

3. Improved Security Measures

The Department concurs that the seriously flawed and antiquated computer system does not serve the agency adequately and must be replaced. The current computer is incapable of offering the security levels that is required for controls over system records and staff functions. Due to a lack of system documentation, substantial modifications to the system is not cost- or time-effective.

As an interim measure, until the new system is fully operational in 1994, the Agency has improved security measures for system inputs, adjustments, and data modifications. Daily reconciliations of all collections that are received and processed for input are made. Several review steps have been established for the receipt of checks, inputting of checks, and deposits to ensure that the collections are reconciled to the inputs and the deposit totals. Daily system-generated

reports are used in the review and reconciliation process to ensure that all support payments to custodial parents are accounted for. The Agency also separated the responsibilities between the cash handling and collection functions. Individuals who establish and modify account obligations do not have access to the input of payments.

Again, these are only interim measures until the new system is fully operational in 1994.

4. Collection Attorney

In April, 1992, the Agency executed a cooperative agreement with the Collections Unit, Civil Recoveries Division, Department of the Attorney General, to pursue civil collections action on the top 100 delinquent cases. With the investigative support of one of the Agency's teams, approximately \$150,000 of past due child support has been collected in the first six months of operation. An additional \$23,000 was collected by the investigators of the support team in this cooperative effort. The Agency hopes to implement a criminal contempt program in the next six months.

5. Informational Videos

The audit report notes that many parents are neither aware of nor understand the legal requirements imposed by the agency. To address this concern, the Agency began work on an informational video during the summer of 1992. While most of the video has been filmed, the final editing of the video remains incomplete at this time because of the lack of staff resources within the Agency. The Agency is dependent on a staff person from another Division to complete the editing. Once the video is finalized, however, the parents will be informed about the agency, the legal requirements imposed on the agency, and the process itself. This will all be done electronically so that additional staffing is not required.

STAFFING

The Department agrees with the Auditor that "the State would gain significantly if the agency were given more staff who were appropriately qualified". As the Auditor noted, the monies collected to offset the costs of the State's AFDC welfare program, an estimated \$8.5 million in federal FY 1991-92, more than offsets the state funds provided for the Agency's administrative costs.

In addition to the lack of adequate staffing, many of the present positions are classified at lower levels and are not able to provide the services necessary to appropriately conduct the tasks required or are performing tasks normally performed by higher level employees. The situation has contributed significantly to a growing backlog in almost all phases of the child support enforcement process.

An increase in staffing at this time does not appear optimistic in light of the bleak economic outlook. Last year, the Agency submitted an appropriations bill requesting an additional 39 positions statewide. Due to the financial condition of the State, the request was reduced to six (6) professional positions. Even with this drastic reduction in the request, the measure did not pass.

In October 1993, when the Family Support Act of 1988 will become effective, the Agency will be required to review all welfare cases at least once every three years by obtaining current information on the absent parent's income and applying the child support guidelines to current income information. As income generally increases over time, it is expected that this process will result in increased collections and reimbursement to the State for welfare costs, but only if the Agency has sufficient resources to carry out the necessary procedures. A new computer system and an adequate increased staffing are even more critical in view of these additional federal mandates.

The Department agrees that an increase in staffing is required to meet the demands made upon the agency by the public as well as by the federal and state regulations. Despite the bleak economic condition, the Department will continue its efforts to obtain adequate staffing for the agency and to do the best it can with the resources it is given.

1. Proposed Reorganization

The Department recognizes that central to any well-functioning operation is an adequately staffed, properly trained, and appropriately classified structure. There has been an informal reorganization establishing teams to integrate diverse functions such as intake, investigation, and enforcement, much like the service delivery system now provided by the neighbor islands. The caseload for four of the six teams has been distributed by the last name of the absent parent, while the fifth team is used to handle the more complex cases requiring extensive investigation for possible civil and criminal legal actions. The sixth team handles all out-of-state cases. Supervision for these teams is provided by the present supervisors of the various functions.

With the establishment and filling of a new Assistant Administrator position, the staff person assigned to the formal reorganization can now direct full attention to the task. It should be noted, however, that such an undertaking is not only time-consuming, but involves the coordinated effort of many other agencies and individuals not directly under the control of the Department.

The process to reorganize will begin in December, 1992 with an expected completion date in mid-1994.

FINANCIAL MANAGEMENT

The Department agrees that the financial management of the child support accounts could be improved.

1. Controller

The Department concurs with the recommendation that a financial controller is needed. In addition, we also recognize that one individual cannot perform all the activities that are required to perform, including internal audits and reviews. Therefore, in addition to the controller, we also need additional support staff to assist the controller. The current staffing level is barely sufficient to maintain the day to day operations for the financial records of the accounts. Although the new computer system will help, a separate staff organization is required to monitor the financial activities of the Agency.

2. Reconciliation of Accounts

The Department concurs with the finding that reconciliation of the individual accounts must be completed. The development of the new Child Support System will include the conversion and reconciliation of the accounts before transferring the data to the new system's databank.

The Department also concurs that there are problems associated with the balances of some accounts. The Agency is presently in the process of contracting with a vendor to audit and reconcile all cases. A pilot project involving about 50 cases is planned to begin with a private contract vendor to determine the scope and tasks of the larger project to reconcile all cases.

Several factors that have contributed to the erroneous balances of some accounts. They are:

First, the Agency inherited unreconciled accounts. For over ten years, beginning in 1974 when the child support program was first established in Hawaii, various state and city agencies provided services. Child support payments were received by a number of agencies and deposited into the various agencies' child support accounts. Then the collections/ disbursements functions for child support were consolidated in the Judiciary. The function remained with the Judiciary until June 30, 1986. The Judiciary inherited and carried a balance of undisbursed support monies in its account until this function was transferred to the Department of Human Services for one year. The Agency and the function were permanently placed in the Department of the Attorney General effective July 1, 1987. When the collections/disbursements functions for child support was transferred to the Department of Human Services on July 1, 1986, the Judiciary transferred the balance of its account to the Department of Human Services.

Prior to these funds, the Judiciary DID NOT reconcile the balance. Upon receipt of the funds from the Judiciary, the Department of Human Services DID NOT reconcile those funds. When the CSEA was transferred to the Department of the Attorney General for the third time in as many years, the Department of Human Services DID NOT reconcile those funds. When the Department of the Attorney General inherited the funds in July 1987, the balance was not reconciled.

Second, the Agency has not received all copies of court orders related to a child support obligation. In prior years, orders filed by private attorneys were not sent to the Agency in all cases. The obligations reflected in the computer system reflect only known obligations. These cases are updated as the additional court orders are identified by the Agency. The moneys received by the Agency may be pursuant to orders when the Agency has not yet received and thus is unable to reconcile.

Third, the Agency's current computer system's programming is inadequate to handle the multifaceted support obligation orders that reflects changes to orders over a specified period of time due to changes in custody, special conditions of visitation, or increases or decreases in amounts. The planned new automated system will be able to handle most orders.

Fourth, parents have made private arrangements for payments that are unknown to the Agency and contrary to the conditions specified on the court order. As the private arrangements are made known to the Agency, reviews and necessary adjustments are made to the account.

Although the balances of some accounts may be incorrect because of one or more of the factors discussed above, families that rely on the agency for their child support payments are not harshly impacted. Adverse action based on an incorrect balance is initiated only against the absent parent and not the custodial parent. In most cases, the unreconciled accounts' delinquency balances favor the custodial parent and the children by reflecting a higher delinquency than what is actually owed. This impact information does not reflect the Agency's complacency or its commitment to the need to maintain correct balances on accounts.

4. Bank Accounts

The Department agrees that as a matter of sound financial principle, check registers and other accounting records to record cash deposited and disbursements made from checking accounts should be established and maintained. We also agree that bank reconciliations be prepared on a monthly or more frequent basis, as necessary.

However, contrary to the findings of the audit, the CSEA does maintain a record of its checking accounts. In addition to its data files, the CSEA maintains bank deposit receipts, copies of the disbursement checks processed and maintained in hard copy by the CSEA, bank statements, micrographic records of cashed checks that are maintained by the bank, and the financial data screens of the computer system. Therefore, the bank accounts can be reconciled by using the above information. However, the Department concurs that the reconciliation of the bank account is not timely.

Therefore, to rectify this, in July of this year, a computer consultant completed a program to reconcile CSEA's newly established checking account and that the account is presently in the process of being reconciled on a monthly basis.

As for the existence of the two checking accounts, it is important to understand the historical reason for the existence of two accounts in order to put the "problem" in its proper perspective.

When the child support program was first established in 1974, child support payments received by various agencies providing child support services were deposited into the various agencies' child support accounts. When the child support program was consolidated into one agency, none of the various accounts were reconciled.

Because the Department of the Attorney General recognized that there were problems with the checking account due both to historical and current practices, the Department, in 1990, retained the consultant services of Kodani, Yim, Shiraki, and Hattori, certified public accounting firm, to conduct a single audit of the checking account. In addition to the single audit, the accounting firm was also contracted to reconcile the existing bank account through FY '91.

Kodani, Yim, Shiraki, and Hattori, in their audit report, recommended that a new checking account be established to facilitate the reconciliation of the existing account. And, it was with the dual desire to facilitate the reconciliation of the existing account and to take control of the need to reconcile the funds received and disbursed by the CSEA, that a new checking account was opened on October 1, 1991. The opening of the new account seemed the most responsible step to take from the perspective that CSEA could not take absolute control over the money it received beginning October 1, 1991, rather than to perpetuate the problem created five years prior.

It is the Department's belief that the new checking account, which was opened on October 1, 1991, has accomplished the goal that CSEA set out to accomplish. Also, the computer program to reconcile the new checking account has been fully implemented. CSEA will not be able to reconcile the automated data files and balances maintained by the CSEA against the data files provided by the bank on a monthly basis.

The Department agrees that there is still the concern of the original checking account. While progress has been slow, the Department is able to say that this checking account has been reconciled through 1991. It has not been completed due to a number of reasons, including budgetary constraints. However, using the interest monies which have accumulated in the account, the CSEA plans to complete the reconciliation of this account this fiscal year by bidding for a qualified accounting/consulting firm.

The use of contracted consultants to provide these added services has been necessary due to the lack of personnel and computer staff resources. In addition, the lack of system support and system design enhancements to the now existing fragmented system has not enabled CSEA to run as efficiently as we would want them to.

Thankfully, due to the approval of converting over 50 temporary positions to permanent and partial funding for a new computer system during the 1992 legislative session, CSEA is making strides.

The conversion of the temporary positions to permanent will soon create more stability at CSEA. Also with the partial funding for the computer system, CSEA envisions a new Hawaii Child Support Enforcement system for implementation in 1994, which will incorporate the financial control requirements under a single system and that will meet the increasing federal requirements and demands, such as the Family Support Act of 1988.

For the reasons provided above, while we concur with the Auditor's Report that the initial checking account is not reconciled completely, considering the historical baggage that the Department has had to carry, it has made progress. And, the problem has been all but eliminated for funds received and deposited in the new checking account which was opened on October 1, 1991.

5. Unidentified Child Support Payments

With regard to the unidentified child support payments, the Department acknowledges that as of June 30, 1992, there was a balance of \$465,000 in the "suspense account." The Department also agrees with the Auditor's recommendation that the CSEA "take immediate steps to investigate and resolve all child support payments that it maintains in the suspense account."

While we concur with the Auditor's report and recommendation, we believe that it would be helpful to understand how the "suspense account" came into existence and why it is maintained.

The CSEA's primary goals are to collect child support payments and to disburse them to the appropriate custodial parents. The bulk of the payments received by the CSEA are clearly identifiable as to the payor and the custodial parent who is to receive the payments. However, the CSEA also receives payments from the following sources and under circumstances described below:

1. A parent makes support payment(s) to the CSEA in anticipation of the entry of a support order.
2. A payment is received by the CSEA but the information provided with the payment is inaccurate, the CSEA staff is unable to apply the payment to the proper account.
3. A payment is received by the CSEA but because the information provided with the

payment is insufficient, the CSEA staff is unable to apply the payment to the proper account and the payor cannot be contacted.

4. A payment has been made in error to the CSEA.

It is the CSEA's practice to deposit all payments received by them on the assumption that the payments are received on behalf of a particular child and in accordance with child support orders issued or to be issued. In each of the circumstances described above, it is not until after the payments are deposited that the CSEA determines which one of the four conditions listed above applies to a particular payment.

With the exception of condition number 4, the CSEA must proceed on the assumption that the payments have been properly made and that there is a child who is entitled to receive the payment.

In addition to trying to contact the payor for accurate information, the CSEA has implemented the following procedures to monitor the balance in the suspense account and to seek to identify the proper payee for the payments in that account:

1. An updated list of all payments posted to the suspense account is generated each day.
2. Cashiers have been assigned to monitor the "new support obligations" established daily to determine a match with the payments placed in the suspense account.
3. CSEA staff has been conducting researches of the court files for any reference to the payor(s). For example, if a payment is received in the form of a money order with no return address, etc., an attempt is made to obtain information about the payor and the prospective payee from collateral sources such as court files.

An attempt is being made each day by CSEA cashiers to disburse the funds in the suspense balance to the appropriate account. Because the identification process is done manually, it is a time-consuming and laborious task.

Ms. Marion M. Higa
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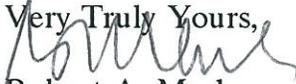
While they are successful in many instances, there are payments which have eluded the identification process, and they are unable to find the proper payee or locate the payor. The funds will continue to remain in the suspense account until the payor contacts the CSEA or until the balance is transferred to a State trust account (which is a mechanism that the CSEA has contemplated but has not yet implemented).

The new Hawaii Child Support Enforcement system, once in place in 1994, will maintain an accounting of the suspense file and provide automated review. The new system should facilitate a more expeditious review than CSEA is able to conduct currently under the manual system.

However, for reasons provided above, the maintenance of the suspense account, even if its balance is \$465,000, is a necessity and is more beneficial to the children involved than its only alternative, which is to return the payments to the payor.

The Department is monitoring the available records each day to attempt to identify the proper custodial parents. And, the payments are being made to the appropriate custodial parents when they are identified. The Auditor's report, states that "when payments are not investigated in a timely manner, custodial parents do not receive the moneys to which they are entitled." We are not quite sure if the Auditor is saying that the CSEA is not investigating the payments in a timely manner or just making an observation. We certainly concur with her observations, however, with regards to the CSEA's response to the payments received, we believe that the information provided above clearly establishes that the CSEA is making every effort, on a timely basis, to verify all available information source to make sure that the proper custodial parent is credit with the payments received by the CSEA. Of course, the CSEA would appreciate any assistance from any source with regards to how what else the CSEA can do to expedite the verification process.

Thank you for the opportunity to review and comment upon your report. Although we do not agree with all of your findings, we certainly appreciate you identifying the areas that can and should be improved. Your report will be very helpful to us as we work closely with the other agencies and the legislature to find solutions to some of the problems.

Very Truly Yours,

Robert A. Marks
Attorney General

RAM/RIT/NDS:ct