
Follow-Up Report on a Financial Audit of the Department of the Attorney General and a Management Audit of the Child Support Enforcement Agency

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



THE AUDITOR
STATE OF HAWAII

The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



THE AUDITOR STATE OF HAWAII

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Submitted by

THE AUDITOR
STATE OF HAWAII

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State Auditor

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Introduction

The Office of the Auditor issues a wide variety of reports and studies recommending improvements in government operations. In response to growing interest in the impact of our audits, we have expanded our follow-up program to include a systematic review of selected findings and recommendations of previous audit reports. We revisit the subject agencies to verify and assess any progress made in addressing prior audit findings and recommendations. Government auditing standards require an audit follow-up process to determine whether an auditee has taken timely and appropriate corrective actions on findings and recommendations from previous reports.

The purpose of this report is to describe actions taken by the Department of the Attorney General (department) and one of its divisions, the Child Support Enforcement Agency (CSEA), with respect to certain recommendations in our November 1992 reports, *Financial Audit of the Department of the Attorney General*, Report No. 92-21, and the *Management Audit of the Child Support Enforcement Agency*, Report No. 92-22.

Background

The Department of the Attorney General administers the State's legal service and law enforcement responsibilities. The department is headed by the attorney general.

The department's Administrative Services Office (ASO) provides centralized budgeting, accounting, personnel, data processing, purchasing, and other administrative functions. Seventeen divisions of the department administer a variety of legal services and law enforcement activities.

The Child Support Enforcement Agency is one of these divisions. CSEA's primary function is financial and fiduciary: collecting child support payments and disbursing them correctly. At the time of our previous audits, CSEA had 165 positions, making it the largest division in the department. As of December 31, 1991, CSEA's caseload was 53,832 cases. In FY1991-92, CSEA collected more than \$55 million in child support payments from absent parents and issued checks totaling about \$54 million to custodial parents.

1992 financial audit of department

Our 1992 *Financial Audit of the Department of the Attorney General* covered the fiscal year July 1, 1991 to June 30, 1992. Much of our report focused on a serious lack of “internal controls” at CSEA. Internal controls, sometimes called management controls, are steps instituted by the managers of an organization to assure that its objectives are met and its resources are safeguarded.

We found that the agency had no internal controls over its bank accounts held outside the state treasury. It had no check registers or similar record of the fund balances in its checking accounts and the accounts could not be reconciled. In addition, CSEA had not transferred the interest earned in these accounts to the state general fund as required by law.

Our 1992 financial audit also found that CSEA failed to investigate unidentified child support collections in a timely manner and was holding in its checking accounts \$465,000 in child support payments that had not been properly matched to its case records. The CSEA did not know which absent parents to credit for payments received and which custodial parents to pay. Furthermore, CSEA improperly retained incentive payments received from the federal government in a trust fund account, and did not update its inventory records as required by regulations.

On another subject, not related to the CSEA, our 1992 financial audit found that the Department of the Attorney General implemented many of our previous recommendations concerning its criminal forfeiture program under Chapter 712A, Hawaii Revised Statutes. However, we found that the department did not implement our previous recommendation to establish formal procedures and timetables for auctioning or otherwise disposing of forfeited non-cash assets. We also found that the department was not reconciling the Criminal Justice Division’s records of forfeited cash with the ASO’s records.

1992 management audit of CSEA

Our 1992 *Management Audit of the Child Support Enforcement Agency* found that the agency had neglected its fiduciary responsibilities. CSEA appeared not to understand the importance of financial management and the need to give it high priority. The agency’s internal controls were so weak that it did not know how much money it had, how much it had collected, and how much money it had disbursed.

These problems were compounded by inadequate staffing for financial functions. CSEA did not have enough qualified staff to handle accounting and cashiering duties. Overlapping duties among the various types of workers—account clerks, clerk typists, and cashiers—had made job classifications meaningless.

Our 1992 management audit also found that CSEA had serious bottlenecks in processing cases. Management controls for ensuring appropriate and timely action—such as systematic tracking and monitoring of cases—were virtually nonexistent. Needed actions were taken primarily when clients complained.

Furthermore, many parents were neither aware of nor understood the legal requirements imposed on the CSEA. These legal requirements included due process such as serving notice on absent parents and giving them time to respond. CSEA staff spent many hours answering telephone and written inquiries from parents who did not understand the legal requirements. This took valuable time away from their primary responsibility of case management.

Based on the findings in the two audits, we made a number of recommendations for improvement.

Approach to Follow-Up

As a follow-up of our 1992 reports, we reviewed the Department of the Attorney General's letters to the Auditor of November 23, 1993, which provided information on actions taken. We then conducted fieldwork at the department including the Child Support Enforcement Agency to gather additional information necessary for this report. Our work was performed from January 1995 through April 1995.

The following is our overall assessment of progress by the department and CSEA, followed by a description of each of our previous recommendations, actions reported by the department in its 1993 letters to us, and the results of our recent fieldwork.

Summary of Follow-Up

Our overall assessment is that the Department of the Attorney General has addressed many of the problems we raised in 1992 and improvements are occurring in the Child Support Enforcement Agency. CSEA has contracted out certain functions to streamline caseflow, begun to reconcile financial and case records, made improvements to safeguard data integrity, and submitted a reorganization plan. The CSEA also is developing an automated system for child support enforcement. However, complaints about the agency's inefficiency and lack of responsiveness continue.

We also found that the Department of the Attorney General has implemented our recommendations concerning the forfeiture program.

**Recommendation
from 1992
Financial Audit**

In our 1992 financial audit, we recommended that CSEA establish and maintain a check register or other accounting system to record cash deposits to and disbursements from its child support checking accounts. Bank reconciliations should be prepared on a monthly basis.

***Implementation as
reported in the
department's letter***

In its November 1993 letter to the Auditor, the Department of the Attorney General stated that since April 1993, CSEA has maintained a detailed book balance for the child support checking accounts. It had reconciled one bank account, which was current through October 1993. CSEA had not reconciled another bank account that included moneys transferred from the Judiciary when the CSEA was given responsibility for collections of all child support payments. CSEA planned to initiate an invitation for bids for reconciling this account balance in February 1994.

Results of our fieldwork

In our follow-up fieldwork we confirmed that CSEA reconciles the one account on a monthly basis and is in the process of contracting for a detailed investigation of balances transferred from the Judiciary and for reconciliation of the other account. CSEA released an invitation for bids in October 1994. The contract for these services is being finalized and project completion is expected by October 1995.

**Recommendation
from 1992
Financial Audit**

We recommended in 1992 that CSEA take immediate steps to investigate and resolve all child support payments that it maintains in the suspense account. (A suspense account receives child support payments that cannot immediately be identified to a particular case.)

***Implementation as
reported in the
department's letter***

The department's 1993 letter stated that CSEA had established new procedures to return unidentified payments to payors (parents responsible for paying child support). It delegated one investigator to research unidentified payments. Amounts that remained unidentified for six months were transferred to the Unidentified Property Fund of the Department of Budget and Finance at the end of each fiscal year. As of November 15, 1993, the balance in the suspense account had been reduced to \$22,001.

Results of our fieldwork

We found that the backlog in the suspense account has been cleared up. As of January 27, 1995, the suspense account held only two payments totaling \$200.

**Recommendation
from 1992
Financial Audit**

In 1992 we recommended that the child support checking accounts should be reported to the Department of Accounting and General Services (DAGS) as required by statute.

***Implementation as
reported in the
department's letter***

The department planned compliance with the statute, Section 40-81, HRS, by November 1993.

Results of our fieldwork

In our follow-up, we found that the checking account balances are being reported to DAGS as required by statute. DAGS can now record these accounts in the State's accounting records.

**Recommendation
from 1992
Financial Audit**

We recommended in 1992 that the department deposit federal incentive payments to the general fund and payments to the counties should be authorized through the general fund appropriations process. The cash balance held in the trust fund account should be transferred to the general fund. (The trust fund holds incentive payments received from the federal government to assist child support enforcement activities. State law requires that the payments be shared with the counties participating in these activities.)

***Implementation as
reported in the
department's letter***

The department's letter stated that the General Appropriations Act of 1993 transferred the incentive moneys that were originally deposited into a trust account to ATG 500, Child Support Enforcement Services program.

Results of our fieldwork

We found that the trust account balance has not been transferred to the general fund as we recommended. However, the Legislature has authorized the use of these funds by appropriating them to the CSEA. This meets the intent of our recommendation—that the funds be made available for legislative oversight and appropriation.

**Recommendation
from 1992
Financial Audit**

We recommended in 1992 that the department comply with state law and deposit excess interest earnings (on CSEA's checking accounts) into the state general fund.

Implementation as reported in the department's letter

The department reported it planned to use the interest to pay contract costs for reconciliation of a bank account.

Results of our fieldwork

We found that contract costs for the reconciliation far exceed the interest earnings of the child support payment account. As such, excess interest earnings are no longer available for transfer to the general fund.

Recommendation from 1992 Financial Audit

In 1992 we recommended that the department comply with DAGS requirements and submit required forms to update inventory records to DAGS on a timely basis.

Implementation as reported in the department's letter

The department's 1993 letter stated that CSEA had transmitted to DAGS a complete inventory list of equipment as of September 1993.

Results of our fieldwork

We found that CSEA is complying with the DAGS requirement of submitting inventory updates on a quarterly basis.

Recommendation from 1992 Financial Audit

We recommended the department fully implement our prior recommendation to establish formal procedures and timetables for auctioning or otherwise disposing of forfeited non-cash assets.

Implementation as reported in the department's letter

The department reported that it had established auctioning procedures and timetables. Two auctions were held as of November 1993. As to forfeited firearms, the department, in concurrence with the policy of the Honolulu Police Department, planned to destroy rather than sell the firearms. The department had to coordinate this with the Police Department and the Prosecutor's Office. It anticipated the concerted effort would occur sometime after November 1993.

Results of our fieldwork

In our follow-up, we found that the department is presently following a draft procedural guideline in liquidating non-cash forfeited property. It has contracted with an auctioneer to conduct four auctions per year. Auctions are being held quarterly.

Recommendation from 1992 Financial Audit

We recommended that the department periodically reconcile the Criminal Justice Division's records of forfeited cash with the Administrative Services Office's (ASO) records.

Implementation as reported in the department's letter

The department reported in its letter that since the Auditor's recommendation, it had reconciled the Criminal Justice Division's records with those of the ASO on a monthly basis.

Results of our fieldwork

We found that the records are being reconciled as reported by the department.

Recommendation from 1992 Management Audit

In 1992 we recommended that, as soon as possible, CSEA should recruit a certified public accountant to be its controller. The controller should be the deputy to the administrator of the agency and be responsible for designing and installing an adequate financial management system and an appropriate staffing plan.

Implementation as reported in the department's letter

In its 1993 letter, the department agreed with this recommendation and identified the assistant administrator position as the suitable position to incorporate the controller functions. The Legislature approved additional funding for the controller position during the 1993 legislative session. The department anticipated recruiting in late December 1993 or early 1994.

Results of our fieldwork

We found that CSEA hired an experienced certified public accountant to be its assistant administrator. The assistant administrator serves as the chief financial officer and assists in other functions such as planning, supervision, coordination, and evaluation.

Recommendation from 1992 Management Audit

We recommended that the CSEA continue its efforts to reconcile client accounts. (These were individual client accounts transferred from the Judiciary in 1986. Reconciliation was needed to ensure that account balances were correct.)

Implementation as reported in the department's letter

The department reported that it anticipated releasing an invitation for bid in February 1994 for reconciling client accounts.

Results of our fieldwork

We found that the reconciliation of old accounts is about to begin. A contractor has been selected and the contract will soon be signed.

**Recommendation
from 1992
Management Audit**

We recommended that the CSEA review the security of its computerized records and protect them from unwarranted alterations.

*Implementation as
reported in the
department's letter*

The department stated it would be very costly to modify the security system, but it planned to establish better control of the system.

Results of our fieldwork

We found that CSEA has improved its security over access to computerized records. Access is limited based on the need to know, and only certain high level CSEA personnel have access to the security code.

**Recommendation
from 1992
Management Audit**

We recommended in 1992 that the CSEA establish management controls over its case processing. It could begin by improving its aging report and by training and requiring staff to use automated calendaring.

*Implementation as
reported in the
department's letter*

The department reported that interim modifications to its automated system had resulted in more systematic case management. Also, staff were reassigned to work on the cases.

Results of our fieldwork

We found that certain interim modifications have resulted in more efficient case processing. Since 1992, CSEA's existing system was modified to: (1) identify cases that are 30 days delinquent, (2) access Department of Labor data on a weekly basis (primarily for location and employment status of parents responsible for paying child support), and (3) generate income withholding orders and other correspondence.

**Recommendation
from 1992
Management Audit**

We recommended that CSEA give its reorganization and personnel reclassification priority attention.

*Implementation as
reported in the
department's letter*

The department reported that CSEA's organization structure was reevaluated with federal requirements in mind. A preliminary reorganization and reclassification plan was completed. The department anticipated submitting it to the approving agencies by early 1994.

Results of our fieldwork

We found that CSEA has made reorganization and reclassification a priority. It has submitted a proposed reorganization and reclassification plan to the Department of Budget and Finance for approval.

CSEA will modify the plan to reflect changes in workflow and job responsibilities resulting from its new statewide automated system for child support enforcement, now being developed. The purpose of the system, called KEIKI, is to fully integrate and support all program functions. Implementation of KEIKI by October 1995 is anticipated.

**Recommendation
from 1992
Management Audit**

We recommended in 1992 that the CSEA consider developing informational videos to inform parents about the complexities of child support enforcement.

**Implementation as
reported in the
department's letter**

The department reported that CSEA, assisted by the department's Crime Prevention Division, was producing an informational video. Once completed, the video would be shown in the reception area at the agency.

Results of our fieldwork

We found that CSEA produced a twenty-minute informational video that informs the viewer of the types of services available and how to receive them. It also emphasizes the importance of establishing paternity when seeking child support. However, the technical language used in the video is not easily understandable, so the video is not being used as a general informational resource for persons accessing CSEA services. CSEA intends to reproduce the video using simpler lay terms understandable to the general public.

Conclusion

Both of our 1992 reports, *Financial Audit of the Department of the Attorney General* and *Management Audit of the Child Support Enforcement Agency*, focused on needed improvements with respect to the child support agency.

To succeed in its mission of collecting and distributing child support payments, CSEA needs strong financial management. Financial management means that the agency must have "internal controls"—that is, 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, as does

CSEA. In 1992, we found that CSEA was experiencing serious problems in its internal controls, financial management, and case management.

In our follow-up, we found that the department and the CSEA have made progress toward solving CSEA's problems. For example, a certified public accountant was hired as assistant administrator, old accounts are being reconciled, unidentified child support payments are being returned, data security has improved, and case processing is more efficient.

We conducted our 1992 management audit because the CSEA had a history of program fragmentation, management problems, and inadequate staffing. During 1990-92, CSEA had been the source of many complaints from both custodial and absent parents concerning problems in support checks, incorrect income tax offsets, incorrect wage withholding, and difficulties in gaining access to the agency.

Although progress is being made by CSEA to address audit deficiencies, problems still persist. Since our 1992 audit, additional complaints have been directed to the Office of the Auditor. A custodial parent complained of difficulties in determining the status of her support check. She charged CSEA with inefficiency and lack of responsiveness. An absent parent owing child support charged CSEA with poor file management, inefficiency, and continuing, incorrect notices of delinquency. The attorney for another absent parent alleged that CSEA sent demand letters to his client that contradicted court orders. We encourage both the attorney general and CSEA to continue in their efforts to improve operations—including successful implementation of the new automated system for child support enforcement.

On a different topic, our 1992 financial audit also made recommendations for improvement of the criminal forfeiture program under Chapter 712A, HRS, including establishing formal procedures and timetables for auctioning or otherwise disposing of forfeited non-cash assets and periodically reconciling the Criminal Justice Division's records of forfeited cash with the records of the department's Administrative Services Office. Our follow-up found that auctions are now being held and records of forfeited cash are being reconciled. These are the latest in a series of improvements in the department's forfeiture program since 1990.

