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## SOCIAL SERVICES

# Management of Undistributed Child Support Collections



## Parents wait for child support payments while state holds money and does not use all available resources to find parents

This audit reviewed why state officials held child support money owed to custodial and non-custodial parents and did not distribute it as soon as possible. As of February 2005, the state was still holding \$2.5 million in payments collected over a 7-year-period ending in 2004. This report is the third audit on how well state officials collect and distribute child support. The following highlights the findings of the most recent audit work.

State releases thousands to parents after audit tests	State officials released \$34,000 in child support due to parents after auditors showed no reason for the state to continue to hold it. Auditors reviewed 106 cases in which the state held child support payments for several reasons including: missing or expired addresses, intercepted tax refunds or payments received before they were due. (See page 5)
\$1.7 million held for missing addresses	Auditors found state officials did not take appropriate actions to release payments on \$116,000 held in 40 child support cases. On \$14,000, state officials did not use all available resources to find correct addresses for custodial parents before closing the cases. On another \$12,000 in open cases, state officials did not search for new custodial parent addresses. And on \$7,000, state officials only searched for new addresses for a month before closing the cases. On a number of other cases, errors in case management were made or state officials had searched for new addresses for a while, but then closed the cases with monies still on hold. (See page 10)
Other states use address change service to find parents	Illinois child support collection officials have used the U.S. Postal Service's automated "address change service" to forward mail, update changed addresses and remove undeliverable addresses from their database. (See page 11)
Undistributed child support not always top priority	State officials have not made releasing held child support a top priority. State officials have not implemented federal recommendations on ways to reduce undistributed child support, but instead rely on unreliable automated computer processes or policies to close particular cases. (See page 14)
Electronic support payment cards still not used here	In November 2004, state officials said they would start using electronic payment cards - on a voluntary basis - to reduce held child support because of invalid addresses and save the state mailing costs. As of April 2005, state officials still had no timeline for implementing an electronic card process. Auditors found other states saved substantial money and significantly reduced held child support balances when switching payments to an electronic card. (See page 20)

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**CLAIRE McCASKILL**  
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Honorable Matt Blunt, Governor  
and  
Members of the General Assembly  
and  
K. Gary Sherman, Director  
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As of February 2005, the Family Support Division (division) held approximately \$4.1 million in child support that had not been paid to custodial parents, non-custodial parents and the state. Of this amount, \$2.5 million has been collected from 1997 through 2004. Because of the importance in ensuring custodial parents receive child support owed to them, we focused review objectives on determining whether the division has effectively managed undistributed child support collections.

Additional action is needed to reduce undistributed child support collections held by the division. We found the division has approximately \$1.7 million on hold because of missing or expired payee addresses, as of February 2005. In addition, we found weaknesses related to identifying and accounting for undistributed child support collections. We have made recommendations to improve the division's management of undistributed collections.

We conducted our work in accordance with Government Auditing Standards issued by the Comptroller General of the United States. This report was prepared under the direction of Kirk Boyer. Key contributors to this report included Douglas Porting and Brenda Gierke.

A handwritten signature in black ink that reads "Claire McCaskill".

Claire McCaskill  
State Auditor

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## Abbreviations

CFR	Code of Federal Regulations
IV-D	Title IV-D of the federal Social Security Act
MACSS	Missouri Automated Child Support System
RSMo	Missouri Revised Statutes
SAO	State Auditor's Office

# Introduction

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From 2001 through 2004, the Family Support Division (division) collected an average of \$42.8 million per month. For various reasons, discussed later in this report, the division has not always distributed all collections as soon as possible. And, some collections, such as intercepted federal income tax refunds are primarily received during the first six months of the year, may be held for up to 180 days, causing seasonal fluctuations in undistributed collections. From 2001 through 2004, seasonal fluctuations in the amount of undistributed collections ranged from a high of approximately \$16.2 million in June 2001, when tax refunds had been intercepted and held, to a low of approximately \$3.8 million in January 2003, when intercepted tax refunds had been resolved and paid out. From 2001 through 2004, the division held an average of approximately \$8.8 million cumulative in undistributed collections each month.

The division administers the state's child support program, which includes collecting child support payments from non-custodial parents and sending payments to families. When a custodial parent requests child support services, or the family receives state welfare benefits, the division provides enforcement, collection and disbursement services under Title IV-D of the federal Social Security Act, and calls it a "IV-D" case. When there is no request for child support services, and the family receives no welfare benefits, the division provides collection and disbursement services only, pursuant to state statute. These cases are called "non IV-D" cases. The division processes both IV-D and non IV-D support payments.

State and federal laws require most child support payments be processed through one centralized office, and since 1999, the Family Support Payment Center (payment center) has contracted to operate the state disbursement unit in Jefferson City.<sup>1</sup> Payment center collections are deposited to the Family Support Trust Fund account (trust account). Some types of child support payments, such as intercepted federal income tax refunds are deposited directly to the State Treasurer's account (fund 610). The Division of Budget and Finance (Budget and Finance) is responsible for reconciling these bank accounts. After processing, the payment center and the State Treasurer disburse child support payments by check or electronic funds transfer.

All daily collections and payments are recorded on the Missouri Automated Child Support System (MACSS), the division's computerized case management and tracking system, where payments are credited to appropriate accounts. Collections are paid to custodial parents, refunded to

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<sup>1</sup> 45 CFR Section 302.32(a) and Section 454.530, RSMo 2000.

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the non-custodial parent, or recouped by the state unless certain circumstances prevent disbursement. When circumstances prevent disbursement, the monies are placed in a hold status. There are valid reasons for some payments to be held and not paid to families immediately. For example, intercepted federal tax refunds may be held for up to 180 days, payments will be held when no active<sup>2</sup> address is on file for the payee, or payments will be held temporarily pursuant to judicial order.<sup>3</sup> MACSS produces daily and monthly reports of held payments for management purposes.

In addition to maintaining case records and account balances, MACSS is capable of performing search activities to obtain parent information, such as addresses and employers, through an electronic exchange of information with other state and federal databases. This function is referred to as the computerized address search function in this report.

Prior to legislation establishing the state payment center, non-custodial parents sent child support payments to the state's circuit court clerks, where clerks deposited collections to local court bank accounts, recorded the payments on MACSS, and issued checks to families. Although circuit court clerks have not processed child support payments since 2001, some clerks still have undistributed child support cash.

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## Previous SAO Work

In 2002, we disclosed a number of management weaknesses in the division's enforcement and collection efforts.<sup>4</sup> The report disclosed Missouri collected no more than 20 percent of child support owed to 538,000 custodial parents and their children from fiscal years 1996 to 2001, leaving over \$1 billion uncollected. In that report, we recommended the division perform data matches, as necessary, with all available databases<sup>5</sup> to help locate parents. As of 2004, the division had not implemented this recommendation.

In another 2002 report, we found child support collections in the State Treasurer's account had not been reconciled to accounting records and recommended the division and Budget and Finance establish procedures to

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<sup>2</sup> An address is considered active if it is not missing or expired.

<sup>3</sup> See Appendix I for classifications of undistributed collections.

<sup>4</sup> Division of Child Support Enforcement Management and Oversight of Child Support Enforcement Actions, SAO, November 19, 2002, (Report no. 2002-112). In 2003, the Family Support Division was created and all authority, powers, duties, functions, records, and personnel of the Division of Child Support Enforcement was transferred to this division.

<sup>5</sup> Department of Economic Development – Division of Professional Registration license records, Department of Conservation license records, and Department of Revenue state tax records.

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reconcile child support records to cash in the State Treasurer's account.<sup>6</sup> Budget and Finance officials did not implement our recommendation, and have not reconciled the cash balance in the State Treasurer's account to accounting records.

In 2001, we evaluated the division's planning leading up to redirecting child support payments from circuit court clerks to the state payment center.<sup>7</sup> The report disclosed about one-third of redirect notices mailed to parents had incorrect addresses. Our report recommended the Director of the Department of Social Services ensure all addresses for active child support cases be corrected and all parents be notified of redirect procedures. However, the Department of Social Services has not ensured all addresses for active child support cases have been updated.

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## Scope and Methodology

We analyzed division reports of undistributed collections from January 2001 to August 2004 and identified for further study, categories of undistributed collections with large amounts of cash and/or significant fluctuations. We requested the division generate a listing of held payments, as of August 6, 2004, from which to select our case study population.<sup>8</sup>

To determine whether the division effectively managed undistributed collections and made payments as soon as possible, we selected 106 cases with the largest dollar amount of collections held for one or more of the following reasons. Funds had been held because support payments (1) had not been paid to families due to missing/expired addresses,<sup>9</sup> (2) had not been processed for various other reasons, and (3) had been received before due. Support payments on selected cases had been held for a minimum of three months. We did not randomly select test cases in order to avoid testing small dollar cases. Undistributed collections on test cases totaled approximately \$271,000, as follows:

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<sup>6</sup> State of Missouri Single Audit Year Ended June 30, 2001, SAO, May 16, 2002, (Report no. 2002-39).

<sup>7</sup> Division of Child Support Enforcement Transition to the Family Support Payment Center, SAO, September 22, 2001, (Report no. 2001-91).

<sup>8</sup> As of August 6, 2004, the division was holding approximately \$8.3 million on about 20,000 cases. Our study population on that date totaled approximately \$1.5 million held on nearly 7,000 cases.

<sup>9</sup> An address is missing when there is no current address on case records. An address is expired when a check has been returned by the U.S. Postal Service because the address on case records is no longer valid.

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- 60 cases with approximately \$169,000 on hold, each case having IV-D payments totaling at least \$2,068 on hold longer than six months because of a missing or expired address,
  - 35 cases with approximately \$85,000 on hold, each case having IV-D payments totaling at least \$1,000 on hold longer than three months for other reasons,<sup>10</sup> and
  - 11 cases with approximately \$17,000 on hold, each case having IV-D payments totaling at least \$750 on hold longer than three months because the payments had been received before the due date.

Division personnel told us they released approximately \$34,000 to families as a result of our testing.

We evaluated payment processing procedures and the adequacy of applicable division policy. We contacted field staff and central office personnel for explanations of actions taken or not taken.

We contacted IV-D agencies in Colorado, Illinois, Iowa, Kansas, Nebraska and Virginia to obtain information on methods used to manage and reduce undistributed collections. We also reviewed a 2001 federal report of best practices, and a 2003 federal oversight agency report related to undistributed collections.<sup>11</sup>

We manually searched Medicaid recipient records, Department of Economic Development - Division of Professional Registration license records, Department of Conservation license records, Department of Revenue driver license records, listings of state employees, and vendors doing business with the state to find addresses.

To determine whether the state performed adequate reconciliations of cash in the bank, we met with Budget and Finance officials responsible for reconciling accounting records with cash in the bank and reviewed records they maintain.

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<sup>10</sup> As of August 2004, the division held approximately \$85,000 on 35 test cases for reasons other than missing and expired addresses or collections received before due. Of the 35 cases, 19 had approximately \$50,000 on hold because intercepted tax refunds had been credited initially, but were later reversed because the payment had been misapplied or a refund had been appropriate, but had not yet been resolved. The remaining 16 test cases had approximately \$35,000 on hold. Division personnel took appropriate action to release held payments on 8 of the 16 cases.

<sup>11</sup> Analysis of State Undistributed Child Support Collections, Office of Child Support Enforcement, October 2001 and Child Support Report, Volume XXV, No. 11, November 2003.



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We contacted 11 circuit court clerks and compared bank account records to the division's records of undistributed collections for those accounts.<sup>12</sup>

We requested comments on a draft of our report from the Director of the Department of Social Services, and those comments are reprinted in Appendix II. We conducted our work between September 2004 and February 2005.

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<sup>12</sup> Located at Clay, Crawford, Franklin, Howell, Jackson, Jefferson, Lawrence, Newton, St. Charles, and St. Louis counties, and St. Louis City.

# Distributing Child Support to Families Must be a Priority

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The state has held substantial amounts of child support collections for extended periods of time. Child support has not been paid to families who need it, the state has not received funds it is owed,<sup>13</sup> and refunds have not been made to non-custodial parents. This situation occurred because division personnel have not always taken adequate action to (1) locate payees when addresses have been missing or expired, (2) turn over funds owed to the state, and (3) refund over-collections to non-custodial parents. Although the division has made periodic attempts to reduce collections being held, overall, the division has not made reducing undistributed collections an ongoing priority.

In addition to these problems, Budget and Finance has not adequately reconciled records of undistributed child support collections with cash in the bank, despite a prior SAO recommendation to do so. As such, there is little assurance the state is meeting its responsibility to safeguard and account for all child support cash on hand. In addition, the division's records of undistributed collections held in state and circuit court clerk bank accounts has been misstated because of computer malfunctions and errors by court clerks.

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## Division Holding Substantial Amounts of Child Support

The division has held a substantial amount of child support collections without distributing it to families owed child support, the state for reimbursement of cash assistance paid to families, and to non-custodial parents owed refunds.

As of February 5, 2005, division records showed the division held approximately \$4.1 million. Of that amount, the division collected \$2.5 million from 1997 through 2004.<sup>14</sup> Table 1.1 shows those collections, as of February 2005.

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<sup>13</sup> If a custodial parent receives cash assistance from the state when the non-custodial parent does not pay child support, the unpaid support, up to the amount of cash assistance, is due the state.

<sup>14</sup> The division collected the remaining \$1.6 million from January 1, 2005 to February 5, 2005, of which \$750,000 represented intercepted tax refunds.

**Table 1.1: Child Support Collected 1997-2004 Still Held in February 2005**

<b>Year collected</b>	<b>Amount held</b>
1997-1999	\$76,460
2000	40,237
2001	86,225
2002	227,721
2003	481,075
2004	1,548,218
<b>Total</b>	<b>\$2,459,936</b>

Source: Division records of undistributed collections.

Federal regulations require states to disburse payments within two business days of receipt.<sup>15</sup> However, the payment process stops and payments are placed in a hold status, preventing disbursement within this time frame when:

- the recipient's address is missing or expired,
- intercepted state and federal income tax refunds are held for 40 and 180 days, respectively, while the non-custodial parent may request a hearing or file an "injured spouse"<sup>16</sup> claim for spousal apportionment,
- payments are received before they are due and cannot be released until future obligations come due, or
- payments are held for other reasons.

Table 1.2 illustrates various reasons for the undistributed collections shown in Table 1.1.

**Table 1.2: Reasons Child Support Held**

<b>Reason on hold</b>	<b>Amount held</b>
Missing or expired address	\$1,679,456
Intercepted taxes	486,882
Received before due	189,169
Other reasons	104,429
<b>Total</b>	<b>\$2,459,936</b>

Source: Division records of undistributed collections.

As shown in Table 1.2, the division held about \$1.7 million (68 percent) of total undistributed collections because of missing or expired addresses.

<sup>15</sup> 45 CFR Section 302.32(b)(2).

<sup>16</sup> When a non-custodial parent and his/her current spouse file a joint tax return, the spouse may file a request for release of his/her portion of the tax refund.

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Division has not taken appropriate action to locate custodial parent addresses

Our review of 60 cases with child support on hold as of August 2004 disclosed the division had not taken appropriate action to release payments totaling approximately \$116,000 on 40 cases,<sup>17</sup> or an average of \$2,900 per case. For example, over \$14,000 in support had not been paid to custodial parents because the division had not used existing resources to search for the custodial parent's new address before closing the cases.<sup>18</sup> Other cases had not been closed, but \$12,000 owed to custodial parents had not been paid for over a year because the division did not search for new addresses. Another \$7,000 had not been paid to custodial parents because the division closed the cases after searching for new addresses for only one month.

Various other errors in case management caused approximately \$83,000 to remain in a hold status.<sup>19</sup> For example, a custodial parent requested the division, by letter, to close her case. The caseworker closed the case, but failed to update address records and did not send held child support totaling approximately \$3,000 to this family. After we discussed this case with division personnel, the division updated the address and issued a check to the custodial parent.

The MACSS system has been programmed to automatically initiate the computerized address search function to find a non-custodial parent's new address when the previous address is missing or expired. This step requires no staff involvement until a new address is found, at which point the address must be manually verified and updated on the MACSS system, if applicable. However, similar programming has not been done for custodial parents. Under prior division policy (revised during our review), manual action required to find a missing custodial parent address included (1) placing the custodial parent in the computerized address search function; (2) verifying new addresses, when necessary; and (3) updating computerized address records. Also, prior to revision, policy did not address required action for expired custodial parent addresses.

Division revises policy to close cases rather than search for parent addresses

Effective December 2004, the division's revised policy no longer allowed caseworkers to search for new custodial parent addresses using the computerized address search function. Instead, policy instructed caseworkers to close cases with missing or expired addresses, once other criteria had been met. The division's policy supervisor told us caseworker

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<sup>17</sup> The division took appropriate action to release payments on 20 cases.

<sup>18</sup> Closing a case moves it to a non IV-D status where computerized address search services are no longer provided.

<sup>19</sup> Approximately 70 percent of the \$83,000 was owed to custodial parents, 16 percent was owed to the state and 14 percent was owed to non-custodial parents.

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	<p>instructions to find a new custodial parent address when the division held child support had been removed from policy because the Central Locate Unit would perform this function.<sup>20</sup> However, this unit has dedicated only one person to finding custodial parent addresses, and the division does not plan to increase the number of employees performing this task.</p>
<p>Personnel not always aware of procedures to locate addressees</p>	<p>Discussions with personnel in two field offices disclosed they did not know they should manually place a custodial parent in the computerized address search function, or how to initialize this function, as required by prior policy. However, on five cases where other caseworkers had initiated MACSS' computerized address search function, the system found new custodial parent addresses, and the division distributed over \$16,000 to five families between August and December, 2004.</p>
<p>Address change service could help locate recipients</p>	<p>The Illinois Division of Child Support Enforcement implemented the U.S. Postal Service's automated "address change service" to forward mail, electronically update address changes, and remove undeliverable addresses from the automated child support database. An Illinois official told us the automated address change service had saved Illinois approximately \$93,000 in postage costs per year and about 2,500 man hours in 2003. The division was not familiar with this service, according to the Compliance Deputy Director. In responding to a draft of this report, the division questioned our reference to the service as "free" and we removed that terminology. While there are no contract fees or setup costs to implement the service, there is a nominal cost when new addresses are identified and provided electronically through this service. However, based on the experience of Illinois, a computerized address match with nominal costs would be more efficient than utilizing staff time and postage costs to identify and verify these addresses.</p>
<p>Collections owed to the state remained on hold</p>	<p>Further review of the 40 test cases disclosed \$11,000<sup>21</sup> on 4 cases had not been turned over to the state to recoup cash assistance previously paid to families. The division held approximately \$9,400 of this amount in the name of three deceased custodial parents because of missing or expired addresses, when, in fact, the money was due to the state. For example, on one case the custodial parent died in 2002, but the division had kept the case open to recoup cash assistance previously paid to the family. However, division personnel had not reviewed this case completely before closing it to further</p>

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<sup>20</sup> The Central Locate Unit is a team of division employees dedicated to finding and obtaining certain missing information on parents such as, social security numbers, addresses, birthdates and employers.

<sup>21</sup> As of August 2004.

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IV-D services. Without further action on this case, nearly \$4,000 in child support owed to state accounts will instead be transferred to the State Treasurer's Unclaimed Property Division after three years to be held for the custodial parent, according to central office personnel.

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**Some refunds to non-custodial parents also delayed**

Our review of 19 of the 35 selected cases with child support held for other reasons, disclosed the division had not taken appropriate action to pay out intercepted federal tax refunds totaling over \$31,000 on 12 cases, or about \$2,600 per case.<sup>22</sup> This situation occurred because caseworkers did not follow up to resolve the issues, recalculate unpaid child support (arrears), and release payments to custodial parents or refund over-collections to non-custodial parents once it had been determined refunds should be made. Specifically, the division did not refund over \$23,000 to 9 non-custodial parents and did not release over \$8,000 to 3 custodial parents, within 180 days as required by division policy.

For example, nearly \$6,000 in federal tax refunds had been intercepted over a 5-year period (1999 through 2003), from one non-custodial parent. The division performed a case review in 2002, and found the amount of arrears to be incorrect, but took no further action to correct the calculation. Twice in 2003 the non-custodial parent complained about incorrect arrears. The division finally recalculated the amount of unpaid support in April 2004, and refunded all intercepted taxes in August 2004. When a parent claims arrears are incorrect, the caseworker should investigate, according to the division's training personnel.

In another example, the division intercepted a \$1,917 tax refund in March 2000, paid \$1,778 to the custodial parent, and reimbursed \$139 to the state for welfare benefits previously paid to the family. However, division records of unpaid support were incorrect and the non-custodial parent was actually due a refund, as personnel discovered in April 2004. At that time, personnel reversed the original payment transaction on accounting records and refunded \$200 to the non-custodial parent. In September 2004, not realizing the custodial parent had already received payment from this intercepted tax refund in 2000, central office personnel mistakenly paid the remaining \$1,717 to the custodial parent a second time. After we contacted the field office supervisor in January 2005, the division obtained a repayment agreement to recoup the \$1,778 overpayment to the custodial parent. If the division cannot recoup the overpayment from the custodial

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<sup>22</sup> Division personnel took appropriate action to refund/release approximately \$18,000 on 7 cases.

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parent, taxpayer funds ultimately cover the shortfall, according to the Budget and Finance Deputy Director of Operations.

MACSS is programmed to automatically hold federal tax refunds for up to 180 days, after which the collections are automatically released to the custodial parent.<sup>23</sup> However, a tax refund, or any type of child support payment, can be "backed-out" and held when personnel misapply the payment, or when the non-custodial parent is due a refund.

The division's central office receives reports showing payments backed-out, which need manual intervention to complete processing. But, central office employees work only 1 to 2 hours per day on held payments listed on the reports, and had not prioritized which payments to work first, according to the Financial Resolutions Section Assistant Deputy Director. Instead, central office personnel worked down the list of payments assigned to them, with no requirements or timeframes to complete the work. Revisions to division policy, effective December 2004, now require central office staff to resolve backed-out payments within 15 calendar days of the back-out date. In April 2005, the Financial Resolutions Section Assistant Deputy Director told us division personnel were developing reports to assist the caseworkers in meeting the new timeframes, as well as management reports to track backed-out payments that are still unresolved after 15 days.

**Incorrect balances resulted in division intercepting tax refunds**

The division inappropriately took enforcement action and intercepted non-custodial parent tax refunds, totaling nearly \$28,000, because of incorrect balances on 10 of 19 cases we reviewed. These cases represented cases where child support had been held for other reasons.

Division personnel took appropriate action to refund \$12,000 to non-custodial parents payments within 180 days on 4 of the 10 cases, in accordance with division policy. However, for 6 other cases, division personnel did not follow up or did not take appropriate action to refund approximately \$16,000 to non-custodial parents within 180 days. For example, on one case, personnel temporarily lost the form used for requesting a refund when the field office moved to a new location, delaying the refund for over a year.

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<sup>23</sup> If the filing status is joint, federal tax intercepts may be held for 180 days to give the non-custodial parent's spouse an opportunity to request a spousal apportionment. If the filing status is single, federal tax intercepts may be held for 30 days to give the non-custodial parent an opportunity to request an Internal Revenue Service administrative review.

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The Compliance Deputy Director told us the division took several steps to purify financial account balances prior to converting case records to MACSS in late 1998, and the deputy is confident when those balances are found to be incorrect, it will be because of actions taken, or not taken, by division employees since conversion. However, in the example on page 12 where tax refunds had been intercepted for five years, the division intercepted the first tax refund in May 1999, only months after conversion to the new system when account balances should have been correct.

Child support received before due also held

Payments can sometimes be received before due. Depending on the circumstances, these overpayments may be allowed to be held for future obligations or may need to be refunded to the non-custodial parent. Our review of 11 cases, involving about \$17,000 collected before due, disclosed the division had not taken appropriate action to refund when applicable approximately \$9,200 to 4 non-custodial parents. Child support received before it is due can be the result of an employer withholding and remitting too much money. It can also occur when the division has not decreased the withholding amount, once the balance of unpaid support has been satisfied. For example, on one of our test cases, the amount received in March 2004 through an income withholding order included current support plus an amount to apply to the unpaid balance. The unpaid balance had already been satisfied, but the amount received, which exceeded the current obligation, had not been refunded as of August 2004.

At least one of the four cases had been listed on a report used to monitor and resolve overpayments, according to central office personnel. However, personnel did not resolve and refund this overpayment for over six months. The other three cases had been held up to nine months after collection when they should have been refunded in a more timely manner.

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**Undistributed  
Collections Not  
Always a High Priority**

With the exception of two special projects, the division has not placed a high priority on the assessment and management of undistributed collections. The division also has not implemented federal oversight agency recommendations designed to reduce and manage undistributed collections. Instead, the division has established policy to close cases when possible, and plans to rely on automation to reduce the growth of undistributed collections.

Historically, the division has devoted minimal resources to addressing the problem of undistributed collections. According to the Compliance Deputy Director, after the division converted case records and management activity to the MACSS system in late 1998, the division focused on getting support orders established and providing enforcement services. Undistributed collections were not a priority until the Governor's Missouri Results



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Initiative project in 2001. As part of the project, a division work group devised various reports which are now used in limited undistributed collections work done by central office personnel. Before the project, the division did not generate management reports of held payments for monitoring or tracking, according to the Financial Resolutions Section Assistant Deputy Director.

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No sustained efforts to release held funds

Although the division has conducted two special projects, which resulted in some reduced child support held, no sustained effort to resolve and release undistributed collections has occurred. The division's Central Locate Unit conducted a special project to find addresses for custodial parents where the state held child support. From August 2001 to April 2003, about five employees worked to manually locate custodial parent addresses. The division did not track the amount of support paid to families during this project, but in fiscal year 2003 the Central Locate Unit located such addresses for an average of 438 families each month. When addresses are located and verified as valid, held child support is paid out. In contrast, held child support paid to families dropped significantly after this special project ended. With usually only one employee assigned to look for new addresses for custodial parents, the Central Locate Unit found addresses for an average of 85 families each month in fiscal year 2004, an 81 percent decrease from fiscal year 2003.

In the 2001 Missouri Results Initiative project, a work group of division employees led by a representative from the Governor's office worked exclusively on resolving held payments for any reason.<sup>24</sup> Reasons included missing and/or expired addresses and focused on payments collected in 1999. However, the division did not maintain records documenting the amount of collections paid to families.

The division has not permanently assigned employees to work exclusively on releasing held child support payments. Since December 2003, one employee in the Central Locate Unit manually searches for new addresses for custodial parents who have held payments. This employee does not work to resolve and release payments being held for other reasons. The manager of the Central Locate Unit told us the division has no plans to change procedures or assign more employees to this task. About 14 employees in the central office work up to two hours each day to release payments in several other hold classifications, such as when payments are backed out after being credited initially, or are held as the result of court action. The Compliance Deputy Director told us there are no plans to increase the

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<sup>24</sup> The Missouri Results Initiative project started in August 2001 and ended in April 2002.

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number of central office employees or the amount of time spent working to release held payments.

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Federal recommendations not implemented

In 2001 the federal oversight agency, the Office of Child Support Enforcement, issued a report making recommendations which had been designed to assess and more effectively manage undistributed collections.

The Office of Child Support Enforcement and the National Council of Child Support Directors<sup>25</sup> "jointly determined that undistributed collections is an issue of the highest importance within the child support community, as support collected will only benefit a family if it actually reaches that family."<sup>26</sup> The Office of Child Support Enforcement released a report in October 2001 on the problem of increasing undistributed collections nationwide and included recommendations to states on ways to reduce and manage undistributed collections. Some of those recommendations included:

- Top management should focus attention on the assessment, management and monitoring of undistributed collections-related issues, and work in partnership with federal regional staff to set undistributed collections goals and monitor progress made to reduce and manage undistributed collections.
- Computerized systems should be programmed to begin computerized address search activity for a custodial parent whenever the address is invalid and the system shows a payment on hold.
- Staff should be devoted to reducing and preventing undistributed collections accumulation.

No target goal established

Missouri has not established a target goal for undistributed collections. The Compliance Deputy Director told us this is because the division is "watching" the issue of developing acceptable levels of undistributed collections on the national level. However, Missouri's liaison with the federal oversight agency told us he believes it is unlikely the federal agency will ever set a target goal for undistributed collections because states do not report categories of undistributed collections uniformly, making meaningful comparisons difficult.

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<sup>25</sup> Missouri's IV-D Child Support Director is a member of National Council of Child Support Directors, a national organization of State IV-D Child Support Directors established to promote the development of legislation and/or policies which will have a positive effect upon the Title IV-D Child Support Program.

<sup>26</sup> Child Support Report, Volume XXV, No. 11, November 2003.

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The federal oversight agency cited best practices in undistributed collections in the 2001 report. A child support official in Virginia stated they believe setting goals, and monitoring and measuring progress, is necessary to effectively manage and reduce undistributed collections. Virginia set an undistributed collections goal based on the previous month's collections, less federal tax intercepts needing spousal apportionments. When Virginia consistently met or stayed below the goal, officials lowered the targeted rate. A Virginia official told us "what gets measured gets done." This official told us they took on this challenge without help or guidance from the federal office because the level of undistributed collections had been unacceptable.

As discussed on page 10, the division has not programmed MACSS to automatically begin address search activity for a custodial parent whenever the address is invalid and the system shows a payment on hold. On the contrary, new policy instructs caseworkers to initiate case closure when an address is invalid.

Finally, division personnel told us they have no plans to devote additional staff to reducing and preventing the accumulation of undistributed collections.

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## Closing cases benefits the state

Division officials told us closing cases to further IV-D services benefits the state because the division does not have to report child support held on closed cases to the federal oversight agency. In other words, closing cases benefits the state for reporting purposes, even though held payments had not been paid to families. In addition, keeping cases open when enforcement is not taking place could adversely impact the amount of federal incentive payments the state receives, according to the Compliance Deputy Director. However, the division has not performed a cost-benefit analysis to determine how much, if any, federal incentive payments might be adversely impacted by keeping these cases open to search for new addresses to help pay the money over to families.

Our test of 60 cases with payments on hold because of missing or expired addresses, disclosed collections totaling approximately \$59,000 on 24 of those cases had not been paid to custodial parents, the state or non-custodial parents before the division closed these cases to further services. On these cases, the division owed approximately \$45,500 to custodial parents, \$5,500 to the state, and \$8,000 which should have been refunded to non-custodial parents.

Division policy states cases should be closed to services when any one of 12 case closure criteria has been met, even if those cases have support

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payments on hold because of a missing/expired address. This policy is based on federal criteria, where closure is optional, not required. In addition, the federal criteria does not address closure when child support collections are being held.

According to division officials, even though a IV-D case is closed to services, held payments will automatically be paid to families without further staff involvement when a new address is recorded on MACSS. Therefore, according to division officials, closing cases has not obstructed or delayed the disbursement process. However, the division has not permitted parents on closed cases to be placed in the computerized address search function to find a new address, thus limiting the potential for new addresses to be located, and has not provided address verification or other services because the associated costs are not eligible for federal reimbursement. Consequently, once a case is closed to services, caseworkers make no further active efforts to pay undistributed child support collections to families.

As of February 2005, the division reported approximately \$1.2 million being held for cases that do not receive IV-D services, which includes cases previously receiving IV-D services that the division closed because the recipient's address could not be located, and cases never receiving IV-D services. Furthermore, division personnel could not identify how much of the \$1.2 million belonged to cases closed to further services because they could not locate the recipient, or how much is for cases that never received IV-D services.

Auditors located parents owed child support, but division refused to take action

We manually searched six other state databases<sup>27</sup> to find addresses for 31 parents with held support payments where there was no active address recorded on MACSS. We found addresses for 21 parents and requested the division verify the validity of addresses. Of the 21 addresses, the division had previously verified 12 as invalid. However, 9 of the 21 represented addresses the division did not previously have. The Compliance Deputy Director told us the division intended to follow up and verify new addresses for 4 of the 9 parents (owed approximately \$17,500) still receiving IV-D services. However, the division declined to follow up and verify the validity of new addresses for 5 of the 9 parents (owed \$22,500) because the cases had been closed to further services, and the costs of performing this work

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<sup>27</sup> Medicaid recipient records, Department of Economic Development - Division of Professional Registration license records, Department of Conservation license records, Department of Revenue driver license records, state employees, and vendors doing business with the state.

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	<p>would not be eligible for federal reimbursement, according to the Compliance Deputy Director.</p>
<p>Other states keep cases open</p>	<p>Iowa, Kansas, and Nebraska IV-D program officials told us they keep cases open to further IV-D services when support payments are on hold because of missing or expired addresses. For example, Kansas keeps these cases open so costs associated with address search activities will be eligible for federal reimbursement. Nebraska's Child Support Enforcement Finance Director told us Nebraska keeps the cases open because collections may continue to satisfy the support order. After payments have been on hold for 3 years in Nebraska, the monies are turned over to the state as program income. If the recipient comes forward to claim these monies after turnover, it is paid to them from the program income fund.</p>
<p>Computer malfunctions may impede plans to reduce growth of undistributed collections</p>	<p>The division plans to rely on automation to reduce the growth in future collections held, even though computer malfunctions have adversely impacted held payments in the past. The Program and Policy Deputy Director told us division plans for reducing the growth of undistributed collections in the future include:</p> <ul style="list-style-type: none"> <li>• automating, when possible, refunds of over-collections,</li> <li>• shortening the time the division holds intercepted federal tax refunds,</li> <li>• shortening the time the division holds funds before they are turned over to the State Treasurer's Unclaimed Property Section, and</li> <li>• implementing electronic payment cards.</li> </ul>
<p>No timeframe for automating refunds</p>	<p>The Financial Resolutions Section Assistant Deputy Director told us the highest priority is automating MACSS to ensure refunds are made automatically, but could not provide a timeframe for completion of this effort. Currently, the process for refunding over-collections requires manual action.</p> <p>The Internal Revenue Service initiated shortening the time the division holds intercepted federal tax refunds, and beginning in February 2005, MACSS places these collections in a hold status for 30 days, instead of 180 days, if collections are received with a spousal apportionment already completed. However, if intercepted federal tax refunds have been backed out because the payment had been misapplied, or the balance of unpaid child support had been incorrect and a refund had been due, the tax refund may be held longer than 30 days, according to the Financial Resolutions Section Assistant Deputy Director.</p>
<p>Will transfer to unclaimed property after 90 days</p>	<p>The division plans to shorten the time before transferring funds to the State Treasurer's Unclaimed Property Section from 3 years to about 90 days by</p>

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concentrating efforts to locate a new address, then closing cases based on federal criteria and transferring immediately, if unsuccessful, according to the Financial Resolutions Section Assistant Deputy Director. This official told us the division plans to employ search techniques and methods used in the Central Locate Unit special project to find new addresses. However, the division does not know whether this is a realistic plan or if 90 days will be sufficient time to find new recipient addresses.

Electronic payment cards  
not yet implemented

The payment center made a presentation to the division in June 2004 encouraging the state to begin using an electronic payment card to deliver child support to families. According to the payment center's director, using a card to deliver child support electronically will decrease costs for both the payment center and the state. In November 2004, the division's Program and Policy Deputy Director told us the division decided to start using an electronic payment card, on a voluntary basis, and expects the card will greatly reduce future payments held because of invalid addresses. However, as of April 2005, nearly a year after the payment center's presentation and six months after this official told us the decision had been made, the division still could not provide a timeline for implementation.

We contacted three states that use electronic cards to deliver child support payments rather than mailing checks and obtained comments on their experiences with electronic cards. Iowa implemented the card in May 2003 and saved at least \$35,000 per month in check issuance costs.

Approximately 98 percent of Iowa's child support families receive child support electronically. Nebraska started offering parents the card in 2004, and although not fully implemented, undistributed collections due to a missing address decreased \$500,000 during the first nine months. Colorado started using a card in January 2002, and by September 2004, 65 percent of Colorado families received child support electronically, up from 30 percent since January 2002. In contrast, Missouri paid approximately 29 percent of child support in year 2004 electronically (direct deposit to recipient's bank account), and mailed 2.4 million checks to parents for the remaining support.

Electronic cards can help reduce future undistributed collections because disbursing support payments through electronic cards does not require maintaining current custodial parent addresses, according to the Program and Policy Deputy Director. However, it will likely have less impact on current undistributed collections because the division will be unable to notify all parents about this new option since the division does not have a valid custodial parent address for many cases, according to the Program and Policy Deputy Director. As previously discussed on page 5, the division had a problem before with notifying parents of changes in procedures because of invalid addresses. In 2001, when we found nearly one-third of redirect

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Automated functions have not always worked as intended

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notices<sup>28</sup> had been returned by the U.S. Postal Service because of invalid addresses, we recommended the division ensure all addresses for active child support cases be corrected so all parents could be notified of changed procedures.

Automated functions the division relies on to release payments to families have not always worked as intended. For example, division personnel programmed MACSS to automatically issue checks to parents with child support on hold after obtaining new addresses from other state databases using the computerized address search function. However, the programming component that generates checks has not always worked when new addresses were obtained from two particular state databases. For example, on two cases reviewed, we found child support totaling nearly \$5,500 had not been paid to custodial parents when valid addresses had been obtained from those databases.

The Compliance Deputy Director told us when the division becomes aware of "system glitches", they are corrected or placed on a work list, but the problem must be reported. However, according to computer personnel, the division had been aware of the non-functioning programming component affecting new addresses obtained from one of the state databases since mid-2004. Personnel did not correct the malfunction until February 2005, after we questioned why the division waited so long to address this problem. The division's computer personnel did not know how long these automated functions had not been working as intended, how much child support had not been paid to families as a result of the problem, or how many families might have been affected.

As a result of our request to investigate non-working automated functions, computer personnel discovered an additional system glitch they believed had been corrected in 1999. This malfunction caused checks to not be re-issued to any new address obtained using the computerized address search function, when a previously issued check had been voided because of a bad address. The division should have been aware of this problem because MACSS generates regular reports of these types of held payments for the central office, according to computer personnel. The Financial Resolutions Section Assistant Deputy Director told us the central office had not been suspicious when payments continued to appear on reports because timing differences between receiving the new address and voiding a check can cause this problem to occur. The November 2004 central office report

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<sup>28</sup> Letters were mailed to parents notifying them to send child support payments to the payment center instead of circuit court clerks.

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disclosed the division had held 854 payments totaling over \$112,000, where checks had been previously voided because of a bad address, even though a verified address had been recorded on MACSS. Computer personnel told us these malfunctions preventing automatic check issuance had been corrected in February 2005.

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## No Bank Reconciliations

Budget and Finance has not reconciled accounting records of undistributed child support with cash in the State Treasurer's account (Fund 610), despite a prior SAO audit recommendation to ensure bank reconciliations be done and discrepancies investigated. In addition, only two reconciliations of undistributed child support to cash in the trust account have been attempted in the five years the account has been open. As of August 6, 2004, accounting records showed total undistributed child support totaling approximately \$8.3 million had been collected and deposited to these accounts, but not paid to families. However, cash in Fund 610 totaled over \$25 million and cash in the trust account totaled nearly \$17 million, on that date.

Budget and Finance co-mingles monies for various Department of Social Service programs in Fund 610 and cannot identify how much of the balance belongs to the child support program and how much belongs to other social service programs. Although the division generates a summary report of undistributed collections for Fund 610, Budget and Finance officials have not used this report to reconcile the cash balance to accounting records.

The trust account opened in 1999 when the payment center started collecting and disbursing child support. However, the division has not generated summary reports of undistributed collections for the trust account. Budget and Finance attempted to reconcile this account in 2003 and 2004, but did not investigate or resolve discrepancies. In both years, cash in the trust account exceeded division records of undistributed collections. Budget and Finance's Deputy Director of Operations told us the division intends to reconcile this account annually, rather than monthly or quarterly, since it is so complicated and complex.

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## Undistributed Collections Misstated

Division records of undistributed collections held in state bank accounts and circuit court clerk bank accounts have been misstated. This misstatement occurred, in part, because of a known malfunction of the computer program processing intercepted federal tax refunds, and recording errors by court clerks.

### Computer malfunctions

A malfunction in the computer program processing intercepted federal tax refunds caused \$10,000 in support payments to be reported as held on four cases reviewed, when it had actually been paid to families or the state. The



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Financial Resolutions Section Assistant Deputy Director told us the division is aware of this problem and there have always been "quirks" in the program, but the deputy would not characterize it as a long-standing problem. However, on two of the four cases with this problem, nearly \$4,500 had been paid to families, or turned over to the state in 1998, prior to implementing MACSS. The division does not know how many cases have been affected, or how much undistributed collections has been overstated, as a result of the malfunction. The Compliance Deputy Director told us, in February 2005, computer programming personnel started conducting a complete overhaul of the program to correct these problems.

#### Court clerk errors

Court clerk errors caused some records of undistributed collections to be overstated. Division records showed approximately \$152,000 should have been in various circuit court clerk bank accounts on August 4, 2004. However, this amount has been misstated because clerks we contacted had substantially more, or less, cash in the bank than division accounting records indicated on that date. For example, eight clerks told us they had closed child support bank accounts, but division records showed undistributed collections totaling \$34,500 for these clerks. Two other clerks provided bank statements showing a total of \$478,370 on hand, however, division records showed undistributed collections totaling \$90,258 on that date. Bank records for only 1 of 11 clerks agreed with division records of undistributed collections. One court clerk employee told us when transferring child support cash to the State Treasurer's Unclaimed Property Section, he had not recorded the transfer on the computerized system, which caused accounting records to overstate actual cash on hand.

Division personnel had not been aware of discrepancies between division records and clerk bank account records until our review. The Compliance Deputy Director told us the division would investigate division records for the ten courts where we found discrepancies and make corrections. This official suspects this problem affects many clerks who have closed bank accounts.

#### Non-cash credits overstate held child support

Case testing disclosed two court clerks incorrectly recorded non-cash credits for IV-D cases on MACSS, causing the amounts to be reported as undistributed cash.<sup>29</sup> State law<sup>30</sup> requires the division to record non-cash credits to IV-D cases on MACSS and circuit clerks to record these credits on non-IV-D cases.

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<sup>29</sup> Non-cash credits are a way to give the non-custodial parent credit for direct or in-kind payments made to the custodial parent.

<sup>30</sup> Section 454.432.1, RSMo 2000.

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## Conclusions

While the division collected an average of \$42.8 million per month from 2001 through 2004, the division also held a monthly average of \$8.8 million in cumulative undistributed collections during this time period. As of February 2005, approximately \$1.7 million had still not been paid to families because the division did not have current recipient addresses. Although two special projects in 2001 yielded some positive results, the lack of adequate management controls and monitoring prevented the division from effectively assessing and managing undistributed collections. This situation is not likely to improve unless the division makes undistributed collections a priority and takes an active role in efforts to reduce undistributed collections by implementing federal oversight agency recommendations.

The division continues to under-utilize existing resources because MACSS has not been programmed to automatically search for new custodial parent addresses. We agree with the federal oversight agency recommendation to program computerized systems to automatically search for new custodial parent addresses. Programming MACSS to automatically search would likely result in more child support going to families. In addition, the division has not expanded MACSS data matches to other available databases as previously recommended, limiting the potential effectiveness of the computerized address search function.

Non-compliance with established policies has resulted in the division holding collections owed to the state and intercepted tax refunds owed to parents for long periods of time, and unnecessarily burdens families. Failure to make certain the balance of unpaid child support owed by non-custodial parents is correct has resulted in inappropriate enforcement activity when the non-custodial parent had no unpaid balance. Ensuring division personnel are adequately trained to turn over collections owed to the state promptly frees up those monies to be used for other purposes, and promptly refunding over-collections eases the burden on non-custodial parents.

We agree with federal oversight agency recommendations designed to more effectively assess and manage undistributed collections, which we believe would provide management with a structured, organized strategy to address the problem of undistributed collections. Setting target goals, and monitoring and measuring progress are recommended ways to address the problem.

The division believes closing cases to further services because of missing addresses benefits the state by improving statistics reported to the federal oversight agency. However, not searching for addresses with existing resources, so payout can be made, deprives families of child support money.

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Automation to shorten the time some types of payments remain in a hold status can be good, but it will not shorten the time intercepted tax refunds remain in a hold status when payments are backed-out and not processed further. In addition, during the course of our audit, division officials told us they plan to close cases after searching for addresses for 90 days and transfer funds to the State Treasurer's Unclaimed Property Section. In responding to a draft of this report, the division now plans to take such actions after 120 days. However, based on problems the division has had in locating new addresses (as discussed on page 10 and 11), we do not believe the division would be exercising due diligence by searching for new addresses for only 120 days before transferring held monies to the State Treasurer, considering the limited resources the division dedicates to this task. Further, we believe MACSS' search capabilities to find new addresses are likely to be more successful than the limited methods used by the State Treasurer. (See pages 4 and 10 for additional comments.) We believe the division has the responsibility to use existing resources to search for new addresses and attempt to disburse child support collections.

Implementing electronic payment cards will likely reduce the amount of child support on hold in the future because of invalid addresses. Further delays in implementing card use likely increases the accumulation of undistributed collections. However, without valid mailing addresses, the division can not offer the electronic payment card to the parents who already have nearly \$1.7 million on hold because of invalid addresses.

Failing to correct computer system malfunctions, when identified, adversely affects families because the division relies on automated functions to issue checks when new addresses are obtained and recorded. If the division closes cases where malfunctions have prevented automatic check issuance to active addresses, families are unnecessarily deprived of child support collections the division is holding. Malfunctions also contribute to mistated undistributed collections when child support sent to families continues to be reported as held. Ultimately, uncorrected computer malfunctions cause a misrepresentation of the extent of the problem and hampers division efforts to effectively assess and manage undistributed collections.

Until accounting records are corrected to reflect the actual amount of held payments, the division cannot effectively assess or manage undistributed collections. In addition, the lack of controls over child support cash on hand greatly increases the opportunity for fraud or misuse of public funds. The division has not generated accurate summary reports of undistributed collections, and Budget and Finance has not performed adequate

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reconciliations of cash in the bank. As such, there is no assurance the state is meeting its fiduciary duty to safeguard and account for child support funds.

Allowing court clerks continued access and ability to alter financial records, beyond their prescribed duties and contrary to state statute, has contributed to the misstatement of total undistributed collections.

Other states have reduced total undistributed collections and saved costs by implementing cost-effective measures. The address change service offered to mailers at no cost by the U.S. Postal Service, could reduce or eliminate the current manual process of verifying new addresses and updating case records. Using an electronic payment card to deliver child support instead of issuing checks would have saved the state some portion of the costs of issuing 2.4 million checks to parents in 2004. Those cost savings could be used to offset the cost of devoting additional resources to manage and reduce other types of undistributed collections.

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## Recommendations

We recommend the Director of the Department of Social Services require division officials to establish a higher priority and sustained efforts to disburse undistributed collections by:

1. Maximizing existing resources by reprogramming MACSS to automatically search for custodial parent addresses and keeping all cases with payments on hold open longer so MACSS' computerized address search functions can be utilized. In addition, previous recommendations to expand MACSS ability to match with other available databases should be implemented to maximize the potential effectiveness of the computerized search function. The division should investigate services available from the U. S. Postal Service to automate the process of updating address changes.
2. Setting goals and establishing and using additional management reports to focus staff efforts on cases needing timely follow-up and to monitor progress in reducing undistributed collections.
3. Ensuring division personnel are adequately trained and knowledgeable of division policy for resolving undistributed collections and making refunds in a timely manner. This should include a clear understanding of the importance of making certain arrears balances are correct and inappropriate enforcement activity does not occur.

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4. Ensuring records of undistributed collections are correct and accurately reflect the amount of child support payments in a hold status by:
- limiting the circuit clerks' ability to alter financial records to those duties required by statute,
  - promptly correcting computer system malfunctions when they are identified to ensure automated functions the division relies on work as intended, and
  - working with the Division of Budget and Finance to develop summary reports of undistributed collections to be reconciled with cash balances at least periodically to ensure records are in balance and sufficient cash is available to pay all liabilities.
5. Establishing a plan to implement a voluntary program to deliver child support payments using an electronic payment card, which could reduce future payments being held due to missing or invalid addresses.

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## Agency Comments

See Appendix II for agency comments and our evaluation.

# Classifications of Undistributed Collections

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Division policy section V, Chapter 5 defines classifications of undistributed collections and methods of release. The following excerpts of this policy identify the most common types of held payments.

1. Backed Out Receipt – A payment that was applied to accounts but later reversed by the division or circuit clerk because it was misapplied, such as being posted to the wrong order or case, or when a refund is appropriate, is automatically placed on hold. A payment can be reversed before or after disbursement has been made. Division personnel or circuit clerk staff must manually release these payments.
2. Distribution Error Due to Certification – A payment is automatically placed on hold by MACSS when a non-custodial parent has multiple cases or orders and there is no active income withholding order or voluntary income assignment in effect. Payments may be from an employer, unemployment compensation benefits, state and federal income tax refunds, or due to a lien on assets. Division personnel must take manual action before release or refund of these payments.
3. Held Due to Enforced Futures – A payment is automatically placed on hold by MACSS when the payment exceeds the amount owed, and it was the result of intercepted income tax refunds, an administrative offset, or unemployment compensation withholding. Division personnel must manually release these payments.
4. Held Due to Futures – A payment is automatically placed on hold by MACSS when the payment exceeds the amount owed, and it was the result of employer withholding, an out of state payment, or a non-enforcement source, such as another party. MACSS will automatically release, distribute and disburse payments when future payments come due, unless the non-custodial parent requests a refund, which requires a manual release. Some of these holds are simply the result of payment timing and do not require action.
5. Distribution Error Due to Order Data – A payment is automatically placed on hold by MACSS when the order or case is closed, or MACSS cannot complete processing because of a distribution override on the case/order. Division personnel must take action to resolve the problem and manually release or refund these payments.
6. State Tax Joint Hold – A payment is automatically placed on hold until December 31, 2199 by MACSS when it is an intercepted state income tax refund and the tax return filing status is joint. Division staff must complete a spousal apportionment based on information received by the

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## Appendix I

### Classifications of Undistributed Collections

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Department of Revenue, manually refund the spouse's portion of the intercept, and manually release or refund the balance.<sup>31</sup>

7. State Tax Normal Hold – A payment is automatically placed on hold by MACSS when it is an intercepted state income tax refund and the tax return filing status is single, or joint on a current-assistance case. After 40 calendar days the payment is automatically released unless a hearing is requested by the non-custodial parent. Release may be automatic or manual after the hearing results.
8. Address Hold – A payment is automatically placed on hold by MACSS when there is not an active recipient address on record. MACSS automatically releases the payment when an active address is recorded.
9. Void and Hold – A payment is automatically placed on hold when a disbursement instrument (check or electronic disbursement transaction) is voided due to a bad address for the recipient, a closed bank account, an un-cashed disbursement check over a year old, or a distribution problem identified prior to the check being mailed. For payments voided due to a bad address for the recipient, MACSS automatically releases the payment when a new address is recorded. For all other reasons, manual action is required to resolve and release the payment.
10. Support Order Hold – A payment is automatically placed on hold when division or circuit clerk staff manually place a hold to prevent disbursements to all recipients for a specified order of support. This may be the result of court action; however, the hold may be placed for other reasons if the division wishes to prevent disbursement when there are unresolved problems on the case. These held payments require manual release by division personnel.
11. Internal Revenue Service Tax Hold Joint-No Hearing – An intercepted federal income tax refund is automatically placed on hold for 180 days. If a spousal apportionment occurs after 30 days, MACSS automatically releases the payment; otherwise, it will automatically release the payment after 180 days. If the non-custodial parent does not intend to file an

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<sup>31</sup> Effective January 1, 2005, MACSS automatically places a state income tax refund intercept on hold if the tax return filing status is single, or if the tax return filing status is joint, for 40 days. If, within the 40 day holding period the non-obligated spouse requests apportionment or the non-custodial parent requests a hearing, division personnel will extend the release date until December 31, 2199.

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injured spouse claim, division staff may manually release the payment after 30 days.<sup>32</sup>

12. Internal Revenue Service Tax Hold Joint Hearing – An intercepted federal income tax refund is placed on hold when the non-custodial parent requests a hearing. Division personnel must manually release or refund these payments. If division personnel fail to release or refund, these payments remain on hold indefinitely.
13. Internal Revenue Service Normal Hold – An intercepted federal income tax refund is automatically placed on hold by MACSS for 30 days when the tax return filing status is single. MACSS automatically releases the payment if the non-custodial parent does not request a hearing; however, division personnel must manually release if a refund is appropriate.
14. Internal Revenue Service Normal Hold Hearing – An intercepted federal income tax refund is placed on hold when the non-custodial parent requests a hearing. Division personnel must manually release or refund these payments. If division personnel fail to release or refund, payments remain on hold indefinitely.

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<sup>32</sup> Effective February 4, 2005, MACSS places a joint federal income tax refund to be disbursed to a custodial parent on hold for 30 days if the collection is received with a spousal apportionment indicator, or for 180 days if the collection is received without a spousal apportionment indicator.



# Agency Comments and Our Evaluation



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July 5, 2005

Honorable Claire McCaskill  
Missouri State Auditor  
P.O. Box 869  
Jefferson City, MO 65102

Dear Ms. McCaskill:

Below is the Department of Social Services' response to your recommendations for the "Management of Undistributed Child Support Collections" resulting from your audit conducted during the period of September 2004 through February 2005, which analyzed undistributed collections from January 2001 to August 2004.

**Recommendation 1:**

Maximizing existing resources by reprogramming MACSS to automatically search for custodial parent addresses and keeping all cases with payments on hold open longer so MACSS' computerized address search functions can be utilized. In addition, previous recommendations to expand MACSS ability to match with other available databases should be implemented to maximize the potential effectiveness of the computerized search function. The division should investigate services available from the U.S. Postal Service to automate the process of updating address changes.

***Response:***

The Family Support Division (FSD) partially agrees with this recommendation and is currently working on automated enhancements related to custodial parent location efforts, including:

- When a disbursement goes on address hold or void hold/bad address hold for a IV-D member who is not already in auto locate, MACSS will automatically place the IV-D member in auto locate, and manual locate activities will continue to occur as well;

\*\*AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER\*\*  
services provided on a nondiscriminatory basis

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## Appendix II

### Agency Comments and Our Evaluation

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- After a custodial parent on a IV-D, non-TANF case has been in auto locate for 60 days without obtaining location, MACSS will automatically initiate IV-D case closure under closing code CL12, which will allow the case to remain in auto-locate, for an additional 60 days;
- MACSS will generate a daily list for Financial Resolution Section (FRS) staff of all cases closed under the CL12 code for custodial parents who have money on address hold or void hold/bad address hold. FRS staff will use this list to initiate transfer of the held money to unclaimed property;
- For the cleanup of existing address holds and void hold/bad address holds associated with IV-D members, MACSS will automatically place the member in auto locate if (s)he is not already in auto locate.

The division disagrees with the recommendation to keep all cases with payments on hold open longer. Under the division's plan to automate location and case closure activities, the division expects that case closure will actually occur more promptly in those cases where the custodial parent requested IV-D services but cannot be located by the division within a 120-day period.

The division continually researches additional opportunities to automate location processes, including expanded use of matches with available databases. The division's primary focus in establishing new and improved locate resources and processes is to locate parents and assets of parents **who owe support**. Such locate tools, however, can also be used to locate custodial parents who do not keep the division informed of their address.

The division is currently researching available locate services provided through private companies with access to numerous databases that may benefit the division in locating parents and their assets. The division has also initiated discussions with other state agencies to develop new data matching programs. The division has viewed information regarding the automated address update service available through the U.S. Postal Service. Although described as "free" in your report, it is the division's understanding that this automated service is not free. The division will consider this service further as it evaluates other available locate services. Private companies offering locate services using numerous databases, including the U.S Postal Service, may offer a more effective alternative to locating parents.

#### **Recommendation 2:**

Setting goals and establishing and using additional management reports to focus staff efforts on cases needing timely follow-up and to monitor progress in reducing undistributed collections.

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## Appendix II

### Agency Comments and Our Evaluation

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***Response:***

The FSD agrees with this recommendation. The division continually improves its management reports to help monitor and reduce undistributed collections. Through the use of such reports, the division has proactively monitored and initiated efforts to reduce undistributed collections. From June 2001 through December 2004, the division reduced undistributed collections by 70 percent.

As a percentage of its collections, the division's undistributed collections balance is slightly below the national average. Through the use of federal and state reports, the division continually monitors its progress and develops new strategies to further reduce undistributed collections.

**Recommendation 3:**

Ensuring division personnel are adequately trained and knowledgeable of division policy for resolving undistributed collections and making refunds in a timely manner. This should include a clear understanding of the importance of making certain arrears balances are correct and inappropriate enforcement activity does not occur.

***Response:***

The FSD agrees that staff must have a clear understanding of the importance of the financial record, and training continues to be a high priority for the division. As of October 2004, new financial training courses were made available to staff, and additional courses are in the development phase. In addition, the division is exploring a new enforcement structure that will create financial specialists. This will allow FSD to provide focused training to select individuals who will be experts in maintaining and monitoring financial records. By developing financial experts within the enforcement structure, the division expects to reduce undistributed collections while allowing other staff resources to be more focused on child support collections.

**Recommendation 4:**

Ensuring records of undistributed collections are correct and accurately reflect the amount of child support payments in a hold status by

- limiting the circuit clerks' ability to alter financial records to those duties required by statute,
- promptly correcting computer system malfunctions when they are identified to ensure automated functions the division relies on work as intended, and
- working with the Division of Budget and Finance to develop summary reports of undistributed collections to be reconciled with cash balances at least periodically to ensure records are in balance and sufficient cash is available to pay all liabilities.

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## Appendix II

### Agency Comments and Our Evaluation

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**Response:**

**Bullet 1:** The division disagrees. The division worked with the Office of State Courts Administrator in determining the appropriate division of responsibilities for altering financial records in the state's automated child support system. The expectations for altering financial records have been outlined for both division and circuit clerk staff. The division believes these expectations are in accordance with the below-referenced statutes and does not agree that further restrictions are appropriate.

Subsection 454.536.2, RSMo

2. The circuit clerk shall certify the records of past payments and disbursements to the payment center at the time payments are directed to be made to the center. The payment and disbursement records of the circuit clerks, as shown on the automated child support system, shall be deemed certified by the clerks. The division or circuit clerk shall record or cause to be recorded other credits against a support order. Credits allowed pursuant to this section shall include, but not be limited to, abatements pursuant to section 452.340, RSMo, in-kind payments pursuant to section 454.432, amounts collected from an obligor from federal and state income tax refunds, state lottery payments, Social Security payments, unemployment and workers' compensation benefits, income withholdings authorized by law, liens, garnishment actions, and any other amounts required to be credited by state law.

Subsection 454.432.5, RSMo

5. Credits shall be entered on the automated child support system for direct and in-kind payments received by the custodial parent when the custodial parent files an affidavit stating the particulars of the direct and in-kind payments to be credited on the court record with the circuit clerk; however, no such credits shall be entered for periods during which child support payments are assigned to the state pursuant to law. Such credits may include, but shall not be limited to, partial and complete satisfaction of judgment for support arrearages.

**Bullet 2:** The FSD agrees with this recommendation. Upon identification, automated system problems are evaluated and assigned a priority for completion.

**Bullet 3:** The division agrees and already provides reconciliation reports to the Division of Budget and Finance (DBF).

**Recommendation 5:**

Establishing a plan to implement a voluntary program to deliver child support payments using an electronic payment card, which could reduce future payments being held due to missing or invalid addresses.

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**Appendix II**  
**Agency Comments and Our Evaluation**

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***Response:***

The division agrees the use of an electronic payment card can assist in managing and reducing undistributed collections, as we advised during the course of the audit. We are exploring the best way to implement the usage of electronic payment cards.

I appreciate the opportunity to respond to the findings in this audit.

Sincerely,



K. Gary Sherman  
Director

KGS:ds  
cc: Alice Hernandez

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## Appendix II Agency Comments and Our Evaluation

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### Our Evaluation

The department stated it reduced undistributed collections by 70 percent from June 2001 through December 2004. We discussed division efforts to reduce undistributed cash on hand through two special projects, as well as limited ongoing manual address location efforts by Central Locate Unit personnel and the use of some specialized reports by some central office staff to focus on certain categories of hold funds. The dates referred to by the department represent the cyclical nature of undistributed collection. That is, the amount of undistributed cash fluctuates due to the interception of tax refunds during the first six months each year, and the release of those funds 180 days later. As such, undistributed cash is generally highest in June and at its lowest in December, which are the months the division is citing. Division records of held collections for 2001 to 2004 show undistributed cash for these years averaged \$12.3 million in June, and \$5.5 million in December. In addition, those records show undistributed cash in June 2004 was approximately 33 percent less than in June 2001, some of which would reflect division efforts to reduce undistributed collections during the special projects. Records show over \$11 million in undistributed cash in June 2005, 20 percent less than in June 2001.

The department did not agree with limiting circuit clerks' ability to alter financial records to those duties required by statute. Under state law, the division has the responsibility to record non-cash credits for IV-D cases. We believe the division has statutory responsibility for the data in the system. As such, we recommended the department limit circuit clerks' ability to alter financial records. As we discuss in the report, court clerks, as well as division staff, have made errors that have caused undistributed collections to be misstated. Further, the division has been unaware of these errors which compromised the account balances, or data integrity of MACSS. Internal controls such as monitoring MACSS users and access rights with recorded accountability is necessary to maintain effective control over access to data and information services to reduce the risk of errors, fraud, misuse, or unauthorized alteration.