United States Government Accountability Office

GAO

Report to the Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

July 2006

CHILD SUPPORT ENFORCEMENT

More Focus on Labor Costs and Administrative Cost Audits Could Help Reduce Federal Expenditures

GAO
Accountability * Integrity * Reliability

GAO-06-491

GAO
Accountability • Integrity • Reliability
Highlights

Highlights of GAO-06-491, a report to the Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

July 2006

CHILD SUPPORT ENFORCEMENT

More Focus on Labor Costs and Administrative Cost Audits Could Help Reduce Federal Expenditures

Why GAO Did This Study

Congress established federal standards for the child support enforcement program (CSE) in 1975. State agencies administer the program and the Office of Child Support Enforcement (OCSE) in the Department of Health and Human Services (HHS) oversees it. The CSE program provides several services, including collecting child support payments from noncustodial parents—those who are not the primary caregivers—and distributing these payments to families. Generally, the federal government reimburses state agencies 66 percent of their costs for administering the CSE program. GAO determined (1) how total net federal expenditures for administrative costs changed from fiscal year 2000 to fiscal year 2004; (2) the categories of costs that contributed most to administrative costs in recent years; and (3) steps state agencies have taken to manage costs, and steps OCSE has taken to help state agencies and ensure federal funds have been used appropriately. GAO analyzed program data, surveyed all 54 state agencies and visited 6, interviewed program officials, and reviewed laws, policies, and reports.

What GAO Recommends

GAO recommends that HHS direct OCSE to conduct a study to develop staffing guidelines, direct resources to completing more administrative cost audits, and develop audit plans that consider expenditures. HHS stated that OCSE would consider doing a study, and OCSE has an audit plan.

www.gao.gov/cgi-bin/getrpt?GAO-06-491.

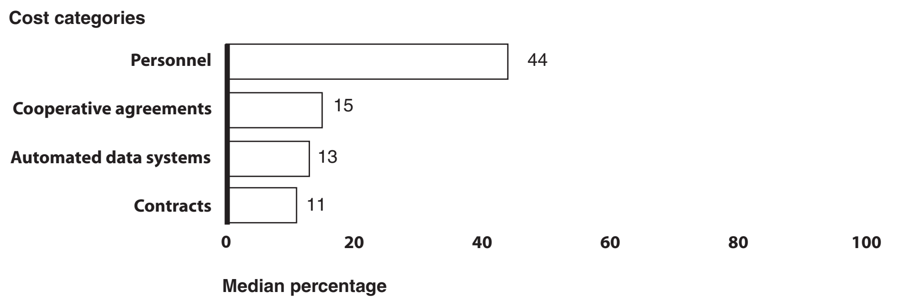
To view the full product, including the scope and methodology, click on the link above. For more information, contact Cornelia M. Ashby at (202) 512-7215 or ashbyc@gao.gov.

What GAO Found

From fiscal year 2000 to fiscal year 2004, total net federal expenditures for administrative costs (the cost after deducting child support collections for families receiving benefits from other government programs) increased by about 23 percent. After adjusting for inflation, total net federal expenditures increased from about $2.2 billion to $2.8 billion. Also, during this period, collections increased by about 12 percent—from about $19 billion to $22 billion, and the program's cost effectiveness measure (the ratio of collections to total administrative expenditures) increased about 4 percent.

Personnel costs were cited as a major contributor to federal expenditures for administrative costs in fiscal years 2002 to 2004 by the 49 state agencies that responded to the relevant question in our survey. Most state agencies also cited as major costs cooperative agreements under which staff from other state agencies are paid to perform CSE program duties, automated data systems, and contracts with private firms. Several of these categories involve labor costs, and from fiscal years 2000 to 2004, the number of full-time-equivalent (FTE) employees funded by the CSE program increased about 2,200. Yet, OCSE has not developed guidelines to help state agencies manage their FTEs and related labor costs.

Median Percentage of Administrative Costs for Most Frequently Cited Categories, Fiscal Years 2002 to 2004



Source: GAO survey.

State agencies reported implementing cost-saving initiatives, and while OCSE has helped state agencies manage costs, it has conducted a limited number of administrative cost audits to help ensure the appropriate use of federal funds. At least one-half of the state agencies reported implementing 7 of the 10 cost-saving initiatives listed in our survey, and many reported cost savings. To help state agencies manage their programs, OCSE issued guidance, created federal/state work groups, and sponsored conferences. OCSE is required to conduct audits of state agencies' administrative costs, and from March 2004 to March 2006, OCSE issued eight administrative cost audit reports. All of these audit reports raised questions about inappropriate expenditures. Although OCSE expects to have more resources available to conduct audits, it does not plan to use these resources to conduct more administrative cost audits.

Contents

Tables

Figures

Abbreviations

ACF	Administration for Children and Families
CBO	Congressional Budget Office
CLASP	Center for Law and Social Policy
CSE	Child Support Enforcement
CSPIA	Child Support Performance and Incentive Act
FTE	full-time-equivalent
GATES	Grants Application and Tracking and Evaluation System
HHS	Department of Health and Human Services
OCSE	Office of Child Support Enforcement
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act
TANF	Temporary Assistance For Needy Families

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

United States Government Accountability Office
Washington, DC 20548

July 6, 2006

The Honorable Wally Herger
Chairman
Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

In 1975, Congress established federal standards for state child support enforcement (CSE) programs to ensure that parents financially support their children. The CSE program was authorized by Title IV-D of the Social Security Act as a federal and state partnership.[1] The Office of Child Support Enforcement (OCSE) within the Department of Health and Human Services (HHS) is responsible for establishing program policies and overseeing state agencies and is required to conduct audits of state agencies' performance data and administrative costs. OCSE is also responsible for providing assistance to help state agencies manage their programs. For example, OCSE has developed and disseminated to state agencies information on best practices and cost-saving initiatives. All 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and Guam administer a CSE program.[2] In most places, a single state agency performs the day-to-day operations, but in others, counties operate the CSE program and states administer it. CSE program responsibilities include locating noncustodial parents—those who are not the primary caregivers for or do not have custody or control of their children; establishing paternity and support orders; and collecting and distributing child support payments. All costs incurred to carry out these responsibilities are considered administrative costs. The federal government funds most of the program by matching a percentage of the allowable administrative costs. These matching funds are not capped. Also, the federal government provides incentive payments to state agencies for meeting certain performance measures, including the program's measure of cost effectiveness.

[1] 42 U.S.C. §§ 651-669b.

[2] In addition to these 54 CSE agencies, some American Indian tribes administer CSE programs. In this report we refer to the 54 CSE agencies as "state agencies."

Over the years, Congress has authorized various enforcement tools, such as garnishment of wages and revocation of licenses, to help increase collections, and Congress has provided funds for systems to automate many CSE program operations and make them more efficient. According to OCSE's annual reports, from fiscal years 1995 to 2004, the net federal share of expenditures for the CSE program increased by one-third, in nominal dollars, and the program's critical measure of cost effectiveness—the ratio of dollars collected divided by total administrative expenditures—did not change significantly.[3] These increased expenditures raise questions about the factors that affect program costs and the extent to which state agencies are effectively managing the cost of their CSE programs. In an effort to provide information about more recent federal expenditures and the issues associated with the cost of administering the CSE program, this report addresses the following questions: (1) How have total net federal expenditures for administrative costs changed from fiscal year 2000 to fiscal year 2004? (2) What categories of costs have contributed most to federal expenditures for administrative costs in recent years? (3) What steps have state agencies taken to manage costs, and what steps has OCSE taken to help state agencies and ensure federal funds have been used appropriately?

We obtained information from several sources in conducting this review. To address how federal expenditures for administrative costs have changed from fiscal year 2000 to fiscal year 2004, we obtained and analyzed the net federal share of expenditure data for each state agency for each of these years. We also examined collections, number of cases, cost-effectiveness ratios, and the number of full-time-equivalent (FTE) employees to gain some perspective about changes in expenditures. We performed procedures to assess the reliability of the system that maintains data related to funds administered by HHS' Administration for Children and Families (ACF), including funds provided to state agencies for the CSE program. We found these data to be sufficiently reliable for our review. For some analyses, we adjusted these data for inflation to get a truer picture of changes over several years. Also, we calculated the median amounts for expenditures and collections because of the wide variation among state agencies. To obtain information for the other objectives, we conducted a survey, site visits, and interviews and reviewed related documents. We sent an e-mail survey to the 54 state agencies and received

[3] The expenditures include the net federal share of state agency expenditures but not costs for OCSE staff and operations or CSE program costs at HHS/ACF regional offices.

responses from all of them. The survey asked state agencies to (1) identify the five cost categories that contributed most to their administrative costs during fiscal years 2002 to 2004 and estimate the percentage that each category comprised, (2) provide information on selected cost-saving initiatives identified by OCSE as best practices, and (3) rate the extent to which various OCSE assistance efforts had been helpful. We did not assess the reliability of the data state agencies reported in response to our survey, but we reviewed their responses for completeness and reasonableness. Also, we conducted site visits in the following six states: California, Connecticut, Maryland, Ohio, South Carolina, and Utah. We selected these states because they represented diversity in changes in the amounts of federal expenditures for fiscal years 2002 to 2004; geographical location; and operational structure, that is state- or county-operated programs. In addition, we interviewed federal and state agency officials and child support experts, reviewed related reports, and analyzed applicable laws and regulations. We conducted our work between June 2005 and June 2006 in accordance with generally accepted government auditing standards. See appendix I for more details on our objectives, scope, and methodology.

Results in Brief

From fiscal year 2000 to fiscal year 2004, total net federal expenditures for administrative costs increased about 23 percent. During this same period, child support collections and the program's cost-effectiveness ratio also increased. Total net federal expenditures for administrative costs, adjusted for inflation, increased from about $2.2 billion to nearly $2.8 billion. Collections, adjusted for inflation, increased about 12 percent from about $19 billion to $22 billion. From fiscal year 2000 to fiscal year 2004, the program's cost-effectiveness ratio—total collections divided by total administrative expenditures—increased about 4 percent.

Personnel costs were cited as a major contributor to federal expenditures for administrative costs from fiscal years 2002 through 2004 by all state agencies that responded to this question in our survey. Of the 54 state agencies, 49 responded to this question, and we determined that the median of the percentages state agencies provided was 44 percent of the administrative costs. Personnel costs include salaries and benefits for all CSE program employees in the state. State officials said that personnel costs were a large percentage of their administrative costs for several reasons, including higher salaries for experienced staff, terms of collective bargaining agreements, and increasing health benefit costs. In addition, child support officials from two state agencies said that although many child support operations are automated, the program remains labor-intensive. Most state agencies also cited, as major cost categories, cooperative agreements under which state CSE agencies pay other state and local agencies to perform child support enforcement functions, automated data systems, and contracts with private companies. Each of these cost categories lagged far behind personnel costs. Overall, state agencies reported that several major cost categories involved labor costs, at least in part. About 2,200 more FTEs for state agency personnel, as well as staff providing services under cooperative agreements and contracts, were funded by the CSE program in fiscal year 2004 than in fiscal year 2000. OCSE officials said they had not conducted a study of the FTEs per state agency or developed guidelines to help state agencies manage related costs.

The 54 state agencies reported implementing cost-saving initiatives, and, while OCSE has helped state agencies manage their costs, its use of administrative cost audits to help ensure that federal funds have been used appropriately has been limited. At least one-half of the state agencies reported implementing 7 of the 10 cost-saving initiatives identified as best practices by OCSE and listed in our survey. These initiatives included electronic transmittal of wages withheld by employers (50 state agencies), automated voice response systems (48 state agencies), and direct deposit of child support payments to parents' checking or savings accounts (48 state agencies). State agencies also reported cost savings for nearly all of the 10 initiatives. For example, the New York agency reported saving $4.5 million since fiscal year 1993, when it began receiving funds electronically from employers that withheld wages for child support payments. Most state agencies (38) also reported that money saved from these initiatives was reinvested in the CSE program. To help state agencies manage their costs, OCSE has provided a range of assistance, and, generally, state agencies viewed OCSE's assistance favorably. Nearly all of the state agencies reported that OCSE's efforts—such as creating federal/state work groups, holding conferences or sponsoring training, and issuing guidance—were very or moderately helpful. On the other hand, OCSE has not conducted administrative cost audits of most state agencies. From March 2004 to March 2006, OCSE issued eight administrative cost audit reports; all of which raised questions about inappropriate expenditures. For example, one audit of costs claimed for one quarter found about $670,000 in unallowable charges, and another audit that examined expenses claimed for one quarter determined that one state agency had inappropriately claimed about $603,000 in expenditures. OCSE officials said they did not have plans to conduct more administrative cost audits in the future, even though they expect that more audit resources will be available since OCSE reduced the frequency of its data reliability audits. Furthermore, OCSE officials did not cite the level of expenditures for administrative costs as a factor that was considered in planning administrative cost audits.

We are recommending that the Secretary of Health and Human Services direct the Commissioner of the Office of Child Support Enforcement to conduct a study of and develop guidelines for the number of FTEs for the CSE program, direct resources gained from conducting fewer data reliability audits to completing more administrative cost audits, and develop an audit plan that considers total expenditures as one of the factors used to select state agencies for administrative cost audits.

HHS provided written comments on a draft of this report. HHS did not explicitly agree or disagree with our recommendations. In response to our recommendation to conduct a study of and develop guidelines for the number of full-time-equivalent employees, HHS stated that OCSE will consider doing such a study. In response to our recommendation to develop a plan to conduct administrative cost audits, HHS noted that OCSE has developed plans to conduct administrative cost audits in the past, has conducted those audits, and will continue to develop plans in the future. We revised the report to acknowledge that OCSE has a plan for conducting administrative cost audits and we modified our recommendation to better reflect our intent to encourage OCSE to complete more administrative cost audits than it completed during the 2004 to 2006 time period. The HHS comments are discussed in the report and are reprinted in appendix VII. In addition, HHS provided technical comments, which we incorporated as appropriate.

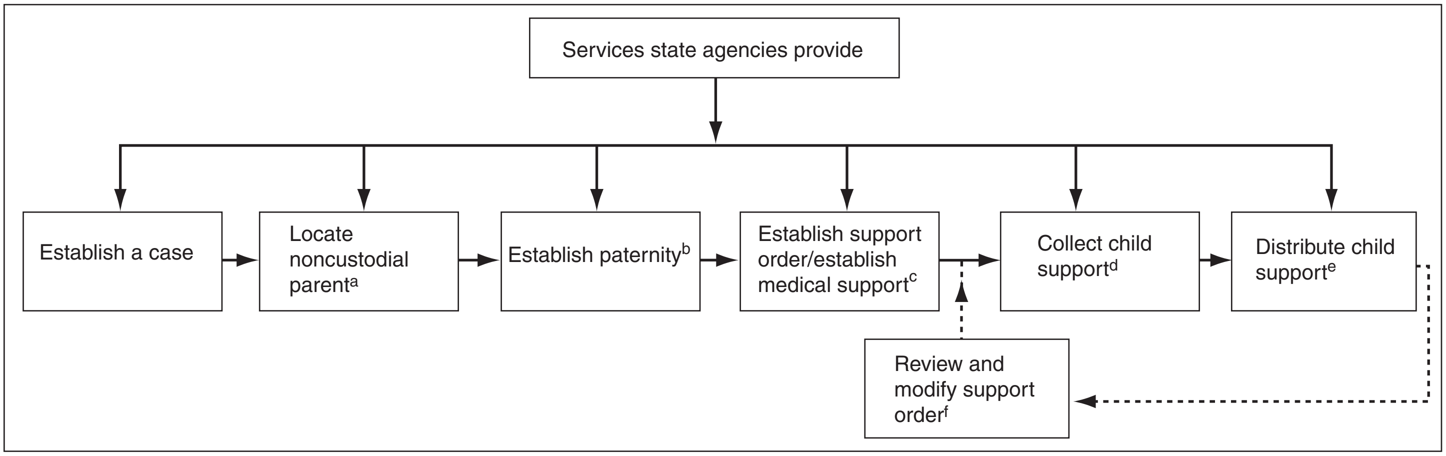
Background

The CSE program makes services available to any parent or other person with custody of a child who has a parent living outside of the home. These services are available automatically for families receiving assistance under the Temporary Assistance for Needy Families (TANF), Medicaid, and

Foster Care programs.[4] Other families seeking government child support services can apply through their state agency or one of the tribes running the program. For these families, there is an application fee. Figure 1 illustrates the major services provided by the CSE program.

[4] The TANF program provides assistance and work opportunities to needy families by granting states federal funds and wide flexibility to develop and implement their own welfare programs. When families apply for the TANF program, the custodial parent assigns to the state the right to child support collected while the family is receiving TANF benefits. The Medicaid program provides medical benefits to groups of low-income people, some who may have no or inadequate medical insurance. Although the federal government establishes general guidelines for the program, the Medicaid program requirements are established by each state. The Foster Care program provides open-ended matching payments to states for the costs of maintaining certain children in foster care and for the associated administrative, child placement, and training costs. Several eligibility criteria apply to the children on whose behalf federal reimbursement is available to states.

Figure 1: Major Services of the Child Support Enforcement Program



Source: GAO.

[a]The locate process includes steps taken to find a noncustodial parent or putative father. In addition, state agencies can help locate custodial parents.

[b]Paternity is the legal determination of fatherhood and must be established before child or medical support can be ordered.

[c]A support order is a judgment, decree, or order— whether temporary, final, or subject to modification—that is usually issued by a court or an administrative agency for the support and maintenance of a child. Support orders can incorporate the provision of monetary support; health care/medical support; payment of arrearages (past due, unpaid child support owed by the noncustodial parent); or reimbursement of costs and fees, interest and penalties, and other forms of relief. The noncustodial parent is required to provide medical support whenever health care coverage is available at a reasonable cost. A provision for such coverage is required as part of all child support orders established or enforced by state agencies.

[d]Child support payments are collected through various methods such as income withholding; state or federal income tax refund offsets; and other remedies,(e.g. seizure of assets).

[e]Child support collections are distributed to custodial families, states, or federal agencies via a check, an electronic transfer, or other means.

[f]State agencies must review and, if necessary, adjust child support orders at least once every 3 years for TANF cases involving the assignment of support rights or upon the request of either the custodial or noncustodial parent for any case.

The CSE program is financed by federal and state funds. Federal funds come from three funding streams—the federal match, also known as the federal financial participation; incentive payments; and grants. Generally, federal matching funds reimburse state agencies 66 percent of the administrative costs for their CSE programs. In addition to matching funds, the federal government pays state agencies incentive funds to encourage them to achieve program goals. Incentive funds are capped, and in fiscal year 2004, $454 million were allocated for incentive payments.[5] State agencies must reinvest their incentive funds in the CSE program. Federal funds also are available through grants. Grants for special improvement projects, demonstration projects, and child access and visitation programs are generally awarded annually. OCSE has received an annual appropriation of $1.8 million for special improvement project grants or demonstration projects to promote the program's overall objectives. Additionally, since fiscal year 1997, OCSE has distributed approximately $10 million per year to state agencies to support child access and visitation grants for activities such as mediation, counseling, education, development of parenting plans, noncustodial parent visitation enforcement (including monitoring and supervision), and development of noncustodial parent visitation and alternative custody guidelines. According to a November 2005 report, state agencies used a number of funding sources to finance their share of CSE program administrative costs.[6] These funding sources included federal incentive payments, child support collected for parents receiving assistance through the TANF program, state general funds, state general funds paid as incentives, county general funds, and fees, along with several other sources that were mentioned less often by state agencies.[7] While state agencies generally used more than one revenue source, they also varied in the combination of the revenue sources they used.

For the CSE program, federal and state expenditures are generally offset by certain collections as well as fees and interest payments.[8] Child support collections for families that receive benefits from the TANF and Foster Care programs are deducted from the total federal and state expenditures and paid to these programs as reimbursements. For example, in fiscal year 2004 about $2 billion in child support collections for families that received TANF benefits were deducted from total CSE expenditures—the federal government was reimbursed $1.1 billion, and state agencies were

[5] The incentive pool is capped at $446 million for fiscal year 2005, $458 million for fiscal year 2006, $471 million for fiscal year 2007, and $483 million for fiscal year 2008. For years thereafter, the incentive pool is increased to account for inflation.

[6] The Lewin Group and ECONorthwest, *State Financing of Child Support Enforcement Programs, Final Report* (Nov. 15, 2005).

[7] States retain a share of the TANF-related child support collections and return a share of these collections to the federal government. States may use retained collections for the CSE program or for other purposes.

[8] 42 U.S.C. § 657.

reimbursed about $900 million. In addition, some state agencies collect fees from parents for their services, and such fees are also deducted from total expenditures. Also, expenditures are reduced by interest income that accrues to state agencies for collections deposited in interest-bearing accounts.

Over the years, Congress has passed numerous laws that have had an impact on the CSE program, including the following:

- The Social Security Disability Amendments of 1980 included a provision that gave state agencies 90 percent matching funds for the cost of developing, installing, and enhancing approved automated data systems.[9] In 1997, we reported that state agencies had spent over $2.6 billion since the early 1980s to develop their systems, and the federal government had paid from 66 to 90 percent of the systems' costs, which amounted to more than $2 billion.[10]

- The Child Support Enforcement Amendments of 1984 addressed many aspects of the program.[11] For example, this act required that all states provide for the use of mandatory wage withholding procedures and expedited processes for establishing and enforcing support orders.[12] The act made available federal matching funds at the 90 percent rate for the development and installation of automated data systems to facilitate income withholding and other procedures. The act reduced the overall federal matching rate to 68 percent for fiscal years 1988 and 1989, and to 66 percent for fiscal year 1990 and thereafter. Also, the act established procedures for intercepting state income tax refunds, imposing liens against real and personal property, and reporting delinquency information to consumer reporting agencies.

[9] Pub. L. No. 96-265 (1980).

[10] GAO, *Child Support Enforcement: Strong Leadership Required to Maximize Benefits of Automated Systems*, GAO/AIMD-97-72 (Washington, D.C.: June 30, 1997).

[11] Pub. L. No. 98-378 (1984).

[12] Wage withholding, also known as income withholding, is a procedure by which scheduled deductions are automatically made from wages or income to pay a debt, such as child support. Wage withholding often is incorporated into the child support order and may be voluntary or involuntary. The provision dictates that an employer must withhold child support from a noncustodial parent's wages and transfer that withholding to the appropriate agency (the state Centralized Collection Unit or State Disbursement Unit).

- The Family Support Act of 1988 established several requirements.[13] For instance, the Secretary of HHS was required to set time limits within which collections must be distributed to families, and state agencies were required to meet federal standards for the establishment of paternity and to provide for wage withholding in accordance with child support orders. Also, this act made it mandatory for states to computerize their CSE programs and required states to have their automated data systems certified by October 1, 1995.[14]

- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) included many provisions related to the CSE program.[15] For example, PRWORA reinstated the 90 percent matching rate through September 30, 1997, to enable state agencies to complete the development and implementation of their automated data systems and extended the deadline for implementation to October 1, 1997. PRWORA also provided a matching rate of 80 percent, capped at $400 million for fiscal years 1996 to 2001, for system development and implementation costs related to automated data processing requirements. In addition, PRWORA provided state agencies with new enforcement tools, such as suspension of licenses, denial of passports, and financial institution data matches, and included procedures for the periodic review and adjustment of support orders by state agencies.[16] Furthermore, PRWORA required audits to assess the completeness, reliability, and security of the data used in calculating performance indicators and audits of the financial management of states' programs, including assessments of whether federal and other funds were being appropriately expended and properly accounted for.

- The Child Support Performance and Incentive Act (CSPIA) of 1998 established several new procedures and changed the method for calculating incentive payments.[17] Since 1975, the federal government

[13] Pub. L. No. 100-485 (1988).

[14] Certified CSE systems must be comprehensive, operate statewide, and meet established standards of efficiency and effectiveness and principles of an integrated system. In addition, these systems must perform certain key functions including case initiation, case management, financial management, and reporting.

[15] Pub. L. No. 104-193 (1996).

[16] With the financial institution data match, state agencies match information on delinquent noncustodial parents with the records of their financial accounts and may seize funds in those accounts.

[17] Pub. L. No. 105-200 (1998).

has paid incentives to state agencies to encourage program improvement. The new incentive system established by CSPIA links incentive payments to performance in five areas: paternity establishment, order establishment, collections of current child support, collections of child support in arrears, and cost effectiveness. CSPIA specifies the percentage of incentive funds that a state agency can receive on the basis of the state agency's level of performance in each of these areas. For example, the applicable percentage of incentive funds for cost-effectiveness ratios is shown in table 1.

Table 1: Percentage of Incentive Payments and Cost-Effectiveness Ratios Established in the Child Support Performance and Incentive Act of 1998

If the cost-effectiveness ratio is:		The applicable percentage is:
At least:	**But less than:**	
5.00		100
4.50	4.99	90
4.00	4.50	80
3.50	4.00	70
3.00	3.50	60
2.50	3.00	50
2.00	2.50	40
0.00	2.00	0

Source: 42 U.S.C. § 658(b)(6)(E)(ii).

- The Deficit Reduction Act of 2005 included provisions that will affect CSE program funds.[18] The act reduced the match rate for paternity testing from 90 percent to 66 percent effective October 1, 2006; eliminated the federal match for incentive payments effective October 1, 2007; and required states to impose an annual fee of $25 on each family that never received TANF benefits and for which the program collects $500 a year.[19] The Congressional Budget Office (CBO) estimated that by 2010 the federal share of administrative costs would be reduced by $1.8 billion from eliminating the federal match for incentive payments and by $28 million from the lower match rate for

[18] Pub. L. No. 109-171 (2006).

[19] Prior to the Deficit Reduction Act of 2005, the incentive payments that state agencies received from the federal government were reinvested in the CSE program and then reimbursed at the appropriate federal matching rate.

paternity testing. CBO also estimated that the federal government would receive an additional $172 million from the annual fee. Further, CBO estimated that total funding for the program could fall 15 percent by 2010 if states did not adjust their own spending for CSE programs. This act also included provisions that will reduce federal expenditures for several other programs.

We have expressed concern about the federal government's financial condition and the nation's growing fiscal imbalance. Also, we have reported that if the federal government is to effectively address this concern, it cannot accept all of the existing programs, policies, and activities as givens, and that rethinking the base of existing federal spending is an important step.[20]

As the federal partner, OCSE has several responsibilities. OCSE sets policies and standards, provides technical assistance, and evaluates state agency performance.[21] OCSE also collects and reviews expenditure data that state agencies submit using OCSE's Quarterly Report of Expenditures and Estimates. OCSE maintains these data in the Grants Application Tracking and Evaluation System (GATES) operated by ACF.[22] Furthermore, OCSE is responsible for helping state agencies administer their programs. Routinely OCSE has developed and disseminated to state agencies a compendium of what it considers best practices. Each compendium describes several best practices, provides information on the results of implementing the practices, and identifies a contact person. In transmitting the compendium, OCSE stated that it does not endorse any particular practice, but believes that by providing the state agencies with

[20] GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

[21] Staff members in the 10 HHS/ACF regional offices also oversee the administration of the CSE program as well as other programs. The regions guide the programmatic and financial management of ACF programs in their jurisdictions and provide assistance, resources, and information to the various entities responsible for administering these programs. Regional offices represent ACF to state, county, city and tribal governments, grantees, and public and private organizations.

[22] GATES is ACF's primary grants administration system. This system is designed to automate the process of awarding discretionary, formula, block, and entitlement grants; maintain a nationwide database of grant program and fiscal information; provide an easy method for viewing and printing management reports; compile post-award monitoring information and assist with planning for monitoring; safeguard federal funds through management of funding limits; and facilitate the closeout of grants and the archiving of program and fiscal performance information.

solutions undertaken at the state and local levels, general program performance can be improved.

Net Federal Expenditures, Collections, and the Nationwide Cost-Effectiveness Ratio Increased

Overall from fiscal year 2000 to fiscal year 2004, total net federal expenditures for administrative costs increased about 23 percent. Net federal expenditures increased in more than one-half of the state agencies, and the net federal cost per case increased about 36 percent. Also, collections and the nationwide cost-effectiveness ratio have increased.

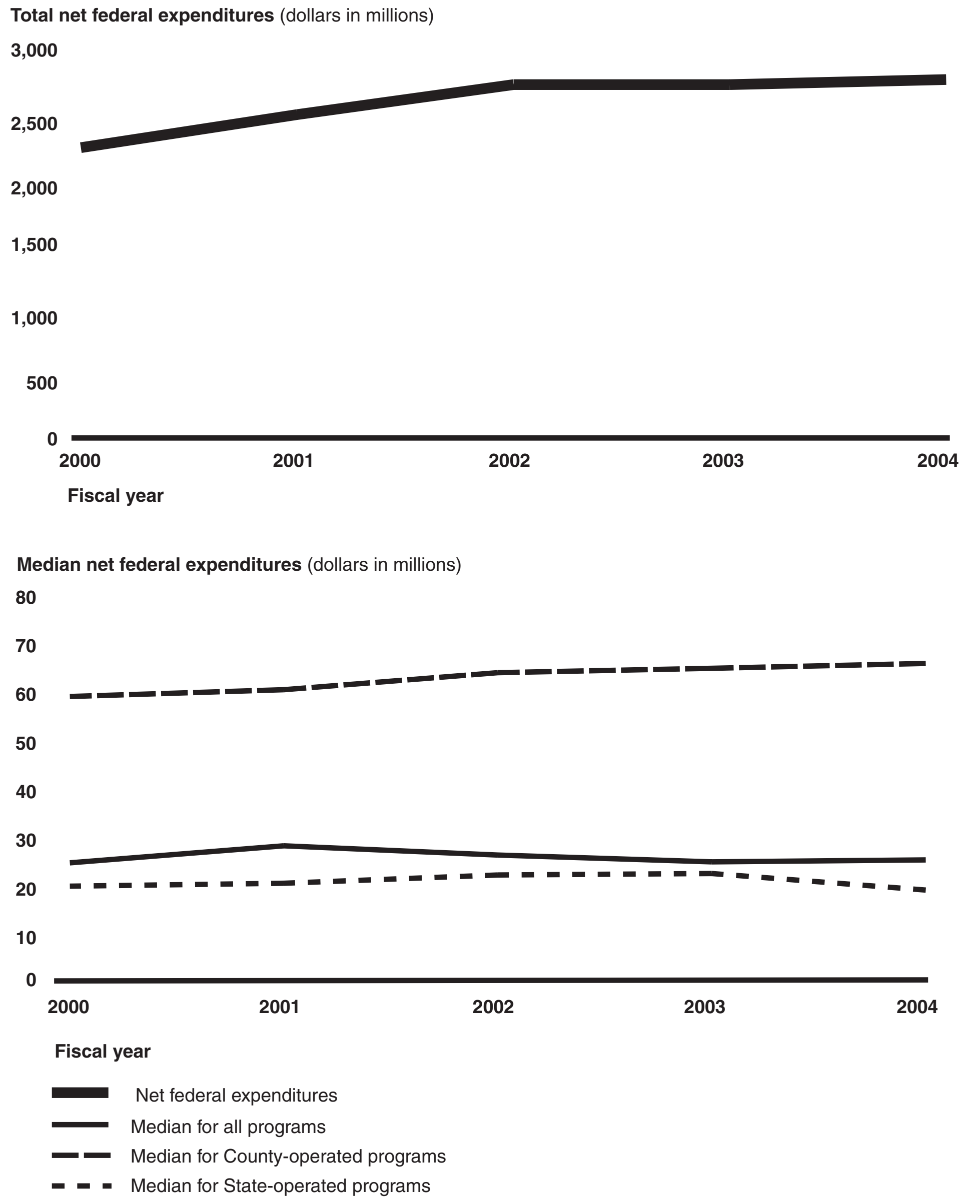
Total Net Federal Expenditures and Total Collections Increased

Total net federal expenditures for administrative costs increased about 23 percent, and the net federal median expenditure increased more than 2 percent.[23] From fiscal year 2000 to fiscal year 2004, total net federal expenditures increased from about $2.2 billion to nearly $2.8 billion.[24] While total net federal expenditures increased each year, the largest increase, in nominal dollars, was about 14 percent from fiscal year 2000 to fiscal year 2001. Overall, the median net federal expenditure increased from about $25 million to about $26 million between fiscal years 2000 and 2004. However, the median net federal expenditure for state agencies with state-operated programs decreased about 4 percent from about $20 million in fiscal year 2000, to $19 million in fiscal year 2004, while the median net federal expenditure for state agencies with county-operated programs increased about 11 percent—from about $59 million to about $66 million. According to a CSE program expert and a state agency official from a state we visited, expenditures for county-operated programs may be higher because of possible duplication in administrative functions at the state and county levels. Figure 2 shows the trends in total net and median net federal expenditures.

[23]The total net expenditure amounts shown in the report have been rounded. We calculated the total percentage changes based on the exact net federal expenditure amounts--$2,245,016,243 for fiscal year 2000 and $2,770,020,216 for fiscal year 2004.

[24] Unless otherwise noted, expenditure data have been adjusted for inflation based on 2004 dollars. In nominal dollars, the expenditures were about $2 billion in fiscal year 2000 and about $2.8 billion in fiscal year 2004.

Figure 2: Total Net and Median Net Expenditures, Fiscal Year 2000 to Fiscal Year 2004



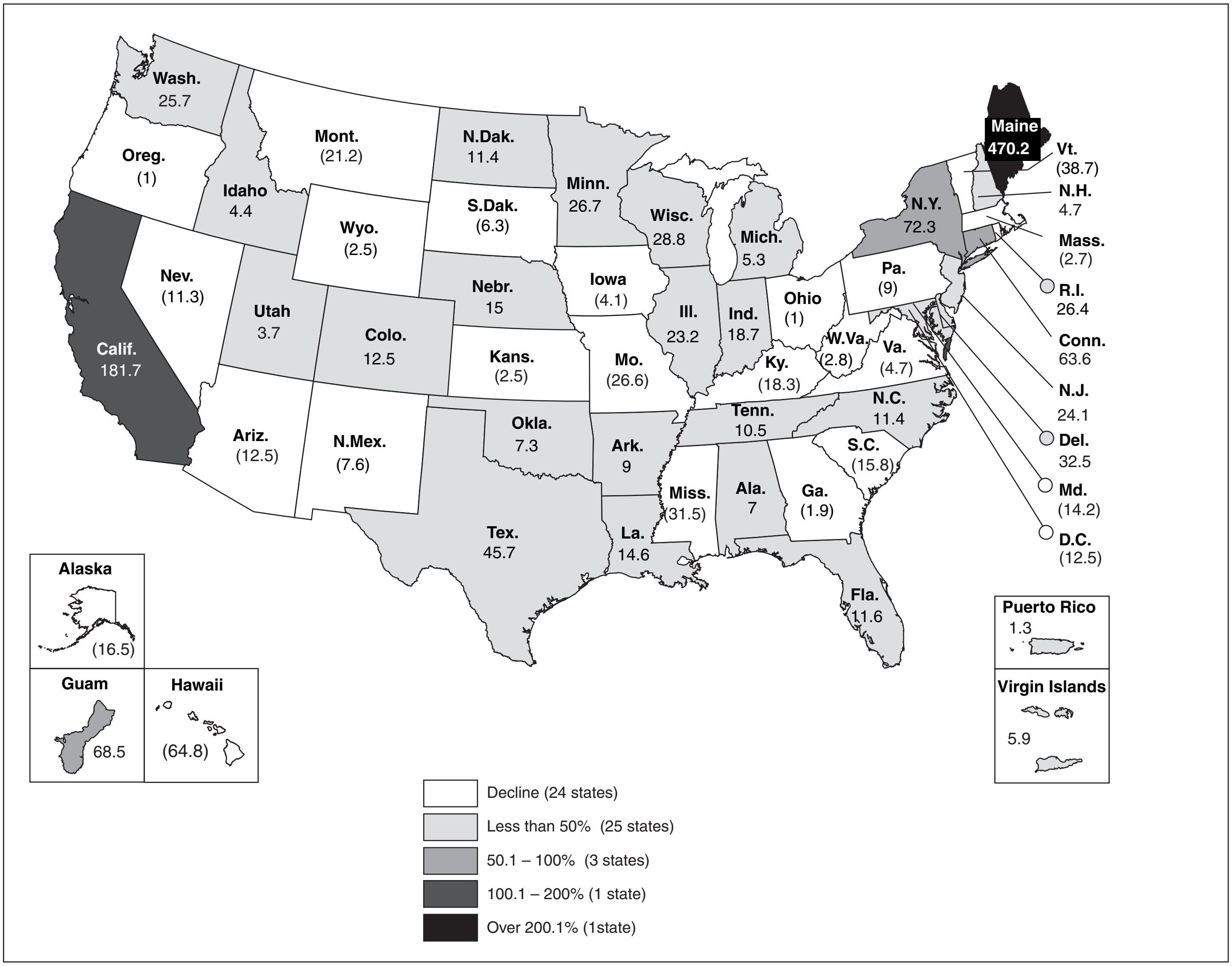
Source: OCSE data.

Note: In addition to the state- and county-operated programs, 5 states—Arizona, Nebraska, Nevada, New Jersey, and Oregon—reported having a combination of state- and county-operated programs. For example, in Arizona, 10 of its 15 counties are operated by the state agency; 4 are operated by counties; and 1 is operated by a private contractor. Data for these state agencies are included in the overall net expenditures and the median expenditures for all programs, but not in the medians for either the state- or county-operated programs.

Overall, total net federal expenditures from fiscal year 2000 to fiscal year 2004 increased for more than one-half of the state agencies; however, the percentages varied. From fiscal year 2000 to fiscal year 2004, total net federal expenditures increased in 30 of the 54 state agencies. These increases ranged from about 1 percent to over 400 percent, and the median for these state agencies was 14.8 percent. According to comments from HHS on a draft of this report, many of the large increases and decreases are a result of adjustments for under or over reporting expenditures in a previous quarter. Total net federal expenditures increased most in Maine and California, reflecting special circumstances in both states. According to Maine's state agency director, the agency made adjustments over several quarters to correct its reporting of interest income earned. In California, state agency officials explained that most of the increase was attributable to costs associated with developing and implementing its statewide automated data system.[25] Nearly all state agencies (51) had at least 1 year when net federal expenditures decreased. For example, net federal expenditures for Alabama's program decreased from fiscal year 2000 to fiscal year 2001 and increased in other fiscal years, while net federal expenditures for Mississippi's program decreased in each of the fiscal years from 2000 to 2003. Figure 3 shows the percentage change in net federal expenditures by state agency during fiscal year 2000 to fiscal year 2004. Appendix II provides data on annual percentage changes in net federal expenditures, using nominal numbers, for each state agency for fiscal years 2000 to 2004.

[25] During our review, California and South Carolina were the only state agencies without certified automated data systems.

Figure 3: Percentage Change in Net Federal Expenditures by State Agency, from Fiscal Year 2000 to Fiscal Year 2004



Source: OCSE data.

Note: parentheses indicate a decrease in net federal expenditures.

For fiscal years 2000 to 2004, the median net federal cost per case increased 36 percent, as measured in nominal dollars, and the number of cases declined about 1.5 million; however, the median net federal cost per case generally increased, even when the number of cases remained about the same. From fiscal year 2000 to fiscal year 2001, the number of cases remained at about 17 million, and the median net federal cost per case increased from $121 to $138, in nominal dollars. During fiscal years 2002 to 2004, the program managed about 16 million cases per year and the median net federal cost per case continued to increase. Table 2 summarizes the number of cases and median net federal cost per case.

Table 2: Total Number of Cases and Median Net Federal Cost per Case, Fiscal Years 2000 to 2004.

Fiscal year	Total cases	Median net federal cost per case (nominal dollars)
2000	17,374,041	$121
2001	17,060,501	138
2002	16,065,728	158
2003	15,923,353	156
2004	15,854,475	165

Source: OCSE data.

Note: We used nominal dollars when comparing data from year to year in order to be consistent with data previously reported to Congress.

Total and median collections increased, and the CSE program is collecting from a larger percentage of its cases. From fiscal year 2000 to fiscal year 2004, total collections increased about 12 percent from $19 billion to about $22 billion.[26] During the same period, collections increased for most state agencies, but the percentage of increase varied among the state agencies and from year to year. For example, from fiscal year 2000 to fiscal year 2001, collections in Vermont increased about 5 percent and collections in Illinois increased about 17 percent. From fiscal year 2003 to fiscal year 2004, collections in Vermont increased about 15 percent, while Illinois' collections increased about 9 percent. Appendix III provides data on annual percentage changes in total collections for each state agency for fiscal years 2000 to 2004. According to comments from HHS on a draft of this report, many of the large increases and decreases in collections are a result of adjustments for under or over reporting in a previous quarter. Overall, median collections also increased, and the median collections for

[26] All collections data have been adjusted for inflation in 2004 dollars. (In nominal dollars, the collections were about $18 billion in fiscal years 2000 and $22 billion in fiscal year 2004.) The total collection amounts shown in the report have been rounded. However, we calculated the total percentage changes based on the exact collection amounts--$19,447,826,418 in fiscal year 2000 and $21,861,258,876 in fiscal year 2004.

state agencies with county-operated programs were higher than for state agencies with state-operated programs. The median collection for county-operated programs was about $519 million in fiscal year 2000 and $567 million in fiscal year 2004, while the median collection for state-operated programs increased from about $141 million to $156 million during this period. Also, OCSE data indicate that the program has received collections for a larger percentage of the cases. In fiscal year 2000, OCSE reported the program received collections for about 42 percent of the cases, and, in fiscal year 2004, the program received collections for about 52 percent of the cases.

The Nationwide Cost-Effectiveness Ratio Also Increased

From fiscal year 2000 to fiscal year 2004, the nationwide cost-effectiveness ratio—the ratio of collections divided by total federal and state administrative expenditures—increased about 4 percent.[27] As shown in table 3, the nationwide cost-effectiveness ratio from fiscal year 2000 to fiscal year 2004 ranged from 4.13 to 4.38 and decreased during fiscal years 2000 to 2002. Furthermore, the percentage change in the nationwide cost-effectiveness ratio has varied from a decrease of 1.9 percent from fiscal year 2001 to fiscal year 2002 to an increase of 4.6 percent from fiscal year 2002 to fiscal year 2003. Percentage changes in the cost-effectiveness ratio by state agency and nationwide are listed in appendix IV. According to comments from HHS on a draft of this report, many of the large increases and decreases in the cost effectiveness ratios are a result of adjustments for under or over reporting expenditures and/or collections in a previous quarter.

[27] We calculated the percentage change for the nationwide cost effectiveness ratio by comparing the cost effectiveness ratio in fiscal year 2000 (4.23) to the cost effectiveness ratio in fiscal year 2004 (4.38). The cost effectiveness ratio is equal to the total amount collected during the fiscal year divided by the total amount expended—federal as well as state expenditures.

Table 3: Nationwide Cost-Effectiveness Ratio, Fiscal Years 2000 to 2004

Fiscal year	Nationwide cost-effectiveness ratio
2000	4.23
2001	4.21
2002	4.13
2003	4.32
2004	4.38

Source: OCSE data.

On a state agency basis, the cost-effectiveness ratios varied. For example, for fiscal year 2004, the cost-effectiveness ratio ranged from 8.70 for Hawaii to 1.83 for the Virgin Islands. During each of the fiscal years 2000 to 2004, four state agencies had a cost-effectiveness ratio below 2.0—the minimum to receive an incentive payment.[28] Also, during fiscal years 2000 to 2004, the annual performance of more than 80 percent of the state agencies declined at least once. For example, for fiscal years 2000 to 2004, Delaware's cost-effectiveness ratios were 3.19, 2.93, 3.66, 3.03, and 3.01, respectively. Due to the way that the incentive program is structured, states with declining cost-effectiveness performance have received incentive funds for these years because they were over the 2.0 minimum ratio.

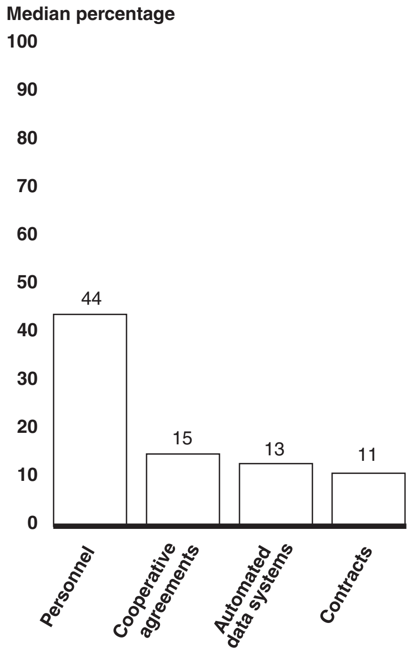
All State Agencies Reported Personnel as a Major Cost Category, but OCSE Has Not Developed Staffing Guidelines

Of the 54 state agencies, 49 responded to this question and cited personnel costs as a major cost category during fiscal years 2002 to 2004. These costs represented the largest share of administrative costs cited by 38 state agencies. In addition to personnel costs, most state agencies identified the following as major cost categories: cooperative agreements under which state CSE agencies reimburse other agencies to perform child support enforcement functions, automated data systems, and contracts with private vendors. As shown in figure 4, these categories represented smaller percentages of state agencies' costs than personnel costs. Appendix V provides more information about the range of percentages reported by state agencies for the most frequently cited cost categories. Overall, state agencies reported that several major cost categories involved labor

[28]The February 1997 HHS report to the House of Representatives Committee on Ways and Means and the Senate Committee on Finance on child support enforcement incentive funding explained that the upper and lower thresholds for performance for each of the incentive measures were based on analysis of state performance data and projections.

costs—state personnel, staff from other state and local agencies, and contractors—and reflect an increase in the number of FTE employees over the last several years. While OCSE regulations address general staffing requirements, OCSE has not developed staffing guidelines to help state agencies manage their labor costs.

Figure 4: Median Percentage of Total Administrative Costs for the Most Frequently Cited Administrative Cost Categories, Fiscal Year 2002 to Fiscal Year 2004



Source: GAO Survey.

Note: This figure includes responses from 49 of the 54 state agencies. We excluded 5 county-operated state agencies from this analysis because they did not include county costs in their responses to this survey question.

All State Agencies Reported That Personnel Costs Were a Major Contributor to Their Administrative Costs, and Most State Agencies Also Cited Cooperative Agreements, Automated Data Systems, and Contracts as Major Costs

All 49 state agencies cited personnel costs as one of their largest cost categories during fiscal years 2002 to 2004.[29] The median of the percentages state agencies provided for personnel costs was 44 percent of total administrative costs. Officials from 38 state agencies ranked personnel as their largest cost category and estimated that this category represented from 30 percent to 80 percent of their total administrative costs during fiscal years 2002 to 2004. Personnel costs include salaries and benefits for all state agency employees. In fiscal year 2002, the CSE program nationwide had about 43,000 FTEs, and in fiscal years 2003 and 2004, the program had about 42,000 FTEs. State agency officials with whom we spoke said that personnel costs represent a large percentage of the total administrative costs for several reasons. State agency officials explained that personnel costs are affected by higher salaries for experienced staff and increasing health benefits costs. According to a representative of a national child support organization, for state agencies with collective bargaining agreements, the terms of these agreements can affect personnel costs. Also, officials from county-operated states that we visited commented that the state agency has limited control over how the counties compensate their personnel.

Cooperative agreements were cited by 37 of 49 state agencies as among their largest administrative cost categories, and the median of the percentages state agencies provided for this category was 15 percent. Cooperative agreements were the largest cost category for 3 state agencies, where these costs represented 40 percent to 70 percent of total administrative costs. Under the cooperative agreements that we reviewed, state CSE agencies reimbursed other state or local agencies for services critical to the CSE program. For example, in California, the CSE agency has cooperative agreements with the state tax agency, in order to use certain enforcement tools. Additionally, the Nebraska and South Carolina CSE agencies have cooperative agreements with county clerks of the court, and the Iowa agency has cooperative agreements with local sheriffs to serve court papers to noncustodial parents. According to OCSE data, state agencies used about 16,400 FTEs under cooperative agreements to provide CSE program services in fiscal year 2004, an increase of about 1 percent since fiscal year 2002. According to state agency officials, it can be challenging for CSE agencies to manage the costs charged by other agencies under cooperative agreements. In an attempt to manage such

[29] We excluded five county-operated state agencies from this analysis because they did not include the county costs in their responses to this survey question.

costs, CSE agency officials in Utah told us that after they detected increased charges from the Attorney General's office to cover attorneys' pay increases, they capped the payments to that office.

Automated data systems costs were included among the largest cost categories by 35 of 49 state agencies, and the median of the percentages these state agencies provided for this cost category was 13 percent. Automated data systems were the largest cost category for 5 state agencies, where these costs represented 25 percent to 65 percent of total administrative costs. These included costs for ongoing maintenance as well as for enhancements. According to an OCSE official, automated systems continuously require enhancements to meet new requirements and operational changes to keep up with technology. Moreover, according to a state CSE agency official from Utah, the state periodically raises the costs for processing data and accessing the mainframe for all state agencies, and in 1 year, the cost for the state CSE agency increased by 38 percent.

Contract costs were included by 41 of 49 state agencies among their largest cost categories, and the median of the percentages these state agencies provided for this cost category was 11 percent of total administrative costs. Contracts were the largest cost category for 3 state agencies, where these costs represented 49 percent to 68 percent of total costs. According to several state agency officials with whom we spoke, state agencies have contracted with private sector companies for a wide range of services, including testing blood to establish paternity, obtaining information from credit bureaus to help locate noncustodial parents, operating call centers, identifying assets, and processing payments. State agencies may combine multiple services in a single contract. For example, state agency officials in Connecticut told us that the agency uses a single contract to obtain many services such as processing payments, handling clients' inquiries, providing outreach services to clients, managing a Web site that provides information on case status, and automating certain notices. In addition, some state agencies have hired contractors to operate the CSE program at the local level. For example, Tennessee relies on contractors for all local services in 24 of the state's 95 counties, and an agency official estimated that contract costs represented about 52 percent of the state agency's administrative costs during fiscal years 2002 to 2004. According to OCSE data, state agencies contracted for about 2,300 FTEs in fiscal year 2004, a decrease of about 11 percent since fiscal year 2002. According to a state agency director, contracting can be an option for state agencies when the state has placed a cap on personnel levels.

Additionally, some of the 49 state agencies reported that other costs were among their largest cost categories during fiscal years 2002 to 2004. Twenty-four state agencies cited rent among their largest cost categories, postage was cited by 15 state agencies, and 12 state agencies included telecommunications costs. The medians of the percentages that state agencies provided for each of these categories ranged from 2.3 percent to 3.9 percent of total administrative costs.

Several Major Cost Categories Reflected Increased FTEs Funded by the CSE Program, but OCSE Has Not Developed Staffing Guidelines

State and local CSE personnel, staff working under cooperative agreements, and individuals hired through contracts contributed to three of the categories that state agencies said were among the major contributors to federal expenditures for administrative costs. As shown in table 4, the number of FTEs funded for state CSE programs increased by about 2,200 from fiscal year 2000 to fiscal year 2004.

Table 4: Total FTEs for State Child Support Enforcement Programs, Fiscal Years 2000 to 2004

Fiscal Year	Total FTEs	Year-to-year change	Cumulative change
2000	58,171	n/a	n/a
2001	60,535	+2,364	2,364
2002	61,797	+1,262	3,626
2003	60,756	-1,041	2,585
2004	60,354	-402	2,183

Source: OCSE data.

Note: FTEs include CSE personnel, staff from other state and local agencies working under cooperative agreements, and contractors.

Furthermore, among selected state agencies with similar numbers of cases, the number of FTEs varied widely as did the percentage of cases with collections and the cost-effectiveness ratios. Table 5 shows that for 7 state agencies with about 150,000 to 249,000 cases, the number of FTEs in fiscal year 2004 ranged from 460 in Connecticut to 1,559 in Minnesota.[30] Also, table 5 shows that the number of cases per FTE varied from 457 in

[30] While South Carolina's state agency had about 223,000 cases in fiscal year 2004, we did not include it in this table because of concerns about the accuracy of the FTE data. Specifically, the data do not include any FTEs for cooperative agreements, yet as noted earlier in this report, South Carolina has cooperative agreements with county clerks of the court.

Connecticut to 158 in Minnesota. Additionally, the Iowa CSE program, with 293 cases per FTE, had the highest percentage of cases with collections, and the Puerto Rico CSE program, with 272 cases per FTE, had the highest cost-effectiveness ratio.

Table 5: Comparison of Information for Selected State Agencies for Fiscal Year 2004

State agency	Number of cases	Total FTEs	Cases per FTE	Percentage of cases with collections	Cost-effectiveness ratio
Alabama	237,442	756	314	69	3.93
Connecticut	210,311	460	457	61	3.20
Iowa	179,759	613	293	89	5.59
Minnesota[a]	246,408	1,559	158	79	4.10
Oklahoma	151,410	590	257	71	3.64
Oregon[a]	249,048	741	336	69	5.76
Puerto Rico	240,878	887	272	66	7.88

Source: OCSE data.

[a]Minnesota's CSE program is county-operated, and Oregon's program is a combination of state- and county-operated.

Note: FTEs include CSE personnel, staff from other state and local agencies working under cooperative agreements, and contractors.

According to two state agency officials and a CSE expert, although many state agency operations are automated, the program's processes remain labor-intensive. For example, one state agency official noted that automation has helped facilitate the processes of locating noncustodial parents and enforcing child support orders. However, this official also said that the additional information obtained through automation, such as data to help identify assets, can involve due process considerations that give noncustodial parents the right to a hearing. Agency staff may need to talk to these parents about their rights and responsibilities and to attend hearings—services that cannot be automated. Additionally, this official commented that while new program requirements established by federal law have created new enforcement tools, they have also led to processes that can be very labor-intensive. Another state agency official said that even with automation, caseworkers still need to work closely with families to ensure that data reflect families' current situations.

Furthermore, while OCSE has issued regulations that address minimum organizational and staffing requirements, OCSE officials said they have not reviewed the number of FTEs per state agency or issued specific guidelines. The OCSE regulations state the IV-D agency is to have an organizational structure and sufficient staff to fulfill various program functions and sufficient resources to meet performance and time standards. Also, the regulations include a provision under which the Secretary of HHS may set resource standards for a state if it is determined as a result of an audit that the state is not in substantial compliance with program performance standards and the Secretary determines that inadequate resources were a major contributing factor. OCSE officials said that it is more appropriate for state agencies to determine their resource needs because of the many differences in the operations among the state agencies, such as whether they are state- or county-operated. OCSE officials also stated that OCSE has not reviewed state agencies' FTEs or developed guidelines to help state agencies manage the number of FTEs and the related costs. Furthermore, OCSE officials said that given the demands on the program, they do not expect staffing levels to ever decline.

State Agencies Reported Implementing Cost-Saving Initiatives, and While OCSE Has Helped State Agencies, It Has Not Conducted Administrative Cost Audits in Most States

State agencies reported they had implemented cost-saving initiatives identified in our survey, and while OCSE has provided assistance to help state agencies, it has not conducted administrative cost audits in most states to help ensure that federal funds have been used appropriately. Most state agencies reported that savings from implementing cost-saving initiatives were reinvested in the program. OCSE has provided a range of assistance to help states manage costs, and state agencies have generally found that assistance helpful. However, OCSE has completed a limited number of administrative cost audits from March 2004 to March 2006, even though all of the completed audits raised questions about inappropriate expenditures.

State Agencies Reported Implementing Many Cost-Saving Initiatives and Reinvesting the Savings in the Program

Nearly all state agencies reported they had implemented 4 of the 10 cost-saving initiatives identified in our survey. Also, at least one-half of the state agencies reported they had implemented 3 other initiatives, while fewer than one-half of the state agencies reported implementing the remaining 3 initiatives. Of the 10 initiatives, 6 have been implemented by some state agencies for a decade or more, while others have been implemented more recently. For example, 9 state agencies reported having implemented voice response systems before fiscal year 1995. By contrast, electronic distribution of collections via debit cards did not begin to be implemented by any state agency until fiscal year 2000, and most of the state agencies with debit cards reported they implemented them in or after fiscal year 2004. State agencies reported several reasons for not implementing initiatives, including lack of funds or staff to perform the work, issues related to protecting program and client data, and the need to meet other state or CSE program priorities. Table 6 provides more information about the cost-saving initiatives in our survey, and appendix VI identifies the initiatives that state agencies reported they had implemented.

For many state agencies, participation in certain initiatives has been voluntary, and the extent of participation has varied. According to an OCSE November 2005 update of a survey of all state agencies conducted by the Massachusetts state agency, most state agencies offered direct deposit as an option, with the percentage of payments made via direct deposit ranging from 10 percent to 73 percent. Also, according to the results of this survey, some state agencies—such as Illinois and Nebraska--offered debit cards to custodial parents on a voluntary basis, and the percentage of payments made via debit cards in a state ranged from about 3 percent to 70 percent. The survey data are consistent with what we found in the states we visited. In Utah and Connecticut, for example, direct deposit is voluntary and officials said that 41 percent and 46 percent of payments, respectively, were made through direct deposit. Electronic transmittal of wages withheld by employers for child support payments is another example of an electronic payment method that is voluntary, in this case for the employer. For example, in Alaska, a state agency official told us that about 53 percent of payments withheld from wages are received electronically. According to state agency officials with whom we spoke in Utah and Connecticut, as well as an OCSE official, participation in electronic payment initiatives has not been higher for several reasons, such as the initial start-up costs employers incur and the clients' lack of familiarity with these methods and preference for cash. Also, according to an official from the Utah state agency, debit card fees, such as ATM fees that clients may be charged to access their funds, have affected participation. Officials in Connecticut and Utah said that their agencies have tried to increase participation through repeated educational efforts, such as periodically distributing brochures and letters. In Utah, officials said these efforts typically increase participation 10 percent to 15 percent after each campaign. Similarly, Connecticut officials also described outreach efforts to increase participation and estimated that about 30 custodial parents had enrolled in direct deposit each week in state fiscal year 2005. Other state agencies, such as North Dakota and Puerto Rico, have sought to attain the maximum participation possible by requiring clients to choose either direct deposit or debit cards. [31]

State agencies reported savings and other benefits after implementing the 10 initiatives listed in our survey. For example, New York reported saving $4.5 million since fiscal year 1993 after implementing electronic transfer of wages withheld by employers for child support payments, and Texas estimated that by providing online training for its staff, the state agency had saved $650,000 since fiscal year 2001. Also, officials in Connecticut stated that direct deposit costs them 17 cents per payment, while issuing a paper check costs about 61 cents to produce and mail.[32] In addition to cost savings, states can realize other benefits from implementing these initiatives, such as time savings from quicker processes, enhanced customer service, or the opportunity to use staff for other program needs. Our 2004 report found that debit cards can help states avoid or minimize the problem of undistributed collections—funds that were delayed or never reached families.[33] Also, debit cards ensured receipt of child support payments during Hurricanes Katrina and Rita, according to agency and federal officials. Additionally, payments that are transferred electronically can be credited to multiple cases simultaneously, according to Utah state agency officials.

[31] States that require the use of debit cards or direct deposit generally allow exemptions for various reasons, according to an OCSE official. For example, in some states, exemptions to the use of direct deposit may be granted for clients with language barriers and for certain international cases. Reasons cited by an OCSE official for exemptions to the requirement for debit cards include situations where some minor parents are denied debit cards by private vendors hired to administer the process, or some parents that have difficulty using a debit card because they live in a remote location or have disabilities, and for some cases that involve limited payments such as cases in which a payment is made once a year when a tax refund is intercepted.

[32] According to state agency officials from Connecticut, the state agency has a single contract for the implementation of multiple initiatives and estimated savings of about $100,000 a month, but did not provide cost saving estimates for each initiative. Also, the officials estimated additional costs savings of another $100,000 a month after full implementation of the initiatives.

[33] GAO, *Child Support Enforcement: Better Data and More Information on Undistributed Collections Are Needed*, GAO-04-377 (Washington, D.C.: Mar. 19, 2004).

Table 6: Cost-Saving Initiatives State Agencies Reported Implementing and Estimated Cost Savings Reported by State Agencies, as of February 2006

Initiative name and description	Year first implemented by any state agency	Number of state agencies that reported implementing this initiative	Cumulative savings (minimum and maximum) estimated by any state agency and implementation year[a]			
			Minimum	Year	Maximum	Year
Electronic fund transfers between states for interstate cases	1991	52	$30,000	2001	$650,000	2001
Automated voice response systems to handle child support inquiries 24 hours a day, 7 days a week, without personalized service	1990	48[b]	200,000	2000	72,000,000	1996
Direct deposit of child support payments to custodial parents' checking or savings accounts	1989	48[b]	15,000	2004	7,000,000	2003
Electronic methods for noncustodial parents to transmit payments	1989	38[b]	600	2003	30,000	2001
Electronic receipt of wages withheld by employers	1990	50[b]	325,000	1998	4,500,000	1993
Web site that permits custodial or noncustodial parents to access or update their file information	1999	29	24,000	2002	10,000,000	2002
Debit cards that allow custodial parents to access their child support payments electronically	2000	27	5,700	2005	3,000,000	2005
Child support training conducted via the Internet/intranet for child support staff	1993	22	10,000	2002	650,000	2001
Automated address change service available through the U.S. Postal Service	1996	11			100,000[c]	2004
Contracts for management of non-IV-D cases[d]	1996	9			$0[e]	

Source: GAO survey.

[a]A few state agencies reported zero cost savings for certain initiatives, but expected future cost savings. In addition, many state agencies reported that cost savings were unknown for several initiatives.

[b]California is included in the total number of state agencies implementing these initiatives; however, at the time our survey was administered, implementation was limited to certain counties.

[c]Only 1 state agency provided an estimate of cost savings for this initiative.

[d]Non-IV-D cases are those for which the state agency is not providing, or has not previously provided, services under the state's TANF, child support, foster care, or Medicaid programs.

[e]Two state agencies provided an estimate for this initiative, and, in both cases, the estimated cost savings was zero.

Most state agencies (38) reported that they reinvested the savings from implemented initiatives in the CSE program. For example, state agency officials we interviewed in Connecticut and Utah told us that once resources are no longer needed for developing and implementing a new initiative, they reallocate these resources to other tasks. In Utah, a state agency official with whom we spoke estimated that by implementing an automated voice response system and a customer service Web site and by providing training on how to answer clients' inquiries efficiently, the state agency was able to shift four full-time staff who formerly handled customer service calls to other projects. Conversely, five state agencies reported that they did not reinvest their savings. For example, the Nevada state agency reported that savings were returned to the state general fund per state requirements, and the Vermont state agency reported that in some cases state funding for the program was reduced by the amount of the savings.

Additionally, state agency officials told us about other practices that they implemented to reduce costs, beyond the initiatives specified in our survey. For example, in Connecticut, the state agency has adopted practices as varied as using videoconference facilities to allow caseworkers to attend hearings that can help reduce travel costs and printing double-sided notices to clients. In Utah, the state agency has automated notices to noncustodial parents regarding pending wage withholding. In Virginia, the state agency automated intercept of unemployment insurance payments in fiscal year 2003 and reported total costs savings of $240,000 as a result. The Georgia state agency reported implementing Internet-enabled voice communication to reduce telephone costs.

OCSE Has Taken Steps to Help State Agencies Manage Costs

OCSE issued guidance and awarded grants to state agencies to help them manage costs. OCSE issued guidance on a wide range of topics addressing program operations that may directly or indirectly lead to cost savings. For example, OCSE has issued guidance on electronic disbursement of payments, criteria for closing cases, multistate financial institution data matches, and review and adjustment of support orders.[34] In addition, OCSE has awarded grants to help state agencies develop and implement certain initiatives. For example, in fiscal year 2002, OCSE awarded Indiana a $100,000 grant to investigate the use of debit cards to reduce undistributed

[34] 69 Fed. Reg. 77659 (Dec. 28, 2004) and OCSE's Policy Interpretation Question 04-02.

collections, Texas a $71,630 grant to develop electronic payment methods for noncustodial parents, North Carolina a $200,000 grant for an outgoing automated voice response system to send reminders to clients, and Colorado a $100,000 grant for Web-site technology to increase customer services.

OCSE has created several work groups consisting of federal and state agency officials to address specific issues of concern to all state agencies. Some examples of these federal/state work groups are discussed as follows:

- *Work group on a Standardized Electronic Wage Withholding Order*: OCSE convened a work group in 2004 to develop a standardized method for the electronic transmission of wage withholding orders to employers. The work group was composed of representatives from state and tribal child support enforcement agencies, employers, federal agencies (Social Security Administration, Department of Defense, and the United States Postal Service), and a large payroll processing company. This work group developed, among other things, a draft electronic wage withholding order for state agencies to notify employers of a wage withholding action. According to OCSE, electronic transmission of wage-withholding orders will increase processing efficiency and improve the speed with which payments are made to families and also reduce the cost of postage and processing paper documents.

- *The National Judicial/CSE Collaboration Work Group*: OCSE convened this work group in 2004 to help improve collaboration between child support enforcement agencies and courts. This work group's goals include improving case processing and facilitating electronic data and document exchange between state agencies and courts.

- *National Child Support Enforcement Training Work Group:* This work group met in 2005 to identify training needs and resources available to address strategies in the Strategic Plan. The goal is to develop a strategy for meeting training needs in order to improve program results and customer services at all levels.

Also, OCSE has facilitated information exchanges in other ways. OCSE has sponsored conferences and invited representatives from state agencies who have experience with specific initiatives to appear on panels to share ideas with representatives from other state agencies. According to an OCSE official, OCSE is working with state agencies to add information about various initiatives to its existing automated systems certification guide. State agencies interested in implementing certain initiatives will be able to consult the guide to learn from what others have done. The guide will also have information about the availability of grants to help states implement the initiatives. According to this official, the first draft of the amended guide will be available to the state agencies for comment in June 2006. In addition, OCSE held telephone conferences with state agencies on specific subjects. For example, according to an OCSE official, OCSE arranged a teleconference in February 2006 to enable state agencies that had implemented debit cards to share their experiences and expertise with state agencies interested in implementing them. OCSE officials noted that they also distributed CD-ROMs to state agencies with information on the Web-based customer service practices of 6 state agencies.

Generally, state agencies responding to our survey viewed OCSE assistance favorably. In particular, as shown in table 7, nearly all of the state agencies reported that OCSE's efforts to create federal/state work groups, hold conferences or sponsor training, issue guidance, and facilitate information exchange were very or moderately helpful.

Table 7: States Agencies' Views about OCSE's Efforts to Help Them Manage Program Costs

OCSE efforts	Number of state agencies rating OCSE's assistance as very or moderately helpful
Creating federal/state work groups (such as the medical support, interstate, or undistributed collections work groups)	49
Holding or sponsoring conferences or training	48
Issuing guidance	47
Facilitating the sharing and exchange of information (e.g. the Compendium of Best Practices, the OCSE Web site, or the newsletter)	44
Leading special projects (such as projects in the area of interstate case reconciliation, medical support, and other projects)	41
Conducting annual planning document reviews for system modifications/upgrades	36
Providing special technical assistance (e.g. performance reviews to help states automate, reviews to help assess cost savings associated with certain enforcement tools, and other reviews)	31
Awarding grants for state projects (e.g. Special Improvement Projects)	27

Source: GAO survey.

OCSE Has Conducted a Limited Number of Administrative Cost Audits

Although OCSE is required to perform audits to determine whether federal and other funds made available to carry out the state program are being appropriately expended, OCSE has not conducted administrative cost audits in most states. From March 2004 to March 2006, OCSE issued eight administrative cost audit reports--an average of 4 per year. The issued reports show that all of the audits were limited in scope and all raised questions about inappropriate expenditures. For example, one audit of costs claimed for one quarter found that the federal government paid approximately $670,000 for unallowable collection costs and litigation settlements claimed by the Texas state agency. Another audit that examined expenses claimed for one quarter recommended that the Vermont state agency reimburse the federal government $603,057 for failing to properly report interest income and abandoned property as program income and claiming costs not related to the CSE program. Table 8 summarizes the administrative cost audits completed as of March 2006.

Table 8: OCSE's Administrative Cost Audits Completed from March 2004 to March 2006

State Agency	Date of report	Scope of audit	Major findings
Florida	March 2, 2004	Analysis of cooperative agreement costs charged by the CSE program.	The audit recommended that all cooperative agreement costs claimed, in the amount of $75.3 million, be questioned until further studies are conducted.
Arkansas	February 16, 2005	Salary, fringe benefits, automated data processing costs, fund transfers, and genetic testing fees claimed on the state agency's expenditure report for one quarter covering April 1, 2004, to June 30, 2004.	The state agency had claimed salary and fringe benefit costs for personnel not working for the CSE program, claimed fund transfers to the state treasurer that were not CSE expenditures, and incorrectly reported recouped genetic testing fees in the amount of $614,861 that the agency later refunded to the federal government.
Texas	July 20, 2005	Non-IV-D costs and settlement charges claimed on the state agency's expenditure report for the quarter ended June 30, 2004.	The state agency incorrectly claimed non-IV-D costs for processing collections and claimed costs of a lawsuit settlement totaling $670,253 that were not associated with the normal activities of the CSE program.
Vermont	February 7, 2006	Expenses claimed for one quarter on the state agency's expenditure report under the category of program income as well as other selected costs.	The state agency failed to properly report interest income and abandoned property as program income and included costs not related to the CSE program totaling $603,057. In addition, $92,000 was being questioned.
Connecticut	February 8, 2006	Expenses claimed for one quarter on the state agency's expenditure report under the category of cooperative agreement and other selected costs.	The audit found that the state agency improperly claimed funds totaling $525,605 for payments to employees either retiring or terminating employment and for contractual services and commodities. The audit recommended that $346,899 be refunded to the federal government.
New Jersey	February 22, 2006	Costs claimed on the state agency's expenditure report for the period of April 1, 2003, through March 30, 2004.	The audit found that $1,423,288 of costs claimed by the state agency was either not allocable or allowable under federal cost principles and regulations and recommended that $939,370 be refunded to the federal government.
Alabama	March 1, 2006	Certain costs claimed on the state agency's expenditure report for the quarter ended June 30, 2005.	The audit found the state agency claimed advertising and legal services costs that did not benefit the CSE program and, thus, was not allowable. As a result, the state agency refunded $17,010 to the federal government.
New Mexico	March 13, 2006	Selected costs claimed by the state agency for the quarters ended June 30, 2002, through March 31, 2005.	The audit identified $270,316 in overcharges by the state agency and recommended that the agency refund $140,983 to the federal government.

Source: GAO analysis of OCSE cost audit reports.

An OCSE official explained that OCSE completed a limited number of administrative costs audits because most of its resources were devoted to completing data reliability audits associated with the federal incentive payments. In fiscal year 2004, OCSE notified state agencies that it would not perform data reliability audits annually but would conduct audits every 2 or 3 years, based on prior audit results. In addition, the notice indicated that this approach would increase the resources available to conduct other audits. According to an OCSE official, additional administrative cost audits have not been planned and that unless OCSE gets more audit resources, it is likely that few administrative cost audits will be conducted. This official also explained that OCSE has added reviews related to medical support in anticipation of a medical support incentive payment measure and this effort has taken resources from other audit work. [35] In commenting on a draft of this report HHS informed us that OCSE's approach for conducting fewer data reliability audits has not yet increased available audit resources.

OCSE's audit plan identifies several types of audits and reviews and shows that most of the planned audits are not administrative cost audits. The plan lists 16 administrative cost audits—also referred to as limited cost audits, as well as 37 data reliability audits, 17 data reliability reviews, 4 paternity audits, and 36 medical support reviews.[36, 37] According to an OCSE official, the audit plan needs to be updated to reflect current information and status of the assignments.

While OCSE has conducted few administrative cost audits, others have conducted audits of the CSE programs, and although some of these audits addressed administrative cost issues, generally they had a broader focus. For example, at the federal level, the CSE program is audited as part of the annual financial statement audit of HHS. Financial statement audits of federal entities are intended to provide decision makers with assurance as

[35]Under the Child Support Enforcement Amendments of 1984, HHS was required to issue regulations to require state agencies to petition for the inclusion of medical support as part of any child support order whenever health care coverage is available to the noncustodial parent at a reasonable cost. Over the years other legislation has been enacted to facilitate state agencies' attempts to secure and enforce medical coverage for children. A medical child support working group was established and issued a report that contains 76 recommendations, including one that Congress amend Federal law to require that the medical support incentive measure is developed in conjunction with the implementation of certain requirements established in CSPIA. In addition, OCSE's strategic plan for 2005 to 2009 identifies medical support as a possible future incentive measure.

[36] In commenting on a draft of this report, HHS stated that OCSE is required to perform a data reliability review each year for those state agencies that are not receiving a data reliability audit and that while reviews consume less time than an audit, reviews require a significant amount of time and resources.

[37] According to an agency official, the paternity audits are done when a state agency's data fails the data reliability audit and then resubmits the data in a subsequent fiscal year.

to whether the financial statements are reliable, internal control is effective, and laws and regulations are complied with. In addition, statewide single audits assess whether states have complied with requirements in up to 14 managerial or financial areas, including allowable activities, cash management, and eligibility. However, in our review of TANF and Child Care programs, we found that single audits were limited in scope and varied in how they were conducted, state by state.[38] Furthermore, the HHS Office of Inspector General (IG) and state auditors have completed audits of the CSE program. From fiscal years 2000 to 2005 the IG issued 13 audit reports that focused on the CSE program, and 2 of these reports focused on administrative cost issues. For example, 1 audit of Ohio's CSE program found contracting deficiencies and overcharges. We reviewed selected state auditors' reports of CSE programs from 5 of the 6 states we visited, and found that 3 of these reports included some findings related to administrative costs, automated data systems, or internal control.[39, 40] For example, the audit of the Connecticut program found that the state had not properly allocated all related costs. An OCSE official stated that, as part of its standard procedures for planning administrative cost audits, its auditors consider the significance and materiality of findings disclosed in previous audit reports, both OCSE and other sources, such as the State Auditor, IG, as well as any single audit reports that may have been performed. Also, according to comments from HHS on a draft of this report, OCSE develops an audit plan that first considers staff availability and then prioritizes which state agencies to audit based on several factors such as requests from the ACF regional

[38]GAO, *TANF and Child Care Programs: HHS Lacks Adequate Information to Assess Risk and Assist States in Managing Improper Payments*, GAO-04-723 (Washington, D.C.: June 18, 2004).

[39] According to agency officials, a statewide review of Ohio's CSE program was not available because audits are done at the county level.

[40] The five standards for internal control are (1) control environment—management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management; (2) risk assessment—internal control should provide for an assessment of the risks the agency faces from both external and internal sources; (3) control activities—activities that help ensure management's directives are carried out-- should be effective and efficient in accomplishing the agency's control objectives; (4) information and communications—information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities; and (5) monitoring—internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

offices, issues identified during data reliability audits, knowledge of possible problems from other sources and how long it has been since the prior audit. OCSE officials did not cite the level of expenditures for administrative costs as a factor that was considered in planning administrative cost audits.

Conclusions

In addition to the changes made by the Deficit Reduction Act of 2005 that will affect federal expenditures for the CSE program, there may be other opportunities to reduce the federal expenditures for the CSE program. Although many state agencies reported implementing several initiatives that have resulted in savings, most state agencies reported that they have reinvested funds in other CSE program areas. As such, state agencies have not used savings from implemented initiatives to reduce administrative costs. State agencies also reported that several of the cost categories that were major contributors to federal expenditures for administrative costs were related, at least in part, to the number of FTEs devoted to the program, including state and local CSE agency personnel; staff from other state and local agencies that provide services under cooperative agreements; and contractors. Although OCSE has established minimum organizational and staffing requirements, OCSE has not conducted a study to establish FTE or staffing guidelines to determine whether there are additional opportunities to improve the efficiency of the CSE program and reduce administrative costs.

Furthermore, OCSE has not conducted administrative cost audits in most states. Of the administrative cost audits recently completed by OCSE, all have raised questions about inappropriate expenditures or unallowable costs. Nonetheless, most of the completed and planned audits are focused on incentive payment data and indicators, and although OCSE expects to have more resources available to conduct audits, it does not plan to use these resources to conduct more administrative cost audits. The audits related to the incentive payments are important, however many more federal dollars have been spent for administrative costs, and the federal expenditures for administrative costs have been increasing and are not capped. From the federal government's perspective, more focus on administrative cost audits would be a prudent use of resources. Also, in developing its plans for administrative cost audits, OCSE officials did not cite total expenditures for administrative costs as a factor in determining which state agencies to audit. Without conducting administrative cost audits in more states, and without a plan for conducting audits based in part on the level of expenditures, OCSE cannot ensure that federal funds have been appropriately spent.

Recommendations for Executive Action

To help manage the administrative costs for the child support enforcement program and ensure federal funds are being appropriately spent, we are making three recommendations. We recommend that the Secretary of Health and Human Services direct the Commissioner of OCSE to

- conduct a study of and develop guidelines for the number of full-time-equivalent employees,
- direct resources gained from conducting fewer data reliability audits for the incentive payments to completing more administrative cost audits, and
- develop an audit plan that considers total expenditures as one of the factors used to select state agencies for administrative cost audits.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from HHS. These comments are reproduced in appendix VII. HHS also provided technical comments, which we incorporated when appropriate.

HHS did not explicitly agree or disagree with our recommendations. In response to our recommendation to conduct a study of and develop guidelines for the number of full-time-equivalent employees, HHS stated that OCSE will consider doing such a study. HHS also noted that OCSE issued a report that reviewed collections, expenditures, caseload, and other data by full-time-equivalent employees for the 1997 and 1998 time frame. We reviewed this report and determined that while it summarizes these data, it does not address guidelines.

In response to our recommendation to develop a plan to conduct administrative cost audits, HHS commented that OCSE has developed plans to conduct administrative cost audits in the past, has conducted those audits, and will continue to develop plans in the future. We revised the report to acknowledge that OCSE has a plan for conducting administrative cost audits as well as other audits and to incorporate information from the technical comments about the plan. Additionally, we modified this recommendation to better reflect our intent to encourage OCSE to complete more administrative cost audits than it completed during the 2004 to 2006 time period and to consider total expenditures for administrative costs when planning these audits. In light of our finding that all of the completed administrative cost audits have identified inappropriate or unallowable expenditures, additional audits are needed to help ensure that federal funds are used appropriately.

HHS also identified several areas that needed further clarification. HHS suggested that we explain that the CSE program locates custodial parents and that custodial as well as noncustodial parents may apply for services. We modified the report to include these facts. HHS also said that the report does not note that staffing declined since fiscal year 2003. We did not make any changes in response to this comment since data in the report show this decline. In addition, HHS commented that we did not discuss the relationship between spending and performance and referred to the findings in a report done by the Lewin Group, Inc. We did not include an analysis of the relationship between spending and the performance measures because that analysis was beyond the scope of our work for this review. As for the Lewin report, we did not include findings from this report because they were based on fiscal year 1997 data, and the report includes a statement that the findings should be interpreted carefully because of several problems associated with measures that are proxies for performance, data quality, missing variables, and other factors. Additionally, the HHS comments pointed out that our report did not include certain provisions in the Deficit Reduction Act of 2005 or mention estimated income or savings related to this act. We added this information to the report.

We are sending copies of this report to the Secretary of Health and Human Services, Directors of state child support enforcement agencies in the states we visited, and other interested parties. In addition, we will make copies available to others upon request. Also, this report will be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staff have any questions about his report, please contact me at 202-512-7215 or AshbyC@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VIII.

Sincerely yours,

Cornelia M. Ashby

Cornelia M. Ashby, Director
Education, Workforce, and
Income Security Issues

Appendix I: Objectives, Scope, and Methodology

Objectives

The objectives of this study were to determine (1) how total net federal expenditures for administrative costs have changed from fiscal year 2000 to fiscal year 2004, (2) the categories of cost that have contributed most to federal expenditures for administrative costs in recent years, and (3) steps state agencies have taken to manage costs and steps the Office of Child Support Enforcement (OCSE) has taken to help state agencies and to ensure federal funds have been used appropriately.

Scope and Methodology

In conducting our review, we used multiple methodologies. We (1) analyzed program data for all 54 state agencies for fiscal years 2000 to 2004; (2) conducted a survey of state agencies; (3) visited 6 state agencies; (4) interviewed OCSE and state agency officials as well as child support experts; and (5) reviewed relevant laws and regulations, pertinent reports and studies, and applicable OCSE policy and guidance documents. We conducted our work between June 2005 and June 2006 in accordance with generally accepted government auditing standards.

Analyses of Program Data

To determine how net federal expenditures for administrative costs have changed, we obtained data from the system that maintains information related to funds administered by Health and Human Services' (HHS) Administration for Children and Families, including funds provided to state agencies. This system is known as the Grants Application Tracking and Evaluation System (GATES). Before analyzing the data, we took several steps to assess its reliability. We interviewed HHS officials responsible for managing GATES and obtained information about the system such as its purpose, the procedures to ensure that it captures all records, and tests or edit checks to assure that data are accurate. We also obtained copies of the system manual and system audit reports. Because the state agencies are the sources for the GATES data, we also interviewed state agency officials and asked them about reviews and routine audits of the data, and we obtained copies of system audit reports as well as documents that summarized the procedures for ensuring data accuracy. Additionally, we compared expenditure data from several state agencies with data from GATES and found they were nearly identical. Furthermore, we reviewed results of OCSE's data reliability audits of state agencies' data related to the performance incentive measures, including collections, and cost-effectiveness ratios. On the basis of these steps, we determined the data from GATES were sufficiently reliable for the purposes of this report.

We obtained and analyzed several sets of state CSE program data for fiscal years 2000 to 2004. We analyzed the net federal share of state expenditures and calculated the percentage change and the median amounts. Additionally, we examined other program data to gain some perspective about changes in the net federal expenditures for administrative costs. Specifically, for fiscal years 2000 to 2004, we examined collections, number of cases, the cost-effectiveness ratios, and the number of full-time-equivalent employees. To determine the cost per case, we used the total number of cases at the end of each fiscal year and the nominal net expenditures for each year. We calculated the median amounts for expenditures and collections because of the wide variation among state agencies. Since the data span a 5-year period, we considered it appropriate to adjust the expenditure and collection data for inflation, using the price index for the U.S gross domestic product when the analysis covered a period of years. These data, in 2004 dollars, were used in discussing trends in net federal expenditures for administrative costs and collections. However, when we calculated percentage changes from year to year, we used nominal dollars to be consistent with data previously reported to Congress.

Survey of State Agencies

We designed and administered a survey to all 54 state agencies. The survey asked state agencies to identify the administrative cost categories in which they incurred costs during fiscal years 2002 to 2004 and to estimate the percent of the state's administrative costs for the five categories that accounted for the largest percentages. The survey also asked state agencies whether they had implemented 10 cost-saving initiatives and, if so, when each was implemented and what the cost savings had been, if any. We selected these 10 cost-saving initiatives after reviewing OCSE's Compendium of State Best Practices and Good Ideas in Child Support Enforcement for 2001, 2002, and 2003—the most recent years available at the time of our review. We selected initiatives that had demonstrated dollar savings or the potential for dollar savings. The last section of the survey asked state agencies to rate how helpful certain OCSE efforts had been in reducing or minimizing their administrative costs and if there were other actions OCSE could take to help state agencies reduce or minimize administrative costs. Surveys were sent via an e-mail as a MSWord attachment in November 2005, and all 54 state agencies sent in responses by February 2006.

Because we received responses from all of the state agencies, our results are not subject to sampling error. However, the practical difficulties of conducting any survey may introduce other types of errors, commonly referred to as nonsampling errors. For example, differences in how a particular question is interpreted and the sources of information available to respondents in answering a question can introduce unwanted variability into the survey results. We included steps in both the data collection and data analysis stages to minimize such nonsampling errors. For example, the survey instrument was developed by a GAO survey specialist in collaboration with staff knowledgeable about the CSE program. In addition, the survey was reviewed by another GAO survey specialist and pretested telephonically with two state agencies to develop a survey instrument that was relevant, easy to comprehend, unambiguous, and unbiased. We made changes to the content and format of the survey instrument based on the review and the results of the pretests. To further reduce nonsampling error, respondents entered their responses directly into the survey instrument and returned them electronically. Responses were then reviewed by GAO staff for completeness and internal consistency, and when data seemed questionable, we followed up with state agency officials for clarification.

Survey responses were then keypunched into the database used for analysis and these data were 100 percent verified for accuracy of data entry. When the data were analyzed, a second, independent analyst checked all computer programs.

Visits to State Agencies

We visited state agencies in 6 states—California, Connecticut, Maryland, Ohio, South Carolina, and Utah. We selected these states because they represented diversity in changes in federal expenditures during fiscal years 2002 to 2004, geographical location, and operational structure (state- or county-operated). During these visits, we interviewed state officials and obtained their opinions and perspectives about key issues. We discussed administrative cost trends for their state, the categories of cost that contributed most to their total administrative costs, and steps taken to reduce costs, including implementing the cost-saving initiatives. We also collected administrative cost data for fiscal years 2002 to 2004, state agency policies and procedures, and relevant reports.

Interviews of officials, representatives, and experts

We interviewed many CSE program officials and representatives from various organizations to learn more about each of the objectives. We interviewed several key OCSE officials, including the Commissioner, Director of the Office of Audits, Director of State and Tribal Systems, and the Director of the Planning, Research and Evaluation Division. Several of these interviews focused on OCSE's efforts to help states manage their administrative costs and their efforts to help ensure that federal funds were used appropriately. In addition, we obtained their views on reasons the expenditures have increased and the factors that have contributed most to these increases. We also discussed our objectives with representatives from the National Child Support Enforcement Association and the National Council of Child Support Directors. These discussions covered each of the objectives and the participants shared their views and insights. For example, the participants expressed their opinions about personnel costs as a major contributor to administrative costs, various cost-saving initiatives, and OCSE's efforts to help state agencies. In addition, we interviewed experts and professionals with extensive knowledge of the child support program. Specifically, we discussed the objectives with professionals from the Center for Law and Social Policy (CLASP) and the Urban Institute.

Reviews of laws, policies, and reports

During the course of this work, we obtained and reviewed numerous documents. We reviewed provisions in several laws that affected the CSE program, including, among others, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the Child Support Performance and Incentive Act, and the Deficit Reduction Act of 2005. We examined OCSE's policies and guidance, strategic plans, forms and instructions for reporting administrative costs as well as other OCSE reports and documents related to administrative costs. We obtained and reviewed documents and reports prepared by state agencies, the Congressional Budget Office, CLASP, the Congressional Research Service, the Urban Institute, and the Lewin Group and ECONorthwest. In addition, we reviewed several prior GAO reports.

Appendix II: Annual Percentage Changes in Net Federal Expenditures, by State Agency, for Fiscal Years 2000 to 2004

	Percentage change, by fiscal year			
State Agency	2000 to 2001	2001 to 2002	2002 to 2003	2003 to 2004
Alabama	(8.4)	16.8	4.2	4.7
Alaska	(3.0)	(1.8)	5.4	(9.3)
Arizona	(3.6)	(2.2)	(6.0)	7.7
Arkansas	17.0	18.3	(11.8)	(9.9)
California	77.0	53.5	(5.2)	19.1
Colorado	2	6.2	16.7	(1.5)
Connecticut	1.8	17.9	(3)	49.0
Delaware	21.7	(16.3)	31.6	7.6
District of Columbia	25.7	(12.0)	39.7	(38.3)
Florida	10.6	(1.4)	2.6	8.6
Georgia	9	2	4.7	1.0
Guam	193.6	(29.8)	(27.1)	22.1
Hawaii	(51.4)	5.5	79.2	(58.2)
Idaho	12.8	(8.4)	3.8	6.0
Illinois	26.9	4.0	10.6	(8.1)
Indiana	33.6	(26.9)	(20.3)	66.2
Iowa	(19.9)	9.8	9.2	8.7
Kansas	36.0	(8.1)	(18.8)	4.6
Kentucky	16.6	(15.4)	5.2	(14.2)
Louisiana	30.0	(5.0)	(7.0)	8.7
Maine	(355.0)	242.3	(93.3)	829.8
Maryland	(12.5)	6.7	(4.3)	4.6
Massachusetts	(27.2)	(1.2)	16.0	27.1
Michigan	36.8	(5)	(3.2)	(12.8)
Minnesota	14.6	13.2	4.5	1.8
Mississippi	(19.1)	(7.2)	(2.4)	1.9
Missouri	(5.3)	(19.2)	5.8	(1.2)
Montana	(8.0)	(20.7)	21.1	(2.7)
Nebraska	28.5	9.1	(6.7)	(4.2)
Nevada	(14.4)	15.3	(8)	(1.4)
New Hampshire	(1.8)	45.5	(15.7)	(5.2)
New Jersey	(3.3)	24.3	(8)	13.3
New Mexico	36.7	(19.3)	9.3	(16.5)
New York	6.1	48.3	(2.1)	21.8
North Carolina	4.8	7.7	(5)	8.1

	Percentage change, by fiscal year			
State Agency	2000 to 2001	2001 to 2002	2002 to 2003	2003 to 2004
North Dakota	16.9	(1.2)	(3.9)	9.4
Ohio	28.8	(4.9)	(9)	(10.4)
Oklahoma	6.0	30.6	(6.0)	(10.2)
Oregon	(11.5)	17.1	12.6	(6.7)
Pennsylvania	(10.4)	11.1	14.4	(5.1)
Puerto Rico	23.8	(4.5)	22.3	(23.7)
Rhode Island	37.4	23.5	(10.5)	(9.3)
South Carolina	26.7	(18.7)	(2.4)	(8.8)
South Dakota	1.1	(13.3)	10.2	5.6
Tennessee	(2.9)	23.3	(8.7)	10.1
Texas	13.6	28.0	13.3	(3.7)
Utah	4.2	(1.6)	(1.8)	12.2
Vermont	26.7	8.0	13.4	(57.0)
Virgin Islands	63.1	(33.3)	(9.6)	17.3
Virginia	(16.7)	8.8	4.8	9.3
Washington	14.3	(4.7)	21.7	3.3
West Virginia	(21.6)	2.3	17.1	12.7
Wisconsin	17.4	3.6	11.8	3.1
Wyoming	13.6	(17.7)	(4.3)	18.8

Source: OCSE data.

Note: Nominal dollars were used when comparing data from year to year in order to be consistent with data previously reported to Congress. Parentheses indicate a decrease.

Appendix III: Annual Percentage Changes in Collections, by State Agency, for Fiscal Years 2000 to 2004

	Percentage change, by fiscal year			
State Agency	**2000 to 2001**	**2001 to 2002**	**2002 to 2003**	**2003 to 2004**
Alabama	4.2	5.3	5.9	1.4
Alaska	9.6	4.4	(2.4)	3.5
Arizona	7.9	8.1	1.7	6.1
Arkansas	1.4	5.5	5.0	6.9
California	(3.5)	(11.4)	21.0	2.1
Colorado	7.7	6.7	0.3	6.9
Connecticut	6.3	6.8	2.6	1.9
Delaware	9.0	11.4	3.4	3.5
District of Columbia	7.8	7.4	9.3	9.0
Florida	8.1	14.7	10.9	10.3
Georgia	6.0	8.3	9.3	2.6
Guam	(3.3)	6.3	5.0	4.7
Hawaii	4.2	6.0	3.0	6.8
Idaho	16.4	9.4	7.7	7.6
Illinois	17.4	8.5	2.4	8.5
Indiana	2.0	17.3	(3.0)	6.1
Iowa	8.3	7.8	5.7	3.9
Kansas	(8.6)	5.5	3.8	2.5
Kentucky	9.9	12.8	1.0	14.6
Louisiana	9.2	11.5	4.9	2.4
Maine	6.4	1.0	1.6	2.0
Maryland	3.1	4.5	3.3	4.5
Massachusetts	14.0	10.9	5.6	3.5
Michigan	2.8	4.2	(2.8)	7.0
Minnesota	7.3	4.9	4.0	1.6
Mississippi	9.5	6.9	3.6	4.0
Missouri	9.9	10.3	5.4	3.9
Montana	7.0	5.9	1.9	1.6
Nebraska	12.2	(10.4)	2.4	4.7
Nevada	6.0	8.8	9.0	8.1
New Hampshire	2.6	3.8	4.6	1.0
New Jersey	6.7	6.9	5.2	5.8
New Mexico	10.2	19.0	15.3	11.0
New York	4.2	12.2	4.0	(2.2)
North Carolina	8.8	8.9	5.8	6.3

	Percentage change, by fiscal year			
State Agency	2000 to 2001	2001 to 2002	2002 to 2003	2003 to 2004
North Dakota	13.9	6.8	7.3	5.8
Ohio	3.6	10.7	(3.2)	4.5
Oklahoma	8.5	13.4	8.1	8.1
Oregon	9.2	1.8	4.8	3.2
Pennsylvania	7.3	6.4	1.9	1.1
Puerto Rico	7.1	8.0	9.8	3.5
Rhode Island	1.0	8.9	(1.4)	4.0
South Carolina	10.6	7.8	3.6	1.4
South Dakota	9.1	6.7	3.7	6.2
Tennessee	11.3	15.2	11.1	8.1
Texas	21.7	14.7	11.9	(3.0)
Utah	7.9	4.5	3.0	2.5
Vermont	5.1	2.0	1.7	15.3
Virgin Islands	(4.8)	2.0	5.8	11.6
Virginia	15.9	8.3	7.0	5.9
Washington	4.4	3.1	1.1	(1.0)
West Virginia	14.0	10.2	3.9	9.0
Wisconsin	2.6	(1.6)	6.0	1.9
Wyoming	7.0	7.1	4.6	4.5

Source: OCSE data.

Note: Nominal dollars were used when comparing data from year to year in order to be consistent with data previously reported to Congress. Parentheses indicate a decrease.

Appendix IV: Percentage Changes in the Cost-Effectiveness Ratio by State Agency and Nationwide

State Agency	Percentage change in the cost-effectiveness ratio from the previous fiscal year		
	2001 to 2002	2002 to 2003	2003 to 2004
Alabama	(9.23)	3.85	4.50
Alaska	8.45	(5.57)	6.13
Arizona	3.16	5.18	(1.12)
Arkansas	(6.01)	17.29	24.36
California	(26.82)	20.94	(8.23)
Colorado	2.23	(12.02)	10.25
Connecticut	(2.59)	7.45	(20.79)
Delaware	24.91	(17.21)	(0.66)
District of Columbia	19.03	(22.30)	50.24
Florida	11.94	8.93	2.51
Georgia	7.07	5.42	4.47
Guam	23.31	28.05	7.62
Hawaii	6.01	(22.21)	71.26
Idaho	14.50	7.75	4.21
Illinois	12.00	(5.71)	21.97
Indiana	23.03	1.41	(11.00)
Iowa	6.83	(1.95)	1.27
Kansas	3.98	19.54	0.96
Kentucky	15.44	3.61	21.93
Louisiana	11.19	4.93	(1.37)
Maine	(28.79)	16.59	(12.83)
Maryland	(0.71)	8.11	0.88
Massachusetts	12.26	(5.37)	(10.62)
Michigan	(4.77)	4.36	13.15
Minnesota	(1.94)	0.00	1.23
Mississippi	19.46	5.34	6.13
Missouri	21.52	6.91	9.09
Montana	4.86	(11.46)	8.54
Nebraska	(14.33)	12.20	12.73
Nevada	(11.42)	8.71	6.09
New Hampshire	(19.07)	8.01	11.65
New Jersey	(8.35)	4.76	(3.36)
New Mexico	36.45[a]	7.53	19.11
New York	(11.44)	11.36	(13.80)
North Carolina	9.65	12.64	0.40

State Agency	Percentage change in the cost-effectiveness ratio from the previous fiscal year		
	2001 to 2002	2002 to 2003	2003 to 2004
North Dakota	12.41	8.28	5.29
Ohio	13.71	2.08	11.20
Oklahoma	(3.45)	11.43	16.67
Oregon	(11.76)	(4.27)	10.18
Pennsylvania	(1.86)	(0.73)	3.09
Puerto Rico	13.79	(9.57)	38.98
Rhode Island	6.86	2.43	8.21
South Carolina	27.61	7.67	10.76
South Dakota	(1.68)	2.77	(3.97)
Tennessee	(9.82)	21.56	(5.67)
Texas	3.44	4.07	5.68
Utah	5.42	6.17	(1.21)
Vermont	0.77	(3.82)	11.64
Virgin Islands	41.07	16.46	(0.54)
Virginia	3.59	2.84	(2.91)
Washington	8.79	(8.28)	(0.44)
West Virginia	4.96	(6.78)	(2.64)
Wisconsin	0.83	(2.62)	(0.67)
Wyoming	22.25	11.40	(7.36)
NATIONWIDE	(1.90)	4.60	1.39

Source: OCSE.

Note: Parentheses indicate a decrease.

[a]OCSE reported the data for 2001 as not reliable

Appendix V: Percentages Reported by State Agencies for Most Frequently Cited Cost Categories

Administrative cost category	Category reported as largest cost category			Category reported as one of five largest categories		
	Number of state agencies	Highest percentage	Lowest percentage	Number of state agencies	Highest percentage	Lowest percentage
Personnel	38	80	30	49	80	3
Cooperative agreements	3	70	40	37	70	2
Automated data systems	5	65	25	35	65	1
Contracts	3	68	49	41	68	1

Source: GAO survey.

Appendix VI: State Agencies' Implementation of Certain Cost-Saving Initiatives

State	Initiatives: Electronic receipt of wages withheld by employers	Electronic methods for noncustodial parents to transmit payments	Direct deposit	Debit cards	Automated voicemail systems	Web site to access or update case information	Automated address change service	Child support training via internet/ intranet	Contracting non-IV-D case registry	Electronic fund transfers for interstate cases
AL	✓				✓	✓				✓
AK	✓	✓	✓	✓	✓	✓	✓			✓
AZ	✓	✓	✓	✓	✓	✓		✓		✓
AR	✓	✓	✓	✓	✓		✓			✓
CA	✓[a]	✓[a]	✓[a]		✓[a]					
CO	✓	✓	✓	✓	✓	✓				✓
CT	✓	✓	✓		✓	✓		✓		✓
DE	✓	✓						✓		✓
DC	✓	✓	✓		✓					✓
FL	✓	✓	✓		✓			✓	✓	✓
GA	✓	✓	✓	✓	✓	✓				✓
GU	✓		✓					✓		✓
HI	✓	✓	✓		✓					✓
ID		✓		✓	✓	✓		✓	✓	
IL	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IN	✓		✓	✓	✓	✓				✓
IA	✓	✓	✓	✓	✓	✓	✓	✓		✓
KS	✓		✓				✓		✓	✓
KY	✓		✓						✓	✓
LA	✓	✓			✓	✓				✓
ME	✓		✓		✓			✓		✓
MD	✓		✓		✓	✓				✓
MA	✓	✓	✓	✓	✓	✓			✓	✓
MI	✓	✓	✓	✓	✓		✓	✓		✓
MN	✓	✓	✓	✓	✓	✓		✓		✓
MS	✓	✓		✓	✓					✓
MO	✓	✓	✓		✓					✓
MT			✓	✓	✓	✓				✓
NE	✓	✓	✓	✓	✓					✓
NV	✓		✓	✓	✓					✓
NH	✓		✓		✓					✓
NJ	✓	✓	✓	✓	✓	✓				✓
NM	✓	✓	✓		✓	✓	✓			✓

	Initiatives									
State	Electronic receipt of wages withheld by employers	Electronic methods for noncustodial parents to transmit payments	Direct deposit	Debit cards	Automated voicemail systems	Web site to access or update case information	Automated address change service	Child support training via internet/ intranet	Contracting non-IV-D case registry	Electronic fund transfers for interstate cases
NY	✓		✓	✓	✓	✓	✓	✓	✓	✓
NC	✓	✓	✓		✓	✓		✓		✓
ND	✓	✓	✓	✓	✓	✓				✓
OH	✓	✓	✓	✓			✓			✓
OK	✓	✓	✓		✓		✓	✓		
OR	✓	✓	✓	✓	✓	✓		✓		✓
PA		✓	✓	✓	✓	✓		✓		✓
PR	✓	✓	✓	✓	✓					✓
RI	✓	✓		✓	✓			✓		✓
SC					✓					
SD	✓	✓	✓	✓	✓					✓
TN	✓	✓	✓		✓	✓	✓			✓
TX	✓	✓	✓		✓	✓		✓	✓	✓
UT	✓		✓		✓	✓		✓		✓
VT	✓	✓	✓		✓	✓				✓
VI	✓		✓							✓
VA	✓	✓	✓		✓	✓				✓
WA	✓	✓	✓	✓	✓	✓		✓		✓
WV	✓		✓	✓	✓	✓	✓	✓		✓
WI	✓	✓	✓		✓	✓		✓		✓
WY	✓	✓	✓							✓

Source: GAO survey.

[a]Implementation of this initiative was limited to certain counties as of the time of our survey, December 2005.

Appendix VII: Comments from the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JUN 20 2006

Ms. Cornelia M. Ashby
Director, Education, Workforce, and
Income Security Issues
U.S. Government Accountability Office
Washington, DC 20548

Dear Ms. Ashby:

The Department of Health and Human Services (HHS) appreciates the opportunity to review and comment on the U.S. Government Accountability Office's (GAO) draft report entitled, "CHILD SUPPORT ENFORCEMENT: More Focus on Labor Costs and Administrative Audits Could Help Reduce Federal Expenditures" (GAO-06-491), before its publication.

The Department provided several technical comments directly to your staff.

These comments and the concurrence of the recommendation represent the tentative position of the Department and are subject to reevaluation when the final version of the report is received.

Sincerely,

Larry J Goldberg

for Daniel R. Levinson
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for U.S. Government Accountability Office reports. OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE DRAFT REPORT ENTITLED, "CHILD SUPPORT ENFORCEMENT: MORE FOCUS ON LABOR COSTS AND ADMINISTRATIVE AUDITS COULD HELP REDUCE FEDERAL EXPENDITURES" (GAO-06-491)

The Department of Health and Human Services (HHS) appreciates the opportunity to comment on the U.S. Government Accountability Office's (GAO) draft report.

GAO Recommendations

To help improve program cost effectiveness, manage costs, and ensure federal funds are being appropriately spent, we are making two recommendations. We recommend that the Secretary of Health and Human Services direct the Commissioner of the Office of OCSE to

- ***conduct a study of and develop guidelines for the number of full-time equivalent employees; and***
- ***develop a plan to conduct administrative cost audits that target state agencies based on total expenditures and findings from prior audits conducted by OCSE, the HHS OIG, or state auditors.***

HHS Response

HHS's Office of Child Support Enforcement (OCSE) appreciates GAO's work in this area and we will consider doing such a study.

GAO may wish to note that OCSE issued full-time equivalent (FTE) reports that reviewed collections, expenditures, caseload, etc. by FTEs under DCL-00-25, which applied to the 1997 and 1998 timeframe. This document is located on OCSE's Web site at http://www.acf.hhs.gov/programs/cse/pol/DCL/dcl-00-25.htm.

OCSE developed plans to conduct administrative cost audits in the past, has conducted those audits, and will continue to develop plans to conduct administrative cost audits in the future.

HHS General Comments on the Report

GAO should clarify throughout the report that the title IV-D program locates custodial parents as well as noncustodial parents and putative fathers because noncustodial and custodial parents may apply for services. For example, a noncustodial parent may apply for service if he/she seeks to establish paternity or request a review and adjustment.

GAO points out that personnel costs are a large expenditure for States, but it is not noted that staffing in States has declined since fiscal year (FY) 2003.

GAO also does not discuss the relationship between spending and performance. If child support expenditures substantially decrease, so will services to families. The Lewin Group, Inc., report on the "Associations between Performance and Financing" found that staffing levels were positively associated with strong performance on paternity and order establishment. GAO does not include these two measures on the chart on page 23. The study also found that there were tradeoffs between cost-effectiveness and other performance measures.

GAO mentions the Deficit Reduction Act (DRA) legislation, but not the fact that the $25.00 fee and no match on incentives (as well as several other provisions) will impact program financing. Per the Congressional Budget Office, the fee will raise $405 million for the Federal Government from FYs 2007 through 2015 and the no match will save the Federal Government over $5.3 billion from FYs 2008 through 2015.

2

Appendix VIII: GAO Contact and Staff Acknowledgments

GAO Contact

Cornelia M. Ashby 202-512-7215

Staff Acknowledgments

In addition to the person named above, Carolyn M. Taylor, Assistant Director; Susan Higgins, Analyst in Charge; Tim Hall; Sheila McCoy, Chris Morehouse; Vernette Shaw; Wilfred Holloway; Cathy Hurley; Stu Kaufman; and James Rebbe made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone:	Voice:	(202) 512-6000
	TDD:	(202) 512-2537
	Fax:	(202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER