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THE INTERNAL REVENUE SERVICE AND CHILD SUPPORT ENFORCEMENT

EXECUTIVE SUMMARY

The Internal Revenue Service (IRS) is currently involved in the child support enforcement program both as a source of valuable information to assist in locating noncustodial parents, their assets and their place of employment, and as a collection authority to enforce payment of delinquent support obligations. In FY 1992, well over one-half of a billion dollars was collected by the IRS on behalf of over 800,000 child support cases.

Because of the success of this partnership and the perceived success of IRS tax liability enforcement efforts, child support advocates are increasingly calling for a greater IRS presence in the child support enforcement program, arguing that payment of support should be as automatic and universal as payment of taxes. The President, too, has voiced support for increased IRS involvement in collecting delinquent child support.

In response, this paper addresses how the IRS could play a stronger role in the enforcement of child support. Examined, is the current relationship between IRS, HHS and the State and local child support enforcement agencies and options for further enhancement and expansion.

The options provided are separated into two sections based on scope and intensity. The first set build upon programs which have proven to be effective. The key programs in which the IRS currently participates are: the Federal Parent Locator Service (FPLS), Project 1099 (asset and employment identification), the Federal Tax Refund Offset Program and the IRS Full Collection Process. While these programs, on the whole, have been highly successful and continue to serve as fundamental components of the national child support enforcement effort, as offered in this paper, they could be significantly expanded or improved.

The options explored for improving the effectiveness of the current partnership include:

1. Expanded availability of tax refund offset services, equitable treatment of cases subject to this service and publicized availability;
2. Expanded use of tax return information for child support enforcement purposes and exchange of information by IV-D agencies with the IRS; and,
4. Expansion of the Full IRS Collection Process -- both a modest expansion aimed at providing a deterrent effect and a more comprehensive expansion are explored.

The options included in the second group are more extreme and thus may appear to offer a greater impact but, unlike the first group, do not come without issue. At some point most have been included in proposed legislation and have received some level of support from the child support community. While they appear to be far-reaching, there is virtually no information about the actual number of non-custodial parents who ignore their child support obligations but not their tax liability but have also managed to escape the full array of State enforcement techniques.

The options explored in this section are:

1. Maintenance of child support data by the IRS to support a national directory of new hires;
2. IRS responsibility for enforcement of interstate cases;
3. Collection of past-due support through tax returns; and,
4. Collection of support by IRS through the tax withholding process.

Finally, this paper ends with a discussion of transitional and resource issues, including suggestions for their treatment.

I. BACKGROUND

The Internal Revenue Service (IRS) is currently involved in the child support enforcement program both as a source of valuable information to assist in locating noncustodial parents, their assets and their place of employment, and as a collection authority to enforce payment of delinquent support obligations. The history of IRS involvement in the child support enforcement program has been continuous, and has expanded steadily, since the enactment of title IV-D of the Social Security Act (the Act) in 1975. Most notable has been the involvement of the IRS in collecting past-due support through the Federal income tax refund offset program. In FY 1992, well over one-half of a billion dollars was collected by the IRS on behalf of over 800,000 child support cases.

Clearly, the IRS has the potential to be a powerful and imposing ally in the continuing battle to enforce parental obligations. The vast majority of noncustodial parents, whether they pay their child support or not, cannot avoid their tax liabilities. If they work for wages or salary, their employer withholds taxes and reports income to the IRS. If they have savings or investments, buy or sell property, have a pension or retirement account, etc., the IRS receives information annually. If an individual fails to file a tax return or pay taxes owed, the IRS is diligent and generally successful in tracking down the taxpayer and enforcing the obligation (overall full-pay rate for individual master file cases for October 1992 - May 1993 is 22%). There may also be a significant psychological advantage to employing the IRS as an enforcer of support debts.

Because of these advantages, whether real or perceived, child support advocates are increasingly calling for a greater IRS presence in the child support enforcement program, arguing that payment of support should be as automatic and universal as payment of taxes. The President, too, has voiced support for increased IRS involvement in collecting delinquent child support.

In response, this paper addresses how the IRS could play a

stronger role in the enforcement of child support. Examined is the current relationship between IRS, HHS and the State and local child support enforcement agencies and options for further enhancement and expansion. The options provided are separated into two sections based on scope and intensity. The first set build upon programs which have proven to be effective. The options included in the second group are more extreme and thus may appear to offer a greater impact but, unlike the first group, do not come without issue. Finally, the paper concludes with a discussion of transitional and resource issues, including suggestions for their treatment.

II. CURRENT ENVIRONMENT

The key programs in which the IRS currently participates are: the Federal Parent Locator Service (FPLS), Project 1099 (asset and employment identification), the Federal Tax Refund Offset Program and the IRS Full Collection Process. While these programs, on the whole, have been highly successful and continue to serve as fundamental components of the national child support enforcement effort, as offered later in this paper, they could be significantly expanded or improved.

A. The Federal Parent Locator Service

The FPLS is a computerized national parent location service operated by the Federal Office of Child Support Enforcement (OCSE). The FPLS receives cases from State and local child support agencies and forwards them on a weekly or biweekly basis to the various Federal and State agencies to obtain location information. Information is received from six Federal agencies, including IRS, and 49 State Employment Security agencies. Tax return information is one of the most important and far-reaching sources available for location of a noncustodial parent's address and employment.

Weekly matches are conducted with the IRS masterfile to obtain address and Social Security Number (SSN) information from the most recent tax return filed by the taxpayer. During FY 1992, the FPLS processed nearly 4 million cases with over 2.8 million

cases being sent to IRS for addresses and 500,000 cases referred to IRS for SSN's.

States are charged a small fee (\$.70 per case) for use of the FPLS for non-AFDC cases. This revenue covers a portion of OCSE's administrative costs, including reimbursement of the participating source agencies. IRS currently is paid over \$150,000 per year by OCSE for its participation in this weekly match with its masterfile.

B. Project 1099

Since 1984 OCSE and IRS have also conducted quarterly matches of absent parent names and SSNs (submitted by States) with the Form 1099 and Form 1098 information submitted by financial institutions, i.e. banks, employers, brokerage houses, government agencies, etc., and maintained by IRS. These matches enable child support enforcement agencies to identify the various sources of absent parents' income, employment addresses and other relevant information which may be useful in locating noncustodial parents and their assets. During FY 1992, approximately 4 million cases were submitted by States to Project 1099.

The IRS provides information for Project 1099 under the authority of statute, which permits disclosure of return information to appropriate Federal, State and local child support enforcement agencies. As a condition of receiving this Federal tax return information, the receiving agency must establish and maintain, to the satisfaction of the IRS, certain safeguards designed to prevent unauthorized use of the information and to protect the confidentiality of that information. In addition, the information received from IRS may not be re-disclosed to third parties. States must first independently verify the information before it can be used in a court or administrative enforcement proceeding or otherwise be disclosed.

C. The Federal Tax Refund Offset Program

With respect to direct enforcement of child support obligations, the IRS has been actively involved since 1982 in the interception

of Federal income tax refunds for payment of past-due child support. The program is a cooperative effort of the IRS, OCSE and State Child Support Enforcement agencies. The Tax Refund Offset Program, accounts for approximately twenty percent of all AFDC collections annually and over seven percent of all collections.

In order for a case to be submitted for the offset program, the case must be a IV-D case. For AFDC cases, the amount owed by the noncustodial parent must be at least \$150 and the delinquency must be 3 months or older; in non-AFDC cases, the amount must be at least \$500, the child on whose behalf such support is collected must be a minor and, at State option, arrears that accrued before the case became IV-D may be included. The State is required to verify the accuracy of the debt amount and to provide the noncustodial parent with a pre-offset notice and opportunity for review if the debt is contested.

Each year, Child Support Enforcement agencies submit to the IRS (through OCSE) the names, SSNs, and amounts of past-due child support owed by individuals. When the IRS processes tax returns, it identifies returns of those who owe child support. If a refund is due, all or part of the refund is retained to offset past-due support. Spousal support may also be collected under certain circumstances.

Since inception of the offset program, IRS has collected over four-and-one-half billion dollars in delinquent support, making it one of the most effective and efficient enforcement remedies available to child support enforcement agencies. During FY 1992, over 3.5 million cases were submitted to the IRS, of which 737,254 AFDC cases and 254,435 non-AFDC cases were offset by tax refund interceptions and \$643 million was collected. States are permitted to charge up to \$25 for non-AFDC tax refund offset submittal. The IRS charges States (1993 processing year) \$5.19 per case offset. If OCSE sends the pre-offset notice for the States, an additional \$.32 per offset-notice is collected by HHS.

D. The IRS Full Collection Process

Another collection avenue available to State child support agencies through IRS is the Full Collection Process. Through the Full Collection Process, IRS provides State child support agencies a collection mechanism when their attempts to recover delinquencies have failed. Cases eligible for submittal must have a court or administrative order, be at least \$750 in arrears and at least 6 months must have elapsed since the last request for referral. The State must certify that further efforts on their behalf would be unproductive, but that information indicates there may be assets which the IRS can attach to satisfy the debt. The IRS fee for this service is \$122.50 whether or not the collection action is successful (typically paid by the custodial parent in non-AFDC cases).

Under current operations, the process is strictly manual. Applications for full collections are forwarded by State Child Support agencies to ACF regional offices where they are reviewed to determine if the criteria discussed above are met. Each case is then forwarded to the IRS Service Center for the district in which the noncustodial parent lives. IRS assesses the child support liability and sends a notice to the delinquent parent. Once assessed, the IRS treats the case as it would a tax liability. After 60 days, unless paid in full, the case becomes a taxpayer delinquent account and is assigned to a district collection field function for collection. To resolve the delinquency, a collection employee may receive full payment, allow an installment agreement, levy property and rights to property, offset tax credits, or close the case as currently uncollectible because of hardship or because the taxpayer cannot be located or contacted (and there are no assets to levy).

Very few cases have been submitted for the IRS Full Collection process. While there are currently about 450 open full collection cases, only 136 new cases were certified in FY 1991. IRS made 369 collections in FY 1991 totalling \$327,500 (an average of \$887 per case). Only 30 new cases were certified in FY 1992. While the actual number of cases with collections rose to 409, the total amount collected fell to \$293,400 (an average of \$717 per case).

A pilot project currently underway with IRS will provide more insight into the Full Collection Process and how it can be improved. The purpose of the pilot test is to analyze the types of cases submitted by States; to look closely at which cases result in collections; and to analyze the nature of the enforcement action taken by the IRS. Under the pilot several changes will be made in case handling. The IRS has waived the \$122.50 fee for the pilot cases; the arrearage threshold has been increased to \$2,500; and, States will not be required to document the enforcement actions they have taken.

Under the pilot, individuals who are self-employed or have other significant miscellaneous income will be given particular consideration. In addition, States have been asked to give priority to interstate cases. (Of the 698 cases given to the IRS under the pilot, 395 are interstate cases). Experience shows that such cases have the best prospects for a successful outcome through the Full Collection Process.

III. DISCUSSION

Proponents of a greater IRS role in child support enforcement argue that noncustodial parents would have a much stronger incentive to comply if IRS were the central enforcing agent. Further, they believe that the experience the IRS has garnered in collecting tax debts can be equally effective if applied to the collection of child support. Accordingly, over the last several years, a number of proposals have been put forth which would provide the IRS with a significant role in the collection and enforcement of child support.

Last year, a child support reform proposal put forth by Congressman Hyde and then Congressman Downey would have required a very strong role for the IRS in child support enforcement. Under the working draft, the IRS would collect support directly from all noncustodial parents' pay and distribute such amounts to families. Critics of such increased involvement argued however that there is no evidence that transfer of enforcement functions to the IRS would result in greater success in enforcing support obligations, particularly with respect to those difficult cases

involving the unemployed, underemployed or obligors working in an underground economy.

A Bush Administration initiative, Project KIDS, similarly would have drawn IRS further into the child support enforcement process. Under the proposal, overdue child support would have become a tax liability. Delinquent noncustodial parents would face stiff penalties and delinquent payments would be treated as tax liabilities, collectible by State revenue agencies and the IRS.

Congressman Hyde has introduced a bill this session of the Congress, the Uniform Child Support Enforcement Act of 1993, to require that the Internal Revenue Service collect child support through wage withholding and through a tax reconciliation process rather than through State enforcement efforts. A companion bill was offered in the Senate by Senator Shelby.

While not involving the Internal Revenue Service in the direct administration of child support enforcement, several proposals have been put forth in recent years which affect the tax treatment of child support -- paid and unpaid.

A bill pending in the Senate last session, introduced by Senator Bumpers would have allowed custodial parents a bad debt deduction for unpaid child support payments and would have required the noncustodial parent to add such amounts as income. A similar bill was introduced by Congressman Cox in June. However, it is worth noting that the ability to claim unpaid child support as a bad debt may be meaningless since most taxpayers affected by non-payment of support do not have sufficient earnings to claim the bad debt deduction.

Finally, at a recent hearing on child support, Senator Dodd indicated that he too will be offering legislation which, among other things, will provide for greater use of the IRS in collecting support.

Opponents of an increased IRS role argue however, that although the reputation of the IRS may indeed cause some absent parents to

make payments, the reality is that the Federal tax system, not unlike State child support systems mainly relies on voluntary compliance. IRS has in the past raised concerns that such voluntary compliance with the tax code may deteriorate if debt collection for other program or private debts, becomes a prominent feature of the tax system.

According to a March 1993 article in the Los Angeles Times, former IRS Commissioner Laurence B. Gibbs, has warned that such a plan would merely encourage taxpayers to reduce their payroll deductions (an argument which has been posed since inception of the Federal Income Tax Refund Offset Program but which has not come to fruition). Mr. Gibbs is quoted as saying "We're one of the very few countries in the world that has been able to make withholding work. Once you take somebody's refund...the next year you'll have to chase them."

Still others charge that the IRS is publicly viewed as a hostile and punitive agency which will not facilitate the kind of voluntary cooperation essential to child support success. In the article referenced above, research director of the National Taxpayer's Union, Paul Hewitt, agreed and said, "There's a strong predilection in the United States against getting the IRS too involved in people's private lives."

Further, States today have potent enforcement remedies equal or superior to those of the IRS. They include wage withholding, garnishment of wage and bank accounts, seizure and sale of assets, reporting to consumer reporting agencies; the ability to require posting of bonds and other forms of security; placement of liens on the real and personal property of noncustodial parents; criminal and civil contempt powers; and, State and Federal income tax refund offset processes. Since unpaid installments under child support obligations are already judgments by operation of State law, they do not need to be reduced to judgment, unlike delinquent tax obligations.

What the States clearly lack though, is the ability to easily reach across State lines. With estimates indicating that 30 percent of child support cases are interstate, this inability is

not insignificant and may alone justify the call for increased IRS involvement, particularly in these interstate cases.

IV. OPTIONS

A. Expansion of Current Framework

As indicated above, the IRS is already playing a vital role in the enforcement of child support. Unfortunately, the current use of IRS' resources to aid in the establishment and enforcement of support obligations is not without problems and could go much further in addressing the child support needs of America's children.

The following options build on the current partnership between the IRS and child support. While in most cases changes in the law and additional resources would be necessary, significant benefits to the child support community could be realized at minimal cost and with minimal transitional complications.

1. Tax Refund Offset Services

Expand Availability to Non-IV-D Families

The Tax Refund Offset Program is currently available for IV-D cases only. While any family may receive IV-D services (and thus benefit from the tax offset program), once application is made the family is subject to all IV-D services and does not have the ability to limit State action. However, a number of families who do not otherwise need or desire IV-D services would benefit from access to the tax refund offset service.

While some extent of State involvement would still be necessary for verification of the debt amount, notice to the taxpayer-obligor of the referral for offset and right to review, i.e., amount of arrearage, the tax offset program could be extended to non-IV-D families at limited burden to IV-D agencies or the IRS. The IV-D program could be expanded to provide a tax refund offset-only service similar to the locate-only service currently available. Alternately, custodial parents or private attorneys

on behalf of custodial parents could be required to file an affidavit of arrears and be given authority to certify cases for offset (through the State agency).

An expanded fee system could be instituted to cover costs, especially if States did not earn incentives on these collections but were required to incur extra costs. Substantial benefits could be realized in terms of welfare avoidance and good-will garnered from the child support community at large.

Equitable Treatment of IV-D Cases

As indicated previously, even within the IV-D program, the current rules for submitting cases for Federal income tax refund offset vary between AFDC and non-AFDC cases, with non-AFDC cases being provided unequal access to this enforcement technique in two ways. First, in non-AFDC cases the arrearage necessary to qualify for tax offset (\$500) is more than three times then that for AFDC cases (\$150). Second, past-due amounts sought in non-AFDC cases must be on behalf of a minor child. After a child reaches the age of majority in non-AFDC cases, this valuable enforcement technique is lost for collecting past-due support, including any arrearages which accrued while the child was a minor. There is no such limitation with respect to AFDC cases. In addition, the current limitation on offset for spousal support in non-AFDC cases could be changed to reflect the authority vested to collect such amounts under title IV-D of the Social Security Act.

Given the success of this program and the small expense involved, there appears to be no compelling reason for not treating the support rights of all families equitably.

Publicize Availability

The availability of the Tax Refund Offset Program (whether maintained for IV-D cases exclusively, or expanded, as offered above) could be promoted by the IRS. A brief description could be included in the Form 1040 package of materials mailed annually to every taxpayer, explaining procedures and providing

information on the availability of IV-D services. Many do not know the procedures to take in order to have the non-custodial parent's refund offset. This would ensure that parents most at risk of needing child support services are aware of how they can be obtained; signify the Federal government's seriousness about child support; and, serve as a potential deterrent to some noncustodial parents from becoming delinquent in their support duties.

Alternately, it might be possible to conduct a direct mail campaign which targeted single taxpayers with dependents, e.g. those who file as "head of household" or as "married filing separately" and list minor children as dependents.

2. Expanded Use Of Tax Return Information

As indicated above, privacy restrictions in the Internal Revenue Code currently limit the use of Project 1099 and other tax return information obtained by State and local agencies. Information obtained from the IRS must be rigorously protected against improper use, and even state and local enforcement agencies are severely limited by the restrictions imposed under the Internal Revenue Code. Generally, information provided by the IRS may not be disclosed directly to the court or administrative authority establishing or modifying a support order. In addition, current requirements for verifying information received from the IRS prior to its use for Child Support Enforcement purposes greatly diminish its value.

States have found these rules to be unduly restrictive especially in that full financial disclosure is essential to assure that appropriate orders are set in accordance with an obligors ability to pay. With appropriate safeguards (sealed records, closed proceedings, etc.) it would appear that judicial and administrative entities which establish and modify orders could be provided access to all available income and asset information maintained by the IRS, without compromising the confidentiality of the information.

Several States commenting on the Downey-Hyde proposal argued for

increased access to information from Federal tax records. One State encouraged expansion of agreements with IRS and Bendix to provide better enforcement tools at the State level.

More recently, when testifying at an August hearing on child support assurance, the Massachusetts Department of Revenue suggested that States be provided greater access to IRS data. In Massachusetts, access to tax data was key to increasing compliance rates to 80 percent; a figure which the State feels could be replicated nationally if greater State access to IRS records with fewer restrictions were provided. However, while access to the entity file may be available, current disclosure laws would prevent such direct access to Federal tax data.

3. Exchange Of Information By IV-D Agencies With The IRS

Often ignored is the flip side of this cooperative effort, that is, the value child support data could have to the IRS for purposes of enforcing tax liabilities. In fact, the IRS occasionally subpoenas address and payment information maintained by IV-D agencies. If the IRS needs assistance in locating a debtor, or in verifying whether a taxpayer (or which taxpayer) can lawfully claim a dependent's exemption, arguably, the State and local IV-D agencies should help. State Revenue offices may also benefit from receiving this information.

In conjunction with revised child support and IRS safeguarding rules, regular and systematic data exchanges could be established which might be of benefit to support enforcement and revenue agents alike.

4. Expand The IRS Full Collection Process

Modest Expansion - Deterrent Effect

One simple alternative to engaging IRS in a broad child support role would be to greatly expand the first step in the Full Collection Process, i.e. the "60-day notice" which IRS sends when a case is certified. These notices serve a valuable function in securing the debtor's attention. The obligor, thus, is not only

advised of the IRS' interest in securing compliance, but of certain specific dire consequences of continued refusal to pay (e.g. lien, attachment, credit bureau reporting, etc.).

These efforts could be closely coordinated with the referring IV-D agency, to minimize IRS' expenditure of resources and to avoid duplication of efforts. The obligor could even be referred to the IV-D agency as an alternative (which many debtors may prefer) to dealing with an IRS agent.

In addition, the 1099 data might serve as a valuable resource in identifying cases for full collection enforcement and to focus IRS' collection activities. Since this particular use of 1099 information is limited to an exchange between the Federal authorities, the State agency, and perhaps the taxpayer, no change in safeguarding procedures seems to be necessary. If the pilot is successful, it could be greatly expanded. Procedures could be developed to assure close communication and coordination of State-local and Federal enforcement efforts. Automation, new notices, regular case updates, and IRS referral to IV-D agencies for follow-up actions (e.g. entry of wage withholding, posting security or bond, etc.) could be considered.

Since IRS involvement under this option would be limited, costs should be significantly less than when full collection activities are necessary.

Comprehensive Expansion

As it currently exists, the Full Collection Process is prohibitively expensive for use in large numbers of cases, and Federal regulations impose significant hurdles which State agencies must meet in order to submit cases.

While the pilot project described previously should provide insight into how the Full Collection Process can be improved, certain problems are already apparent and can be addressed, if necessary, prior to awaiting the outcome of the pilot project.

In commenting on the Downey-Hyde proposal, most States were

largely opposed to full federalization of the child support program through the IRS but expounded on the need to improve and streamline the Full Collection Process. States are generally concerned about the protracted time period involved in full collection; the routine use of payment schedules rather than automatic seizure of assets; and, the lack of automation.

Under the current process, IRS provides a notice to the obligor which stays collection efforts for 60 days. This is followed by collection efforts including face-to-face personal collection. A simple way in which the time period involved in the Full Collection Process could be reduced would be to have the IRS 60-day notice period toll beginning with the notice provided by the IV-D agency. However, without a legislative change, a 30-day notice required under IRS rules would still apply.

It should be noted that according to IRS, child support cases are subject to enforcement action much sooner than most taxpayer delinquencies which remain in notice status for 26 weeks before other collection efforts are pursued. Thus, no other avenue for reducing the time period involved under the Full Collection Process is immediately apparent.

States are also critical of the IRS practice of placing a delinquent obligor on a payment schedule when assets like bank accounts exist which could be subject to attachment immediately. As the child support enforcement community is calling for a harder line in addressing the enforcement of child support, the IRS is being called on to take a more 'user-friendly' approach to addressing tax delinquencies. While the Taxpayer Bill of Rights may mandate flexibility in IRS consideration of tax debts, it might be beneficial if the treatment of child support arrearages were made clearly discernible from that of tax debts by carving-out a special policy requiring IRS to go after assets through lien, levy and seizure when possible rather than instituting payment plans. This would eliminate current complications when the IRS and judges set varying payment schedules for the same debt and would be more effective since less monitoring would be necessary. It would clearly respond to the criticism raised by the child support community that the Federal government may be

able to wait for payments under a protracted collection process, but most families cannot. This would undoubtedly require legislative change as IRS rules provide for case closing when debts are not collectible because of hardship and for the use of installment agreements based on a person's need to have sufficient money to live on.

Finally, some have complained that the current full collection process is too slow and labor intensive because of the lack of automation. IRS however does not believe that the process is either slow or labor intensive. Further, IRS response has been that because of the lack of volume, automation did not appear to be cost effective and regardless may not necessarily be more efficient. Further, they have tried to keep accounts receivable information on non-tax debts and the tax system separate and thus these cases cannot be easily integrated into their current system. Clearly though, expansion of the IRS role in the child support arena would necessitate some form of systems expansion.

B. New Directions

The following options speak to a more dramatic change in the role of the IRS in child support enforcement than those captured above. At some point most have been included in proposed legislation and have received some level of support from the child support community. It should be noted that while these proposals appear to be far-reaching, there is virtually no information on the actual number of non-custodial parents who ignore their child support obligations but not their tax liabilities but who have also managed to escape the full array of State enforcement techniques.

1. Maintenance of Child Support Data

Proposals to improve the enforcement of child support have recently included some provision for a new hire reporting system coupled with a child support registry. One option for such a system is the establishment of both a National Directory of New Hires and a National Registry of Child Support Cases. Employers or their payroll agency, at the time of hiring, would provide the

information on new hires to a National directory which would be matched against a child support registry (addressed in-depth under separate cover).

Since 1988, the IRS has been considering steps to simplify and streamline employer reporting. Most recently, as part of this study, consolidation of multiple Federal and State employer reporting requirements was analyzed. Preliminary estimates predict that over the next 15 years the results of this effort, The Wage Reporting Simplification Project (WRSP), will reduce employer burden by as much as \$13.5 billion and government costs by as much as \$1.7 billion.

The envisioned vehicle, the Simplified Tax and Wage Reporting System (STAWRS), can be viewed as a single entity provided employment, tax, and wage reporting services. Under this system, employers file returns, make payments, obtain assistance, and carry out any other interactions with just one STAWRS site or service group. Similarly, participating agencies would deal with one STAWRS entity in obtaining data and revenue submitted to the STAWRS and using other STAWRS services. For purposes of producing a cost and impact analysis, three alternative concepts have been defined. Option 1, the most comprehensive, includes a component for registering fact-of-employment; the data element necessary for child support purposes in collecting new hire data.

Under such a system, child support requirements would place no additional burden on employers, who would be reporting the data to the STAWRS entity in any event. The cost of using the information would be minimal because the data would be used for various purposes by a number of components, who would share costs. Should IRS go forward with such a system, Department of Health and Human Services involvement as a participating agency could be of significant benefit in the establishment of a Federal Child Support New Hire Reporting System.

While some have suggested that independent of this effort, IRS develop and maintain a child support registry, this option is not explored here as it would appear to be of questionable value unless IRS were to take a more wholesale role in child support

enforcement efforts than suggested by the various options presented in this paper.

2. Enforcement of Interstate Cases

As indicated previously, IRS has little direct enforcement ability beyond that which is currently available to State child support agencies. Where they could have a substantial impact though, is in the enforcement of interstate cases because of their ability to easily reach individuals and their assets across State lines. Since interstate cases are typically among the most difficult for State child support agencies to serve and the IRS is already equipped to collect taxes and disburse refunds on a national basis, a process could be developed for the routine referral of interstate cases to the IRS. Were such a referral coupled with IRS enforcement through automatic lien issuance, the collection of arrears in interstate cases could be dramatically improved.

Under this option, the IRS would, in effect, be taking on a major IV-D responsibility. To insure that the cost of servicing what may represent 30 percent of the IV-D caseload is not completely shifted to the Federal government or from the IV-D program to the IRS, a requirement could be established that States enter into contractual arrangements with the IRS for pursuit of their interstate caseload. States would pay the full cost of such arrangements which would then be subject to FFP under the IV-D program through transfer of 66 percent of the costs from HHS to IRS via the State.

In commenting on the Downey-Hyde proposal, several States acknowledged the significant benefits which could be gained by IRS involvement in interstate cases. In addition, during an August hearing on child support assurance, testimony was offered suggesting that as an interim step to Federalization of the program, the IRS establish a central registry of interstate cases and have responsibility for interstate wage withholding.

While this option would on the surface seem to provide the most effective role for the IRS in child support, the administrative

burden involved would need to be carefully weighed. If the IRS were given sole responsibility for enforcement of interstate cases an entirely new administrative capability to handle the volume of cases would need to be created. Such capability would necessarily duplicate much of the existing State processes since enforcement entails: locate; payment receipt, maintenance and disbursement; action to enforce non-payment; and, medical support enforcement activities.

Even if as suggested child support provided some of the funding to handle the additional cost, it is unlikely that sufficient staffing increases would be provided to handle the workload involved since IRS is constantly challenged by limited resources to meet existing responsibilities and the support related responsibility would be a peripheral appendage to its primary mission. In turn, the impact in terms of the IRS' capacity to carry out its primary missions could be profound.

A further complication would result from the often blurred distinction between interstate and intrastate cases. This is especially problematic as people move out of state and return or simply disappear. The confusion between agency responsibility which could result might have the perverse effect of lessening governments' responsiveness to interstate cases, increasing custodial parent confusion and frustration.

Alternately, a more practical approach would be to expand the Full Collection Process to target all interstate cases, not dissimilar to the approach being taken in the referenced pilot project. However, such an approach would need to be coupled with the other reforms to the Full Collection Process suggested above.

3. Collection of Past-Due Support Through Tax Returns

As indicated under the Discussion section of this paper various proposals have been put forth for the out right collection of child support arrears through the income tax return process. One of the simplest variations would be to modify tax forms to include several lines at the end of the form for self-reporting child support unpaid during the tax year. Such amounts would be

included in determining the individuals net tax liability or refund amount. This could be coupled with a revised form for the self-employed requiring individuals to include and pay such amounts with quarterly estimates of taxes; an idea most recently endorsed by the Children's Defense Fund's January 1993 report on the issue of child support assurance.

Amounts reported would be treated as tax debts and be subject to IRS enforcement. To limit administrative complexity, IRS would not have responsibility for auditing the accuracy of the information reported but any individual who failed to report could be subject to the same consequences imposed for otherwise failing to report truthfully on the tax form.

This option may increase compliance from noncustodial parents wishing to avoid IRS entanglement in their personal lives and increase the collection of arrearages simply because of the sheer weight of IRS involvement and the perception of inescapability. A number of obligors in arrears may be inclined to report truthfully to avoid a closer examination of their tax records by the IRS. The net effect may be marginal however, since like the tax system itself compliance would be voluntary. This concept was supported by a member of the Commission on Interstate Child Support Enforcement in commenting on the Downey-Hyde proposal and by the National Women's Law Center in testifying on the concept of child support assurance in August 1993.

While appearing simplistic, this option too raises a number of problems which are quite complex. The 1986 tax reform significantly reduced the number of individuals required to file income tax forms. Requiring self disclosure of child support would reverse this action by potentially requiring a huge number of individuals to file taxes who would not otherwise be required to do so and who also may not have sufficient income to pay the overdue support.

In addition, administrative details such as how a case would be handled as by whom if an individual had no money to pay the arrears or fails to disclose support owing. Depending on the

answer, this could further fragment the current system.

Under this option, IRS would also probably need to establish some form of an appeal process if penalties were imposed for failure to report truthfully. The expanded bureaucracy and administrative burden involved could have a substantial impact on the effectiveness of this approach and thus would need to be closely examined.

Some have proposed the idea of coupling this approach with a provision under which child support is deducted by employers under the same authority Federal taxes are withheld. However, this would appear to offer little more than current child support mandatory wage withholding laws offer and may actually be less effective because of the difficulty in getting funds collected from tax returns to obligees timely. Further, because of CCPA limits, any amounts withheld by the IRS to collect unpaid child support arrears could diminish the amounts available for payment of current support resulting in increased administrative burden but no net gain in support collected.

V. TRANSITIONAL AND IMPLEMENTATION ISSUES

While there are clearly a number of proposals which could be offered to improve child support enforcement through increased involvement of the Internal Revenue Service, expectations should not be unrealistic. Even the IRS cannot assure 100 percent compliance, with either tax or support obligations. For example, IRS staff have indicated that the biggest tax compliance problems are associated with independent contractors, not dissimilar to child support enforcement experience with the self-employed. In addition, a certain subclass of debtors have "opted out" of any relationship with banks, wage reporting employers or other financial entanglements which require the use of a Social Security Number. Some simply have no assets or income beyond a bare subsistence level. But, for the majority who pay their taxes and could pay their support, but fail to do so regularly or completely, attention from the IRS may be compelling.

IRS Resources

Naturally, if the role of the IRS is expanded, additional Federal resources will need to be devoted to the effort to ensure its effectiveness while at the same time ensuring there is no shift in resources from tax collection activities to child support enforcement. Current IRS procedures provide authorization to only one service center employee to screen child support cases.

In the IRS Collection Field function, the workload priority system determines the number of cases assigned to a revenue officer. Thus, an expansion of child support collection efforts would require additional staffing or would lead to cases other than child support not being worked. If new staffing were provided, it would take about 6 months before the new employees were trained and on the job full time. These new employees, like all employees would work the complete range of collection cases.

IRS currently collects about \$2,500 for each tax delinquency account, at an approximate cost of \$240. If the child support Full Collection Process were expanded to include 12,000 additional child support cases a year, IRS would require about 70 additional staff years to cover the expansion. If they were to absorb such cases without additional staff, the loss in terms of delinquent taxes not collected would be over \$30 million annually.

In addition to staffing, depending on the scope of the expanded IRS role in child support, it may be necessary to devote resources to support an automated interface between OCSE and/or and IRS.

Priority of Debt Collection

A very important issue in considering increased IRS involvement in child support enforcement efforts is the question of priority of support delinquencies. This is a concern with respect to both the issue of which debt should take precedence and as raised above and perhaps more important to the issue of transition, allocation of IRS resources. Currently, IRS gives a higher priority to child support cases since other cases fall under a system which can prevent certain cases, depending on a score,

from going to the Collection Field function. However, if IRS were more significantly involved in child support enforcement, more emphasis on one type of collections (like child support) could impede the recovery for others (tax debts).

If IRS had unlimited time and resources this would not be an issue. However, the reality is that IRS resources have been considerably reduced over the past several years, have not kept pace with the workload and tax collection would necessarily remain the agency's priority.

While IRS does not prioritize its work based on case type, it might be worthwhile to take a proactive prevent competing interests. One option would be to provide specialized agents to work on child support cases with appropriate training in service centers. As child support related caseloads increased, more specialized agents would be necessary.

Priority issues are ultimately a management decision which can be addressed at any time after the necessary legislation is enacted. However, it is unlikely that the IRS would want employees to solely work child support cases since the key issue is not who works the cases but assurance that they are worked.

Alternately, if staffing increases were not possible, IV-D employees or State revenue agents could be granted some limited IRS agent-like authority through a deputizing process based on meeting certain criteria and training standards. If this is possible, child support staff would be provided jurisdiction to delve into interstate child support matters, at no cost to the IRS, so that for example California revenue workers could pursue interstate cases. Similar consideration could be given to contracting out child support functions assigned to the IRS, fundable under or through the IV-D program.

This concept could be considered in conjunction with the option presented above of providing the IRS responsibility for enforcement of interstate cases. State revenue workers or staff of the IV-D agency given this authority would eliminate the need to transfer this function to the IRS eliminating the

administrative burden involved in establishing a new process within the IRS.

The second part of the priority issues deals with the decision which must be made when both tax and child support delinquencies are owing from the same individual. While there may be a compelling humanitarian reason to provide priority to the collection of child support, Federal taxes have always had priority over any other debt. Even State revenue efforts to collect support traditionally give priority to the tax delinquency over the child support delinquency. For example, California revenue officers don't even pursue support when tax debts are also owed. The pilot in LA county indicates a 20 percent overlap.

From a purely Federal fiscal standpoint, Federal tax recovery should have priority. Even when child support arrearages represent unreimbursed AFDC payment, because of the current Federal/State cost sharing arrangement, only one-half of the recovery amount would offset Federal expenditures.

However, under the Downey-Hyde proposal, collection of child support owed at the end of the year through the Federal tax return filing process would have taken precedence over tax collections. Several commenters on the proposal voiced support for this approach to debt priority. The most practical way to handle this issue may be to provide IRS sufficient flexibility to address priority of enforcement proceeds to a case-by-case basis.

While this issue is often brought up by the child support community, IRS has indicated that the only manner in which they prioritize the application of payments concerns the statute of limitation on the debt amount not the underlying basis of the liability.

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CHILD SUPPORT ENFORCEMENT FINANCING AND INCENTIVES

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SEPTEMBER, 1993

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FINANCING AND INCENTIVE

EXECUTIVE SUMMARY

This paper examines alternative ways to finance the Child Support Enforcement program. Statistics indicate that States are not collecting child support for a substantial portion of their caseload. Financing is one of many factors that have an effect on States' performance and results. This paper will consider alternative financing strategies and mechanisms that would promote the provision of more efficient and effective services.

The options which have been developed in this paper address a number of existing problems and inequities in the way the program is currently financed and seek to redirect the program consistent with a new set of premises about the program's purpose. The premises underlying these options are:

- Child support should lead to an increase in family well-being and economic stability, helping those not on welfare to stay off the rolls, and helping those on assistance to find their way to self-sufficiency.
- Financing options should encourage greater investment in child support enforcement activities.
- Options should contribute to a simplification of the financing structure, so it can be more easily understood by clients, administrators and policy makers alike.

Working from the above premises, four options were developed:

Option 1: Expanded Performance Incentives--Reduce direct Federal matching and link increased Federal funding to specific performance incentives which reward States for successful action on more difficult cases. Incentives would be based on performance and calculated against collections. Exemplary States could receive back from the Federal Government payments in excess of expenditures.

Option 2: Variable FFP With Incentives--States receive variable direct Federal matching dependent on their relative economic and financial capacity to fund their IV-D programs. State incentive payments would be linked to collections and families would receive a bonus for establishing support orders.

Option 3: High FFP--States receive very high direct Federal matching providing a reliable and predictable source of funding. This option has no separate performance incentives but would have increased Federal oversight and control; and,

Option 4: Tiered FFP--All direct Federal matching for States would be variable, dependent on how well a State performed in meeting specified objectives. (A matching rate floor would be established below which no State would fall). Since performance measures are built into the matching rates, this option has no separate structure of incentive payments. States with exemplary performance could receive up to 100 percent of their expenditures.

The four options reflect different philosophies about role of the Federal government in supporting the Child Support Enforcement Program and in the expected behavioral response on the part of the States. The options have purposefully been presented to highlight their differences, although variations could easily be developed.

Option 1 (Expanded Performance Incentives) and Option 4 (Tiered FFP) have the advantage of providing strong financial incentives for improved performance. Both options, however, with a base rate of 50 percent FFP could be perceived by some as a retreat by the Federal government from its strong support for Child Support Enforcement. Option 2 (Variable FFP) attempts to balance an incentive approach with the need to provide States with sufficient resources to operate a sound CSE program. The incentive scheme is much simpler in Option 2 than in Options 1 and 4 because it is based solely on collections.

Option 2 also specifically includes an \$300 incentive payment or bonus for the family. Like Option 2, Option 4 has a variable matching rate. In Option 2 the variable FFP rate recognizes that States have differing economic circumstances. In Option 4 the variable rate rewards good performance.

Option 3 (High FFP) provides the States with a very high match rate. The approach addresses concerns that the fiscal and political atmosphere in some States prevents the program from accessing needed resources. If resource limitations at the State level are the major barrier to program improvement, this option would likely have the greatest impact on program improvement. It also requires the greatest level of Federal monitoring.

It should be noted that all of the above options share some simplifying assumptions. There was not consensus about all of the assumptions, particularly the change in distribution policy and the selection of specific performance incentives. There was

a sense, however, that every variation increased the complexity of the options exponentially. The major simplifying assumptions include:

- Incentives based on results oriented performance. The performance indicators included cost-effectiveness, percentage of paternities established, percentage of cases with orders, percentage of paying cases, and percentage of AFDC case terminations with child support collections.
- No distinction made between AFDC and non-AFDC families. The goal of the program is to increase the well-being of all families. However, the options assume that the current distinction between IV-D and non-IV-D would continue.
- Child Support collections go in their entirety to the families on whose behalf they were collected. Collections on behalf of AFDC families are not retained by the States or the Federal government, although they would offset AFDC benefit costs.
- No change in fee and cost recovery policy. However, nothing in any option precludes the charging of fees or the recovery of costs.
- No change in the current policy of double counting interstate collections for purposes of calculating incentives.

The options presented in this paper are flexible. They can be designed to maintain, increase, or decrease, the existing aggregate level of Federal support for the CSE program. The performance incentives can be based on how well a state meets an absolute standard or on substantial movement towards meeting that standard. They also allow for changes in the simplifying assumptions, although some changes would make the financing structure more complex. Lastly, it would also be expected that the implementation of the new financing structure would be phased in over a period of years, gradually replacing the current financing structure. This would prevent a substantial disruption in the CSE program during the transition period.

FINANCING AND INCENTIVES

I. INTRODUCTION

This paper examines alternative ways to finance the Child Support Enforcement program. Statistics indicate that States are not collecting child support for a substantial portion of their caseload. Financing is one of many factors--including staffing, training, resources, fragmentation in administration, programmatic requirements and program audits--that have an effect on States' performance and results. This paper will consider alternative financing strategies and mechanisms that would promote the provision of more efficient and effective services.

The options which have been developed in this paper address a number of existing problems and inequities in the way the program is currently financed and seek to redirect the program consistent with a new set of premises about the program's purpose. The premises underlying these options are:

- Child support should lead to an increase in family well-being and economic stability, helping those not on welfare to stay off the rolls, and helping those on assistance to find their way to self-sufficiency. Rather than serving the interests of the Federal and State governments by generating revenue to offset welfare costs--as the program was intended to do when it was created in 1975--the Child Support program should first serve the needs of those who seek its services. This should lead to a greater emphasis on such goals as increasing paternity establishment, promoting the establishment of support orders, and augmenting the level of funds available to families in need.
- Financing options should encourage greater investment in child support enforcement activities. Such investment ranges from securing additional staff for State programs to insuring that the funds generated for

a State by this program are used to improve program performance rather than to enhance State budget flexibility.

- To the extent possible, options should contribute to a simplification of the financing structure, so it can be more easily understood by clients, administrators and policy makers alike.

Working from the above premises, four options were developed:

- Option 1: Expanded Performance Incentives--Reduce direct Federal matching and link Federal funding to specific performance incentives which reward States for successful action on more difficult cases;
- Option 2: Variable FFP With Incentives--States receive variable direct Federal matching dependent on their relative economic and financial capacity to fund their IV-D programs. State incentive payments would be linked to collections and families would receive a bonus for establishing support orders.
- Option 3: High FFP--States receive very high direct Federal matching providing a reliable and predictable source of funding. This option has no separate performance incentives but would have increased Federal oversight and control; and,
- Option 4: Tiered FFP--All direct Federal matching for States would be variable, dependent on how well a State performed in meeting specified objectives. (A matching rate floor would be established below which no State would fall). Since performance measures are built into the matching rates, this option has no separate structure of incentive payments.

Section II of this paper discusses the current financing structure. Section III identifies the assumptions which underlie the development of all of the options, describes each option and considers its strengths and weaknesses. Section IV addresses the financing of special state initiatives. Appendices on several issues are included at the end of this paper.

II. THE CURRENT FINANCING SYSTEM

To understand the options which have been developed, one must first understand how the current financing system works. System components are therefore summarized below with a discussion of the overall effect of the current structure. Specific components of the financing structure are then discussed in more detail in the sub-sections which follow.

A. Current Financing Components.

Four components comprise the current financing structure of the Child Support Enforcement program. These are:

- (1) Direct Federal matching, known as Federal financial participation or FFP. The Federal government pays 66 percent of most State/local program costs. A higher rate, 90 percent, is paid for genetic testing to establish paternity and for comprehensive state-wide automated data processing (ADP) systems. In the aggregate, direct Federal matching (FFP) accounted for approximately 67 percent of States' FY 1992 child support enforcement expenditures.
- (2) Incentive payments to States. The Federal government pays States an annual incentive based on collections and cost effectiveness from its share of AFDC-related collections. States must pass on part of the incentive to any local jurisdiction that collected the child support if the State required the jurisdiction to participate in the program's costs. States and localities can spend these payments on whatever

activities they want. In FY 1992, incentives returned to the States the equivalent of 15 percent of aggregate State child support expenditures and 37 of total AFDC collections.

- (3) Distribution of Collections. States transfer to AFDC families the first \$50 of any current support collected each month. Most remaining AFDC collections are retained by the State and Federal governments as reimbursement for welfare benefits previously paid to the families. States retain the same share of these collections as they pay in AFDC benefits. These shared rates vary by State according to the Federal Medical Assistance Percentage or FMAP rate. The total amount of child support collections received by States on behalf of non-AFDC families is returned directly to the custodial parent. AFDC collections not paid to families represent a potential reduction of 8 percent in State and federal AFDC benefit costs. Currently the Federal share of these collections is off-set against the State AFDC grant. AFDC collections retained by the States, excluding incentive payments, represented 39 percent of aggregate child support expenditures in FY 1992.
- (4) Fees and cost recovery. States must charge application fees (no more than \$25) to non-AFDC applicants for child support services. Most States have been reluctant to impose fees in non-AFDC cases, so they often either absorb the cost of the fee or charge a minimal fee, such as \$1 or less. States have the option to charge other fees, including fees for Federal and State tax refund offset and for genetic testing. A State may also elect to recover from either parent any costs incurred in excess of any fees collected. Fees and cost recovery represent about a one percent reduction in aggregate child support expenditures.

The paramount question raised in this paper is--Does the current financing structure support improved performance by the CSE agency?

Under the current federal financing structure, in FY 1992 most States' (44 of 54) recovered--through direct Federal reimbursement, incentive payments, and shared AFDC collections--more than 100 percent of their expenditures on child support enforcement. Of the total program expenditures of \$1.99 billion in 1992, States received \$1.34 billion (67 percent) in federal matching funds. Additionally, States received \$787 million as the State share of AFDC-related collections and \$339 million in incentive payments while incurring \$652 million in non-reimbursed state-funded costs, for a net return of \$474 million over costs. (See graph entitled-State Return on Investment)

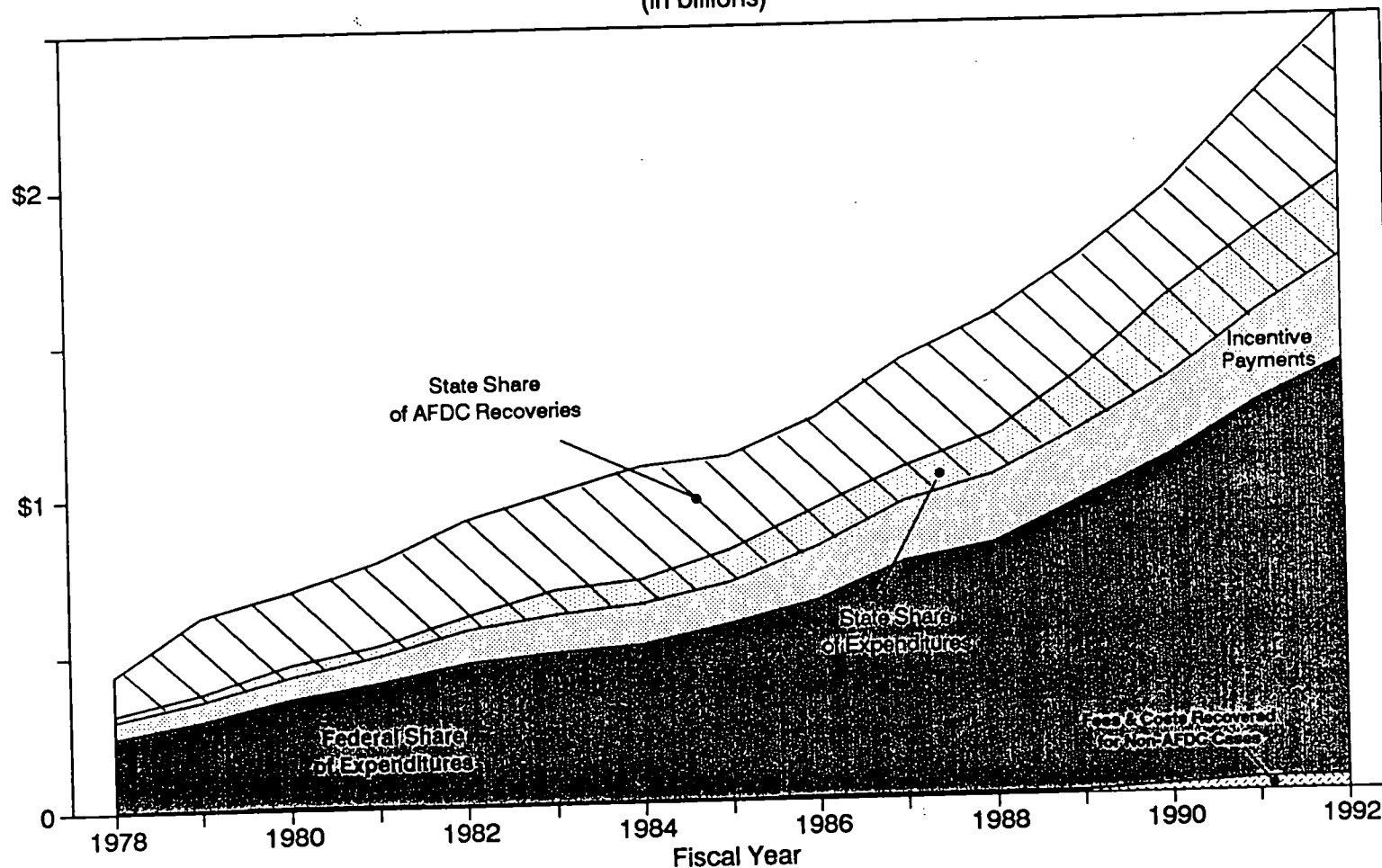
Because the original intent of the program was to use AFDC collections to reimburse previously issued AFDC welfare benefits, it may be misleading to assume that these collections represent monies to be invested in the child support program. In reality, these collections are simply returned to the State treasury. The same argument would apply to incentives paid to States under the program. These amounts may be used by States in budgeting for the child support program, but can be used for purposes unrelated to child support.

This general revenue sharing aspect, which allows States increased budget flexibility, has always been a strong selling point for States to support the program. However, this increased flexibility for the State does not necessarily translate into increased investment in the child support enforcement program. In sum, while the current financing system may be generous to the States, it does not insure that the revenues generated by the program are used to improve program performance.

There is general agreement that the current performance of the Child Support Enforcement Program is not adequate. Child support can not contribute sufficiently to the improvement of the economic well-being of children unless the majority of children whose parents are absent from the home actually receive child

STATE RETURN ON INVESTMENT BY FFP, INCENTIVE PAYMENTS, AND FEES

(in billions)



Source: Office of Child Support Enforcement, *Child Support Enforcement: Annual Report to Congress*, 1992 & prior years.

support payments. Improved child support performance also enhances the potential success of President Clinton's welfare reform goal of ensuring that both parents are responsible for their children.

While the performance of individual States has been exemplary in some ways, their overall performance shows substantial room for improvement. For cases within the Child Support Enforcement system: (data from 1992)

- o Paternity was established for 17 percent of the cases needing paternity established.
- o The paternity establishment baseline data indicated that 46 percent of all IV-D children born out-of-wedlock had paternity established.
- o Awards were established for 33 percent of the cases needing awards.
- o Collections were made on 61 percent of the cases with orders for current support.
- o Fifty-six percent of the current support due was collected.
- o For each dollar of expenditures the program collected \$4.00 in child support.
- o Eleven percent of AFDC families were terminated due to child support collections being made on their behalf.

It is unclear what level of performance should be expected in each of these areas. Some States do very well in one or two areas. Most States are not close to performing satisfactorily across the entire range of program activities.

B. Analysis of Financing Components

This section provides a more detailed analysis on each component of the financing structure and discusses how changes could facilitate improved State performance.

1. Federal Financial Participation (FFP)

As stated above, in FY 1992 States spent \$1.99 billion for child support services and were reimbursed by the Federal government for \$1.34 billion of those expenditures through Federal matching funds. The Federal government reimburses States at 66 percent for most State and local child support program costs. A higher rate, 90 percent, is paid for genetic testing necessary to establish paternity and for comprehensive state-wide automated data processing (ADP) systems required by the 1988 Family Support Act. The 90 percent funding for systems development is available through FY 1995 by which time state-wide automated systems must be operational. The 90 percent matching rates were specifically authorized to promote increased State attention to federal priorities in the area of automation and paternity establishment. Because ADP expenditures and genetic testing represent a small share of total expenditures, the overall match rate for all expenditures combined was only about 67 percent in FY 1992, not substantially higher than the base rate.

How does the matching rate for child support enforcement compare with Federal matching rates for other Federal programs?

Federal matching rates vary significantly from program to program. The CSE match rate of 66 percent is higher than the match rate in some Federal assistance programs and lower than others. Administrative costs for some programs, such as State unemployment compensation and disability insurance, are federally financed at 100 percent, while their benefit payments are paid from trust funds financed by payroll deductions.

Compared to AFDC, Medicaid, and the Food Stamp Program three related assistance programs, whose matching rates for administrative costs are at 50 percent, the CSE 66 percent matching rate is

higher. However, for AFDC and Medicaid benefits paid to individuals or service providers, States are reimbursed at a rate (the FMAP rate) which varies, depending on the State's relative per capita income, from a floor of 50 percent to an 80 percent match rate in the poorest States. In the aggregate, using the FMAP rate results in the Federal government paying about 55 percent of total AFDC and Medicaid benefit costs nationwide. For the Food Stamp Program the Federal government pays 100 percent of the benefit costs.

One could argue that State expenditures for child support enforcement provide services which are more akin to program "benefits" than purely administrative costs. Rather than cash or medical services, the child support program facilitates and provides investigative, legal, and monitoring services which make the transfer of private child support possible. In this regard child support services themselves are not unlike those provided in discretionary service programs, like Head Start, Legal Aid, or the Title XX Social Services block grant. Focusing on the service aspect of the Child Support Program would support reimbursing child support expenditures at an overall higher rate (80 to 100 percent) or a variable rate such as the FMAP rate applicable to AFDC and Medicaid benefits. Congresswoman Schroeder has taken such an approach in her bill, H.R. 915, "The Child Support Economic Security Act of 1993". H.R. 915 would increase the Federal matching rate to 90 percent for all program expenditures and would repeal the payment of performance incentives.

Is there any evidence that links past changes in matching rates to program performance?

There is little empirical evidence available to judge what would happen to State performance, if there was a substantial change in Federal funding of the CSE program. Overall CSE performance has improved slightly, even though the FFP rate has decreased slightly. However, it is important to consider that the reduction in Federal funding was accompanied by intense public interest and support for child support, legislative mandates for

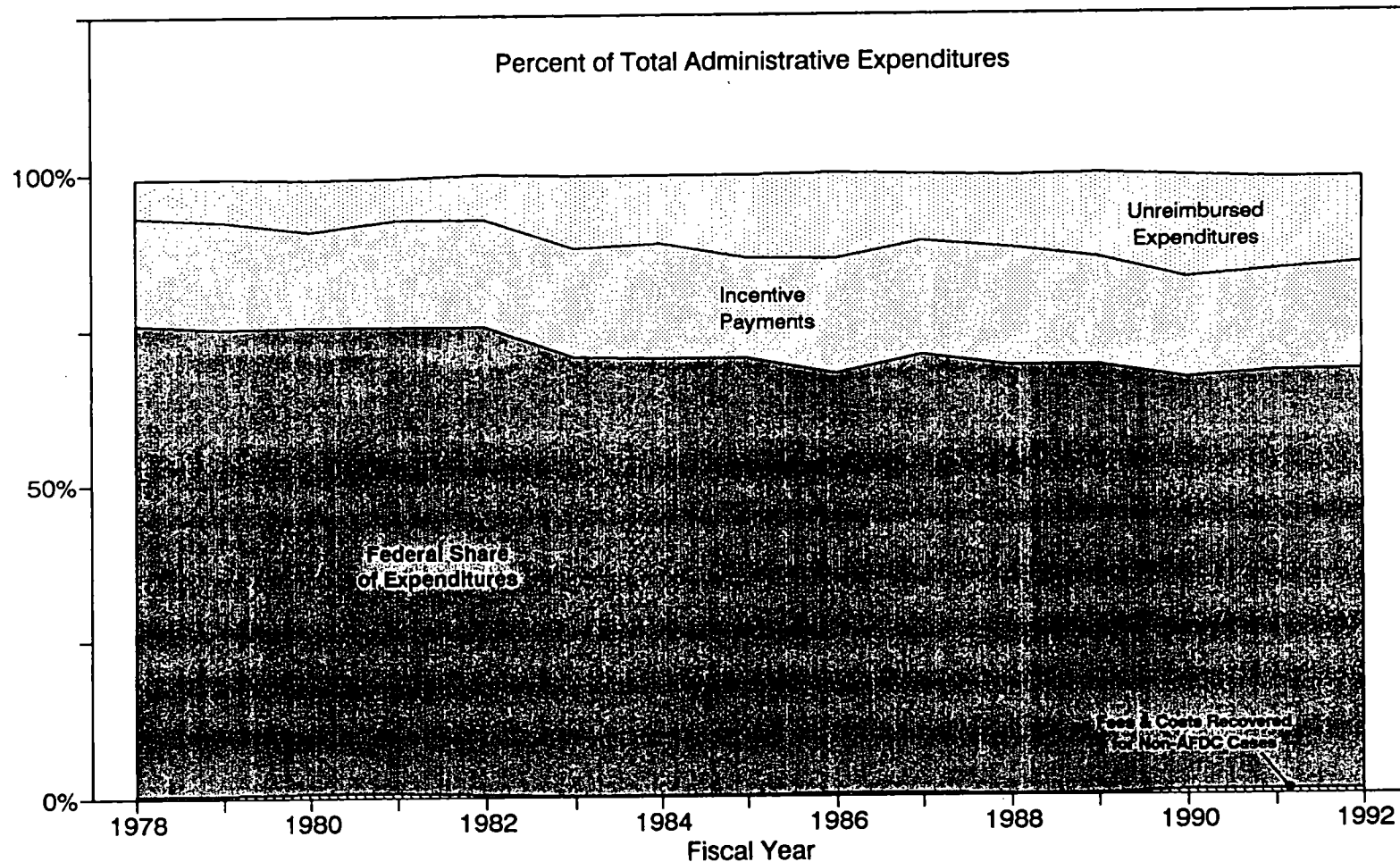
increased services and improved performance, and more vigorous Federal response to audit deficiencies.

Initially the FFP for Child Support Enforcement was 75 percent of costs (with a 15 percent incentive on AFDC collections). In 1982 (P.L. 97-248) the FFP rate was reduced to 70 percent (incentives were reduced to 12 percent). Under the 1984 Child Support Amendments (P.L. 98-378) the FFP rate was further reduced over 4 years to 66 percent. Incentives were reduced to 6 to 10 percent of collections, but were expanded to include non-AFDC as well as AFDC collections. Both in terms of straight FFP (which decreased from 75 percent to 66 percent) or the combined FFP plus incentives rate (which decreased from 94 percent to 86 percent), the aggregate Federal share of expenditures has decreased. (See graph entitled-State Expenditures Reimbursed)

FFP and incentives have always been a part of the child support financing structure. Therefore, only the effect of total funding on performance can be examined. Three measures available from the beginning of the program are: percent of paying cases; the amount of child support collected for each dollar expended; and potential AFDC recovery due to child support. For all three performance measures there has been improvement over time. (See graphs entitled:Cost Effectiveness Ratio, Cases with Collections, and Potential AFDC Recovery). Possibly improvements would have been greater if federal support had not declined.

An alternative to a single high FFP rate is to selectively increase the FFP for certain activities. Enhanced FFP has had some success in moving States to engage in child support activities that the federal government thought desirable. Prior to the 1988 Family Support Act which made state-wide automated systems mandatory, 32 States were receiving 90 FFP for their automated systems even though such systems had to meet additional Federal requirements (and were probably more expensive) than systems using the basic match rate of 66 percent. However, it is not possible to determine the effect of the enhanced match for genetic testing. Both genetic testing expenditures and overall paternity establishment expenditures have doubled since 1988.

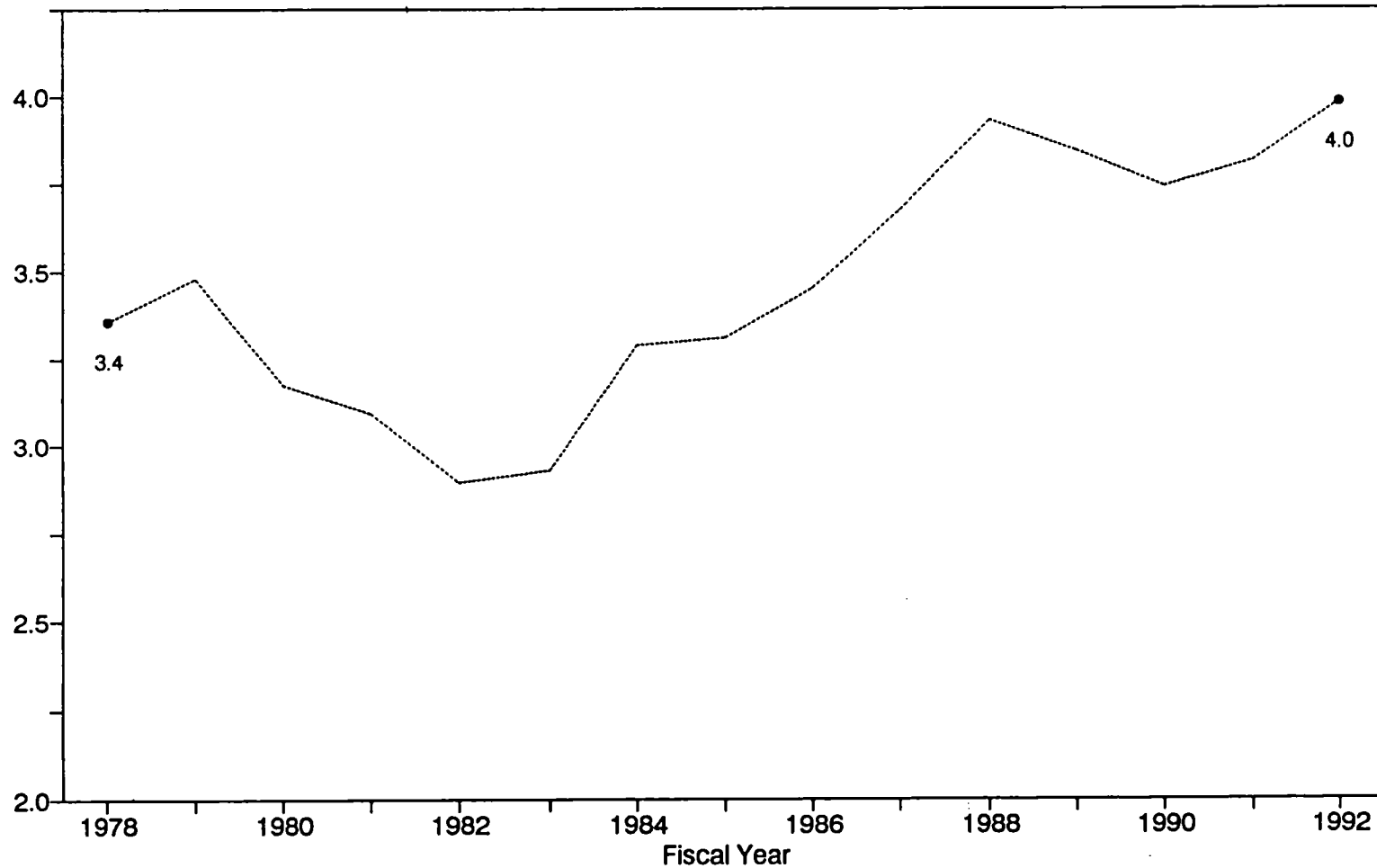
STATE EXPENDITURES REIMBURSED BY FFP, INCENTIVE PAYMENTS, AND FEES



Source: Office of Child Support Enforcement, *Child Support Enforcement: Annual Report to Congress*, 1992 & prior years.

COST-EFFECTIVENESS RATIO -- NATIONAL AVERAGE

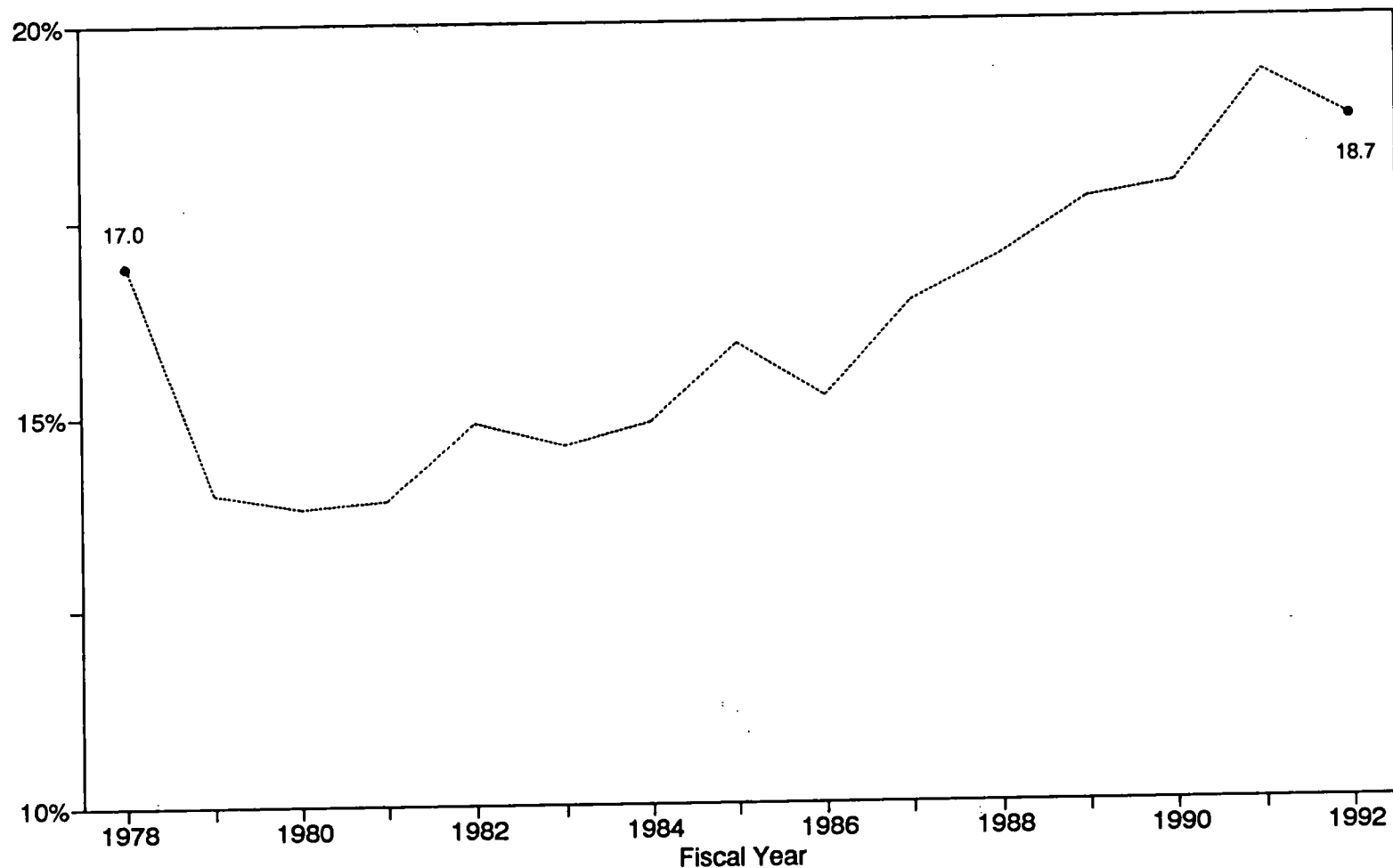
Collections per dollar of Expenditures



Source: Office of Child Support Enforcement, *Child Support Enforcement: Annual Report to Congress*, 1992 & prior years.

CASES WITH COLLECTIONS

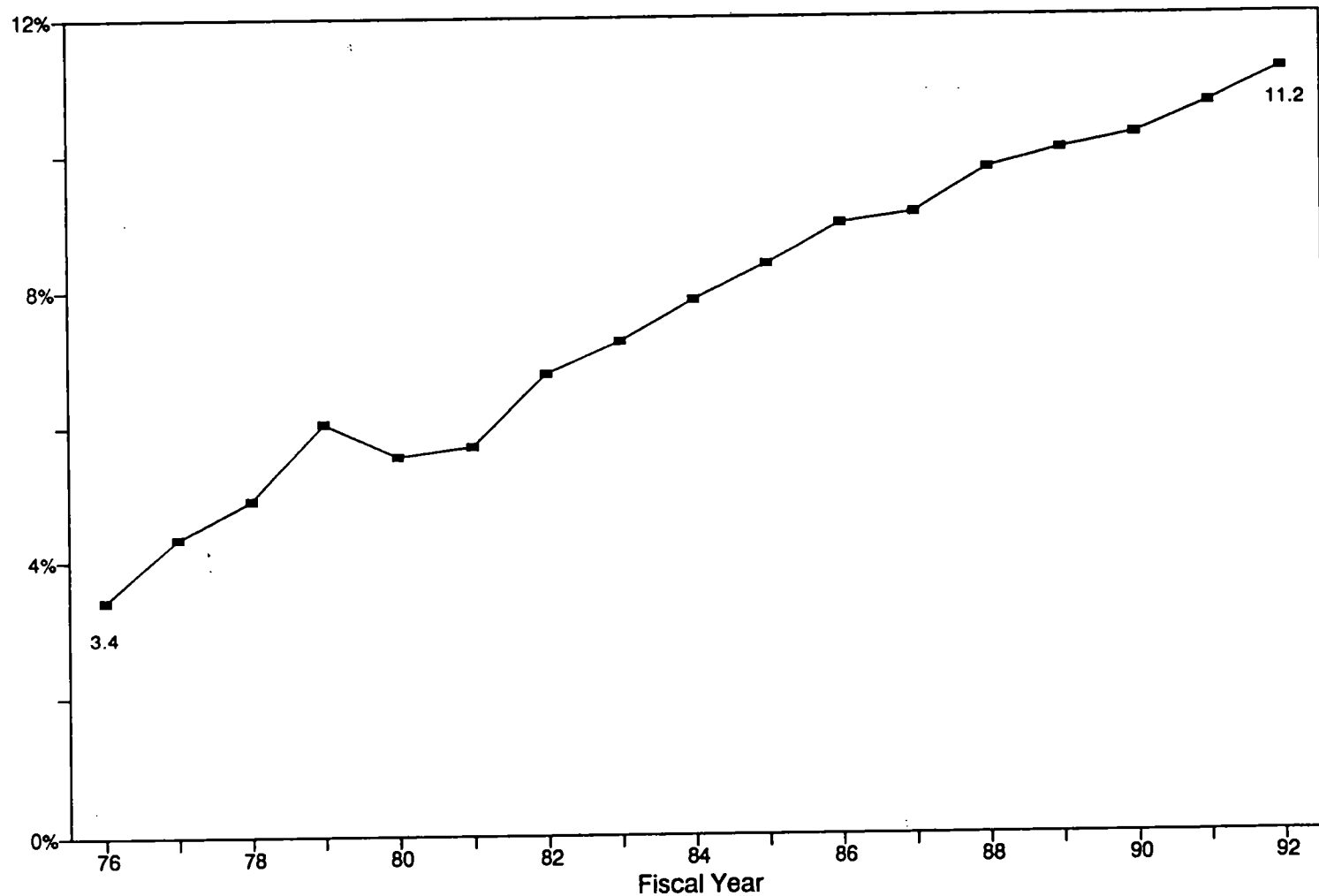
All States Combined



Source: Office of Child Support Enforcement, *Child Support Enforcement: Annual Report to Congress*, 1992 & prior years.

POTENTIAL AFDC RECOVERY DUE TO CHILD SUPPORT

Gross AFDC Child Support Collections as percent of Benefits to Single Parents



Source: Committee on Ways & Means, U.S. House of Representatives, *Overview of Entitlement Programs (1993 Green Book)*.

Is there any evidence that poverty or other characteristics of the State or caseload affect a State's ability to generate sufficient resources to maintain an adequate child support enforcement program?

There have been no studies about the Child Support Enforcement program that examine the effect of state wealth or other socio-economic characteristics on performance. Garfinkel and Robbins (1992) have examined the effect of state policies on child support outcomes for individuals. Their study included a variable that in part may be related to state wealth, state CSE expenditures per female headed household. That variable was significantly related to positive outcomes for individuals at the 10 percent level.

States vary tremendously in both the proportion of families in poverty and the tax base used to generate revenues for State government activities. For example, the 1990 Census found that the proportion of individuals in poverty varied from 6 percent in Connecticut to 25 percent in Mississippi. Not surprisingly these States also had the highest and lowest per capita income (25,525 and 12,709) respectively. Additionally, there are variations in the child support caseload characteristics, such as the proportion of non-marital births, the proportion of cases with unemployed non-custodial parents, the proportion of interstate cases. These variations can make one case load more resource intensive than another, even if they are of similar size.

The Medicaid and AFDC programs use a variable matching rate (FMAP) to help States pay for the benefit portion of the program. This means that poorer States have a higher match rate than the wealthier ones. The FMAP could be used for child support expenditures or a new matching rate could be devised using State economic factors and caseload characteristics which are relevant to case difficulty. Because the development of an alternative variable matching rate would involve considerable effort and is not necessary for illustrative purposes, this paper uses the FMAP as the model for a variable matching rate which would address issues of resource distribution among the States.

What kind of Federal matching rates are considered in this paper?

There is no hard evidence to support the setting of any specific FFP rate for the Child Support Enforcement Program, to support the goals of increasing government investment in the public child support system and improving the performance of the system. The mix of FFP and incentives appears to be more influenced by philosophic considerations than by empirical evidence. If it is believed that lack of sufficient resources is the major problem, then a high FFP rate would assure certainty of funding and minimizes the competition for resources at the State level. If motivation is believed to be the primary issue then a low FFP rate, plus increased funding based on performance, might move States to work harder to decrease their share of program expenditures. The options that are discussed in this paper cover such a range of choices:

- The level of basic FFP would be reduced, but States could increase their reimbursement through specific incentives tied to increased performance in desired areas. (OPTION 1)
- The level of FFP would vary so that poorer States would qualify for the higher match rates. Additional incentives would then be added to address the need to improve performance. (OPTION 2)
- A fixed percentage of financial support for all the States would replace the current combination of FFP rate and incentives. Accompanying this fixed percentage would be enhanced program oversight and monitoring requirements, which would be geared, at least in part, to increasing performance in key areas such as paternity, order establishment, and collections. (OPTION 3)
- The basic level of FFP would vary, rising or falling with States' performance. All States would have a base

rate of 50 percent FFP, but States could increase their FFP to 100 percent based on performance. (OPTION 4)

2. Performance Incentives

In FY 1992, the Federal government paid States \$339 million in aggregate incentive payments. The largest incentive payment was \$44 million; the smallest was \$45 thousand. The amount of incentives paid to the States has increased by 250 percent since 1985, the first year in which incentives were paid on collections under the current formula. The amount of CSE collections has increased by 300 percent during this same period.

The annual incentive payments to States are based on the total amount of support collections they make. Each State receives a minimum AFDC incentive payment of 6 percent of its AFDC child support collections, plus a non-AFDC incentive equal to no more than 115 percent of its AFDC collections, regardless of its cost-effectiveness in collecting support.

States increase their incentives by being more cost-effective in their collection of child support on behalf of AFDC and non-AFDC families. A State's cost-effectiveness ratio is the ratio of AFDC or non-AFDC collections calculated separately over total expenditures with minor additions and subtractions. If a State's AFDC or non-AFDC cost-effectiveness ratio exceeds 1.4, the incentive percentage increases to 6.5 percent and continues to increase by 0.5 percent for every increase of 0.2 in its cost-effectiveness ratio. The maximum incentive payment is 10 percent of AFDC collections, plus 10 percent of non-AFDC collections capped at 115 percent of the incentive payment for AFDC collections.

The law requires States to pass a share of the incentive payments on to the local jurisdictions that collected the child support if the State required the jurisdiction to participate in the costs of carrying out the child support program. There are no Federal restrictions on how States and localities spend the incentive payments they receive from the program.

What is the effect of the current incentive system on State performance?

The current incentive payment system is based primarily on cost efficiency. Instead of being rewarded for a desired end, such as paternities or support awards established, incentives increase based on efficiency in collecting child support. This may create a disincentive for working hard cases, for hard cases require more resources per dollar collected which lowers the efficiency ratio and, consequently, the amount of the incentive. Thus, the current funding program does not promote equal treatment of all child support cases.

In States with similar size caseloads, the social and economic characteristics of the State may have more effect on the amount of collections than State effort, (e.g., fewer out-of-wedlock births and less unemployment could result in higher collections with less investment of resources). Penetration of the caseload is not necessary to get incentives. A State can increase its incentive payment by concentrating its efforts on collecting a lot of money from a few cases.

Further, it must be noted that the difference between the six percent guarantee, and the 10 percent maximum, for top performers, is only four percentage points, hardly enough to encourage extensive additional effort by States. Indeed, in FY 1992, only 12 States were eligible to receive more than the minimum six percent AFDC incentive. Eighteen States were eligible for the ten percent non-AFDC incentives, but were capped at 115 percent of the AFDC incentive payment.

The cap on non-AFDC incentive payments was enacted to insure that States pursue the more difficult AFDC cases. It was thought that the cap would motivate States to collect as much child support on behalf of AFDC clients as is collected on behalf of non-AFDC clients. However, most States collect more money on behalf of non-AFDC families than AFDC families, in part because a higher proportion of non-AFDC cases already have orders in place. Also it is believed that non-AFDC clients are more motivated to provide full and complete information since they are voluntarily

requesting CSE services. Non-AFDC families may also be associated with non-custodial parents who have a greater financial ability to pay child support. There is now considerable concern that the cap serves to reduce State interest in pursuing non-AFDC cases, because such collections are not eligible for incentives. (Supporting Our Children: A Blueprint for Reform, US Commission on Interstate Child Support, 1992)

Are current incentives used by States to fund child support enforcement activities?

According to a study by the HHS Inspector General (June, 1991), most States use incentives for child support purposes. However, incentives are used to supplant the existing State share of expenditures rather than to supplement the total expenditures on child support activities. Initially several States did use incentives to fund special projects or to enhance service delivery, but such supplementation was discontinued due to State fiscal constraints. A few States have requirements which mandate that incentives be used for child support or other child welfare activities.

In States with county funded and operated child support systems, incentive payments provide numerous political subdivisions with funds to run their child support programs. Where local jurisdictions have to provide for a share of the State match, incentive payments are often used as local match, thus reducing the strain on local government budgets. The number of States and localities who use incentive payments in this way is unknown. Additionally some States use incentive payments for non-child support purposes, which is allowable under current law.

If the current system was changed, such that States no longer received separate incentive payments, how would they be able to fund special initiatives or local child support improvements?

One advantage of the present incentive structure is that it provides States (and some local governments) with a source of flexible funding. Incentive funds can now be used for many things, including to respond to identified problems or to

initiate program improvements without the need for new State appropriations. Thus, any changes in the incentive structure which eliminated separate incentive payments to States could potentially reduce their budget flexibility, even where their aggregate level of funding did not decrease. One way to insure that States and their localities continue to have access to funds which could be used for short term, high payoff operational improvements would be to establish a National Child Support Enforcement Revolving Fund.

California already operates such a fund, which provides its counties with "pump-priming" funds. Approximately \$10 million is provided to front the costs of its counties' projects. Counties request funds to conduct one-year projects that are anticipated to increase collections. Counties can participate in one of two options: A (all State and Federal funds); or B (some county match). Projects have an AFDC focus and the project must increase collections by the county's projected amount within the fiscal year or the State takes the money back. Increases in collections on behalf of AFDC families are used to pay back the fund.

Details on what a conceptually similar Federal program might look like are included in Appendix A.

Should incentive payments take into account any aspect of program performance other than cost-effectiveness?

The current incentive system does not recognize States' performance in areas other than efficiency. But efficiency may not be the best measure of program effectiveness. (Pirog-Good and Good, 1989) Nationally, most States receive poor marks for the overall services which they render to clients. (Child Support Enforcement Report Card, House Committee on Ways and Means, 1991)

Incentives could serve as motivators for States to improve performance in all areas, including establishing paternity and child support orders. Unlike the current system, incentives could be paid only when performance has increased or is being maintained at the desired level. Ideally each incentive should

encourage States to commit additional resources to specific activities which in the long run will lead to greater family self-sufficiency and economic stability. Performance incentives should also be clearly defined, reasonably attainable, and financially attractive. The U.S. Commission on Interstate Child Support recommended using more performance based incentives in funding the Child Support Enforcement Program. The Bradley, Kennelly and Roukema bills implementing many of the Commission recommendations would authorize studies or demonstrations to develop better performance based incentives.

How should incentives take into account the dual processing of interstate cases?

Currently, child support collections from interstate cases are credited twice in computing incentive payments -- once by the State which initiated the collection action and received the collected amount and once by the responding State which secured the required support payment. Thus, any restructuring of the current system should address this duality. (A similar issue would arise if performance incentives are linked to the achievement of specific standards or the performance of specific tasks.) One possible solution would be to give primary credit to that State which secured the actual collection amounts or which performed the specific task. Or given the low success rate with interstate cases, we may simply want to continue double-counting of interstate cases for any performance incentives developed.

What kind of incentives are considered in this paper?

In this paper, all incentives are designed to reward increasing penetration, that is, for moving each State's performance towards some absolute standard (e.g., establishing paternities in x percent of cases). Incentives are built into the financing options in two distinct ways. One option includes direct performance incentives, with specific payments to States linked to how they perform in five major areas: paternity establishment, support orders, cases in paying status, AFDC terminations with child support, and overall cost-effectiveness. In some cases, the specific structure of the proposed performance

standards remains to be defined, but could range from a fixed amount or percentage for meeting some absolute standard, to a variable percentage payment which rises as improvements are achieved or higher levels of performance are attained. Alternatively, other options use a variable Federal matching rate as an incentive, with the match increasing according to how well States perform.

There is no magic about the five performance incentives selected. They are used because they appear to represent achievement in the basic mission of the Child Support Enforcement Program. Other areas have been considered as well, for example, the percent of awards with health insurance or other forms of health care coverage. Five performance indicators may be too many. The need to simplify may indicate that fewer well chosen and reliable indicators may be sufficient. The Department might also want to keep open the possibility of being able to change by regulation the indicators used to compute the amount of Federal support. (Appendix B provides an additional discussion of considerations for choosing performance indicators.)

Can negative incentives work as well as positive incentives in improving performance?

Sanctions and penalties do represent potential negative incentives which could be considered for achieving State compliance with Federal objectives and program requirements. The use of sanctions or even reduced FFP might be considered in conjunction with the option to stabilize FFP at a considerably higher rate and eliminate the payment of performance incentives. There is ample precedence to suggest that the threat of sanctions and the imposition of audit penalties constitutes an effective strategy to guarantee improved State efforts to provide needed child support services for deserving families. The threat of sanctions embodied into law appears to have contributed significantly to the sharp decline in AFDC overpayments and case error rates which occurred in the 1970's. (See Appendix C for a discussion of the current effects of negative incentives.)

3. Distribution of Collections

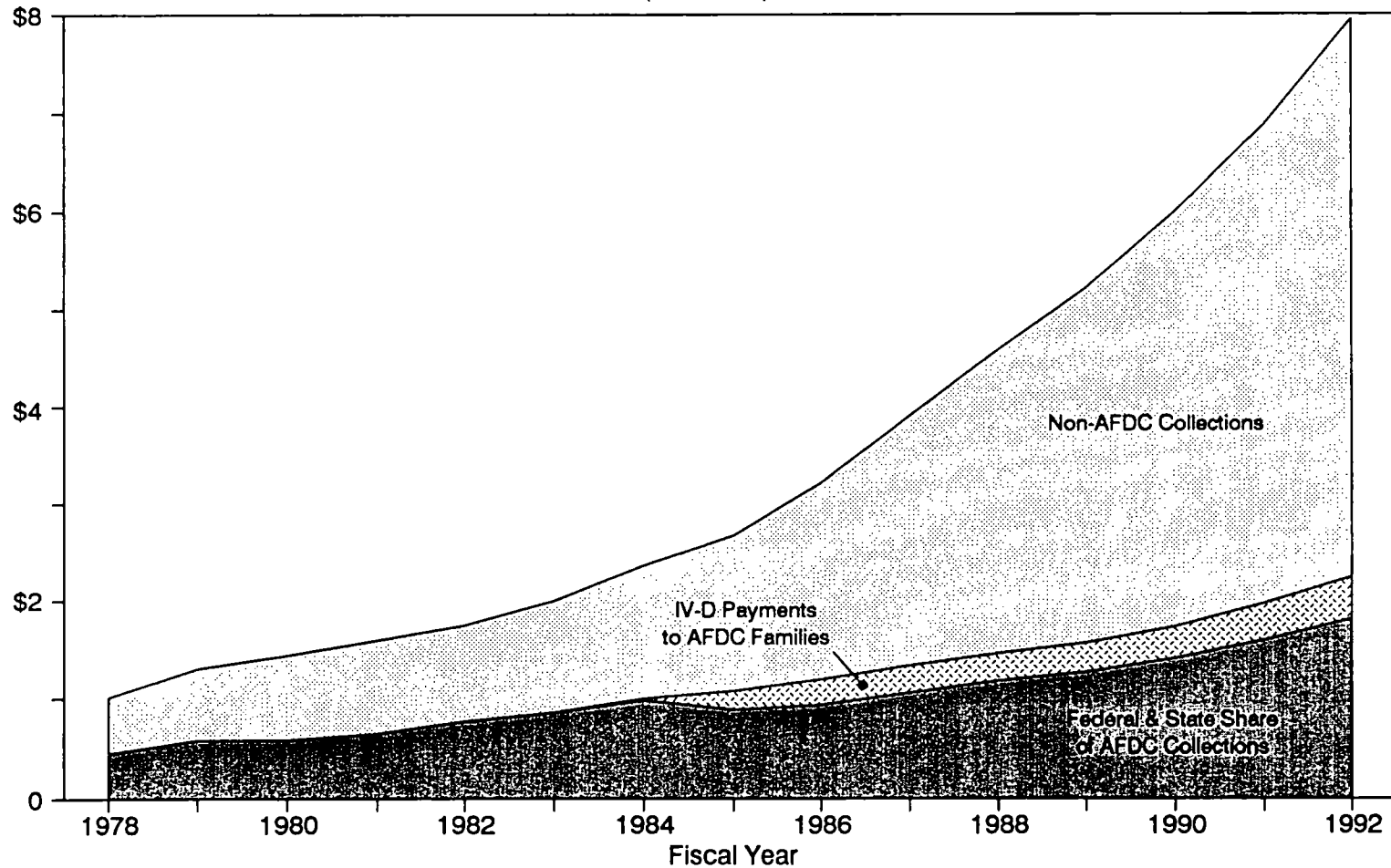
In FY 1992, States collected \$7.96 billion in child support on behalf of families receiving child support enforcement services. Of this amount, \$5.71 billion was collected on behalf of non-AFDC families. Of the balance collected on behalf of AFDC families, \$435 million went to AFDC families, and \$1.8 billion was retained by the Federal and State governments. The federal government pays incentives to States from its share of AFDC collections. (See graph entitled-Total Distributed Child Support Collections)

Most AFDC families only receive the first \$50 of current support that a State collects each month. In a few States all or some additional child support paid is used to recompute the AFDC payment to take into account the gap between the State's AFDC standard of need and the AFDC payment standard. These gap payments authorized in section 402(a)(28) of the Social Security Act and implementing regulations in 45 CFR 232.21 were designed to protect the income of AFDC recipients in States which, prior to passage of P.L. 93-647, child support payments were permitted to fill the gap between the State's standard of need and the State's AFDC payment standard. The remainder of AFDC collections is divided between the State and Federal governments to offset the cost to each of providing AFDC benefits to the family. The State keeps the same percentage of these collections as the percentage it pays for the family's AFDC assistance (i.e., if the State pays 45 percent of AFDC benefit costs and the Federal government pays 55 percent, then the State keeps 45 percent of the AFDC collections and the Federal share is 55 percent). In non-AFDC cases, most child support collected is passed on to the custodial parent.

The treatment of AFDC collections, from the requirement that families assign their child support rights to the State, to decisions about how much goes to families, to the State and to the Federal government, to how to treat arrearages and track the distributions have made this particular area of child support financing difficult to understand. In practice, the rules governing this area are extensive and complex. Discussed below are some particular areas of concern that have received

TOTAL DISTRIBUTED CHILD SUPPORT COLLECTIONS

Non-AFDC & IV-D Collections by Recipient
(in billions)



Source: Office of Child Support Enforcement, *Child Support Enforcement: Annual Report to Congress*, 1992 & prior years.

consideration in the context of developing alternative financing options. A detailed discussion of how the distribution rules work is found at APPENDIX D.

Why is the distribution of child support collections for AFDC recipients considered part of the financing of the Child Support Enforcement Program?

Distribution of AFDC collections is not a financing tool per se. Rather it represents a return of funds to the Federal and State governments and increases budget flexibility. For many years, shared AFDC collections have been used to calculate the net costs or savings that accrue to the States and the federal governments as a result of child support activities. In the President's budget documents and the OCSE annual reports to Congress these collections are displayed as offsets/savings to State child support enforcement expenditures, even though the collections are actually offset against the States' AFDC grant award request. There are no restrictions on how the States may use their share of the child support collected on behalf of current and former AFDC recipients.

What is the assignment of child support rights to the State?

When a family applies for AFDC benefits that family must assign to the State the right to any current child support due and to any arrears that are owed to the family (up to the total aggregate AFDC payments made to the family). While a family is on AFDC, States must first reimburse themselves for child support due while the family was on AFDC before they can pay the family for any back support that is owed for periods when the family was not receiving AFDC payments.

This assignment provision was enacted for several reasons:

- (1) It was believed that most child support payments to low-income families were made on an irregular basis and assignment would protect the family by stabilizing the payments at the AFDC benefit level.

- (2) The State would not have to continually re-adjust AFDC checks for over and under-payments resulting from irregular collection of child support. When the child support program was authorized, most States would have had to make such adjustments manually.
- (3) State and Federal governments could potentially recoup past paid AFDC payments by allowing payments for past-due child support to be retained up to the total amount of AFDC benefits paid. In effect, past and current child support became debts owed to the State and not the family. Thus the assignment of support rights was intended to offset the costs of providing assistance to AFDC families.

Does assignment of child support rights to the State have adverse behavioral effects?

A common perception is that the AFDC custodial families get welfare--not child support, and that the non-custodial parent pays the State--not the family. This perception exists in part because with the exception of the \$50 pass-through, most child support is invisible to both parents.

- This perception may reduce non-custodial parent's incentive to pay or to pay regularly if he believes that his payment is simply going to the State, and not directly benefiting his children.
- It may also reduce the custodial parent's incentive to work. For the AFDC custodial parent considering employment, the earnings needed to equal or exceed the entire AFDC monthly benefit amount would be greater than the earnings required to equal or exceed the AFDC benefit amount minus child support. If the child support amount is not known to the custodial parent, it will not be considered in achieving self-sufficiency.

How does the current distribution system affect the economic well-being of families?

The current distribution system affects families in different ways. The income of AFDC families is increased by up to \$50 a month because the \$50 pass-through is disregarded in computing the AFDC benefit amount. However, when arrears payments are being made in addition to current support, some families who would have sufficient income to leave AFDC because of the combined current/arrears child support remain AFDC eligible because the arrears payment are not counted as income due the family. For example, if an arrears payment of \$10,000 was collected, this income would be used by the State to recoup past AFDC benefits rather than paid to the family so that the family could establish economic independence. For current AFDC families, the \$50 pass-through provides more income but increases dependency; the treatment of arrears potentially reduces available income and also prolongs dependency.

For former AFDC recipients the current distribution system decreases the economic viability of families struggling to maintain self-sufficiency. States may retain any payments on arrears to pay-off any child support debt still owed the State for past due child support and for non-reimbursed public assistance. This allows States to pay themselves back first for all outstanding State debts, even when the arrears owed the family accumulated after they left AFDC. The United States Commission on Interstate Child Support cited this as one of the aspects of the current distribution process that needed to be revised. Other advocacy groups, such as the Center for Law and Social Policy, have also indicated their support for changes to the existing arrears distribution policy regarding payment of arrears.

Having assigned an AFDC family's support rights to the State, does the \$50 pass-through increase their cooperation in pursuing support?

While this provision was intended to create incentives for AFDC recipient caretakers to cooperate in the establishment of paternity and child support awards, which ultimately might help

to reduce their dependence on public assistance, there is no evidence that it motivates cooperation and no link between cooperation and payment of the \$50. In FY 1992, this provision resulted in about \$352 million in payments to families.

This practice has had several effects:

- Only cases with current month collections receive the pass-through. These cases already have an award and the non-custodial parents are likely to be the most stable and highly paid. The possibility of obtaining an award and thus the pass through may not be enough to motivate cooperation in other cases.
- The \$50 is not disregarded for determining Food Stamp benefits. This reduces the value of the pass-through in terms of family income to \$35 and increases the administrative accounting burden on the State.
- State IV-A and IV-D administrators have expressed concern about the complicated nature of record keeping for the pass-through and have alleged that these provisions result in high administrative costs. (APWA survey of IV Directors on the cost of distribution changes resulting from the Family Support Provisions)

How does the current distribution system contribute to the cost of operating the child support enforcement program?

Because of its complexity, distribution is a relatively expensive function. On average annual distribution costs reported by the States are about 18% of total administrative costs of about \$11 per month per case with a collection. (Sixteenth Annual Report to the Congress, Office of Child Support Enforcement) Most of these costs are related to the cost of distributing AFDC collections and take into account the \$50 pass-through. In Georgia, one State that has a waiver to simplify its distribution process by paying all child support to the family and pay the AFDC grant as the residual, the child support distribution costs are reported as less than \$1 per month per case with collections.

It should be noted that simplifying the distribution of AFDC collections for the child support enforcement program could temporarily increase some AFDC administrative costs, because ADP systems for the AFDC program would have to be improved to take into account potential variation in monthly child support payments. Given current CSE statutory requirements that all States have automated management information systems by 1995, accounting problems on the child support side may be only short-term. There is no similar date when we could expect AFDC ADP systems to handle the change in distribution. Such requirements could, however, easily be included with other AFDC-related ADP changes which will be required as part of welfare reform.

Are less economically advantaged States helped or hurt by the current provisions for distributing AFDC collections between States and the Federal government?

The present system splits AFDC collections between the Federal government and States based on their financial participation in providing AFDC assistance payments to families. Since more economically advantaged States pay a higher share of the assistance payments, they consequently recover a higher percentage of the shared AFDC child support collections than do poorer States. The calculation for determining the variable match rates for sharing the cost of AFDC benefits between the Federal and State government is designed to give the poorer States a break. Using it for child support collections has the opposite effect. For example, a poor State with an AFDC match rate of 75 percent generally would pay 34 percent of the costs of the CSE program, but would only receive 25 percent of the AFDC collections. A richer State with an AFDC match rate of 50 percent would pay 34 percent of CSE administrative expenditures but would get back 50 percent of the AFDC collections.

The Congressional Research Service in its 1989 report to the Ways and Means Committee calculated that under current law provisions the break even point for the poorest States is 55% higher than the break-even point for the richest States (p.70). Additionally, the difference between the break-even point for the State and the federal government is five times greater for the richest

States than the poorest States. If poor States act in their own best interest and try to break-even on the operation of the program the federal government will break even. Yet rich States would have to collect twice as much money to make the federal government break-even as they have to collect to make themselves break even.

How is the distribution of AFDC collections treated in this paper?

Current policy regarding the distribution of AFDC collections exists within the tension created between the two potentially conflicting goals of cost reduction and self-sufficiency. Child Support collections on behalf of AFDC families were initially seen as revenue that the government could use to offset growing welfare costs. However, emphasis in the AFDC program has shifted to promoting economic self-sufficiency of recipient families. Child support collections can be viewed as income which should be directly available to AFDC families to reduce their reliance on welfare, and when combined with work can ultimately improve their economic position.

This paper, and all of the options presented in the following section, are grounded in the premise that the Child Support program should provide a means to increase family well-being and to help those on assistance to achieve self-sufficiency. To do this AFDC families must be aware of what has been collected, and of its potential, if combined with earnings and the earned income tax credit, to remove them from the assistance rolls.

To this end all of the options start from the premise that all collections, whether AFDC or non-AFDC, should be passed in their entirety on to the families for whom they were collected. This treatment most completely addresses two of the three goals of a restructured financing system-increasing family economic independence and simplification. The third goal of increased investment in child support would also be addressed to the extent that administrative costs related to distribution would be reduced and States could then invest those resources in other

more results oriented child support services, such as award establishment.

There is some concern, however, that this choice could undermine some of the political support for the program among the States. Child Support has often been sold as a money making program or at least a non-tax increasing program.. At least one State and many local jurisdictions in county operated States, use the returned AFDC collections to operate their Child Support program. Therefore, options, that pass some, but not all support to the family, could also be considered. Alternative options for distribution including retaining arrearages to offset AFDC benefit costs are discussed in APPENDIX E.

Would changing the distribution process result in higher net AFDC costs?

The effect that changing the distribution process has on AFDC benefit costs depends entirely on whether the child support received by AFDC families is considered countable income for purposes of determining the AFDC benefit amount. If the current \$50 pass-through was eliminated, the cost of AFDC benefits would be reduced by an additional \$352 million (the amount of the \$50 pass-through in FY 1992). If all AFDC-arrears payments were passed through to former-AFDC recipients, rather than retained by the State, AFDC benefit costs would be increased by \$282 million. Arrears payments for former AFDC recipients are off-set against current aggregate AFDC benefit costs. Making both these changes would result in shared State and Federal savings of about \$70 million.

Treating current and arrears support for AFDC recipients as income would likely result in a small reduction in the AFDC caseload, because some families would have enough child support income (especially in combination with other income) to exit welfare. Arrears payments represent about one-third of the child support collected on behalf of AFDC recipients.

However, there has been some interest in the possibility of increasing the amount of child support disregarded in determining

the AFDC benefit amount or allowing all States to use child support to fill the gap between the AFDC standard of need and the AFDC payment standard. The Bradley, Roukema and Kennelly bills (S. 698, H.R. 1600 and H.R. 1961) that would implement the recommendations of the U.S. Commission on Interstate Child Support, contain provisions to allow any State to become a fill-the-gap State. If substantial changes were made in the amount of the disregard or in the number of States using "gap" procedures then less of the \$2.25 billion in AFDC collections would be available to reduce AFDC benefit costs. The experience of the Georgia Welfare Reform Demonstration, which uses child support to fill the gap, is discussed in APPENDIX F (forthcoming).

There may be additional administrative cost implications for the State, although not necessarily for CSE. From the CSE perspective there would be little, if any, increased administrative cost. Instead of running three distribution systems—one for current AFDC recipients, one for former AFDC recipients (if any AFDC arrearages remain) and one for non-AFDC recipients, the CSE system would only run one distribution system—all child support would be received, recorded and forwarded to the family. States would still be required to track AFDC status on their data systems because information on collections for AFDC families would have to be forwarded to the AFDC program for automatic adjustment against the next AFDC payment. The Family Support Act required that all CSE systems have an automated interface with AFDC by 1995.

However, for the change in distribution to work efficiently, State AFDC automated systems would have to be able to accept the information from CSE and use it to automatically adjust the AFDC benefit amount to take into account the child support collections. Currently not all AFDC systems are able to adjust benefit payments based on this type of automated interface. Again, the Georgia Welfare Reform Demonstration would indicate that such an interface is neither particularly complicated or expensive when both the AFDC and CSE program are state-operated or when collection and check writing functions are centralized. It could be assumed, however, that with increasing work participation and other requirements resulting from welfare reform, improvements

and changes will be required of the existing AFDC automated systems to allow rapid adjustments in AFDC benefits due to earnings, disregards and sanctions. Within this context, any additional costs to improve AFDC automated systems to accept the automated CSE information would not be substantial.

Would changing the distribution process adversely effect AFDC families?

Any change in the distribution process could adversely effect some families. Eliminating the \$50 disregard in the AFDC program could result in some families having slightly less income or no longer being eligible for AFDC. However, the decision to change the disregard is not integral to the decision to change distribution. If all child support collections were passed through to the family, the disregard for calculating AFDC benefits could be eliminated, left at \$50, or changed to some other amount. Except for child support, all other income disregards in means-tested programs are based on income that the family receives directly and reports to the program eligibility workers.

There are two other situations, however, which could adversely effect families. Both situations are related to the irregular payment of child support. First, some families could periodically lose eligibility for AFDC due to child support payments and then have to reapply for AFDC when the next child support payment was reduced or missing. Some procedure would have to be developed to reduce the effect of churning due to sporadic spikes in incomes on the client and the AFDC program administration. With an automated system in place, it would be possible to treat such families as AFDC eligible but with zero payment for a number of months (for example, three months) before terminating the case. This would ensure that the increased payment was stable before any action was taken to close the case. Some additional Medicaid and child care costs might result from such a policy, but they would not be expected to be substantial and would be partially offset by reducing the AFDC administrative cost of the churning effect.

As a part of this policy consideration, there would also have to be a decision about how to treat lump-sum child support arrearage payments, such as tax-offset payments. Such payments could easily make families ineligible for AFDC benefits in the month of receipt or longer. Under current policy most non-reoccurring lump-sum payments make families ineligible for AFDC for a length of time equivalent to the lump-sum payment divided by the monthly benefit amount. The exception is income tax refunds, including EITC payments, which are treated as resources, rather than income, up to the allowable resource level.

The second problem area relates to irregular payments which would not change eligibility status, but would cause the AFDC benefit payment to fluctuate from month to month. If AFDC families were treated like all other families they would receive their child support on a periodic basis, within 15 days of receipt by the State. Because the AFDC payment would be adjusted for the receipt of child support in the following month, any reduction in child support would reduce the family income for the remainder of that month. Conversely, if the child support payment was higher than usual, the family would have to "save" the money until the next month to make-up for the reduction in the next AFDC benefit check. In Georgia and in Australia there is a two month lag between the child support payment and the benefit adjustment, i.e., child support paid in April is accounted for in the June benefit check. However, a calendar month does not have to be used. The lag time could be shortened by using an accounting period for child support that runs from the 20th to the 20th or some other comparable period which would accommodate the transfer of information to the AFDC program.

One alternative would be to "hold" the child support for AFDC families and pay the AFDC payment and child support at the same time. This would eliminate income uncertainty for the AFDC client and if the AFDC payment and child support were made as two separate payments (perhaps with two different color checks) the payment distinction could be maintained.

One objection to this alternative is that the advocacy groups fought long and hard to require States to make child support

payments to the family promptly upon receipt by the States. Their contention was that the money belonged to family and not to the State. States had used the argument of administrative simplicity and stability of income flow in support of a single child support payment date for all child support families, but the advocates were not convinced. Advocates wanted the same prompt payment standards to apply to the \$50 pass-through for AFDC families as well, although the Department did not make follow their recommendation in the final rule. Holding the child support payment for up to a month, even if the intent is to stabilize the income flow for AFDC families may be seen as a retreat from the prompt payment policy.

Over time fluctuating payments may become less of an issue. Over half of all AFDC child support is collected through wage withholding and the proportion of current support collected through wage-withholding is substantially higher. If, as a part of the welfare reform initiative, a new hire reporting system and long arm wage-withholding go into effect, payment irregularity and fluctuation may be limited to the self-employed and those with periodic unemployment.

E. Fees and Cost Recovery

In FY 1992 only two percent of administrative costs were reimbursed through fees and cost recovery, including interest. However, the rate of recovery varied significantly among the States, from zero recovery to about 17 percent of costs.

Currently, States must charge application fees to non-AFDC applicants for child support services. They may charge a flat fee of up to \$25 or develop a sliding fee schedule. The State may pay the fee itself out of State funds. Costs in excess of fees may be recovered from the custodial or non-custodial parent, e.g., genetic testing fees, tax offset fees. No fee or cost recovery is allowed against AFDC, Title IV-E Foster Care, and Medicaid-only recipients, nor can these individuals be charged an application fee for the continuation of child support services when they are no longer eligible for AFDC or Medicaid benefits.

Cost recovery due to interest results from the States placement of undistributed child support in interest bearing accounts.

A State may elect to recover from either parent any costs incurred in excess of any fees collected. Fees and recovered costs are subtracted from expenditures prior to application of the federal matching rate and the computation of the State's cost-effectiveness ratio. Fees and cost recovery represent a shared offset to expenditures and increase State incentives by reducing the cost of collections.

Why is such a small amount of program expenditures recovered by the States?

Collection of fees and cost recovery has not been a State priority. In the absence of a required minimum payment, many States have chosen to set their fees at a nominal amount and to pay the application and Federal Parent Locator Service fees from non-reimbursable State funds. Other program fees are optional (e.g., tax refund offset fees, genetic testing fees).

If universal services are a goal in child support, fees and cost recovery will become more important, as the costs of providing services could increase substantially. The two States that have substantially increased their fees and cost recoveries are States that have also chosen to incorporate most child support awards in their State CSE system.

Are fees and cost recovery necessary?

To charge or not to charge a fee has been a controversial issue from the beginning of the program. If the non-AFDC women who would use CSE services are primarily poor and near-poor women, hovering on the brink of welfare dependency, then charging fees would be counter-productive. Making it more difficult to receive CSE services could result in more families relying on welfare. Certainly the strong political support for mandating CSE services to non-AFDC women was in part generated by research in the late 70's and early 80's showing the feminization of poverty and by

national statistics indicating that non-payment of support was at least part of the reason for female headed-household poverty.

However, of the families that voluntarily use CSE services only 15 percent have incomes below the poverty line and an additional 10 percent have incomes between 100 and 150 percent of poverty. So three-quarters of the women using CSE are not poor or even near poor. For non-poor families who have the means, there may be less of a reason not to impose fees and recover costs to partially offset the costs of services provided. According to an OCSE funded study by Advanced Sciences, Inc., the cost avoidance for the government (Federal and State) of providing services to non-AFDC families is only \$1 avoided for every \$5 of expenditures.

The non-AFDC portion of the CSE caseload has grown substantially since passage of the 1984 Child Support Amendments which made services to non-AFDC families mandatory. In 1984 the non-AFDC caseload was 1.8 million, less than one third the size of the AFDC caseload. In 1992 the caseload had grown to 6.4 million about three-quarters of the size of the AFDC caseload of 8.7 million. As the non-AFDC caseload grows larger in comparison to the AFDC caseload, the government costs in relationship to the government savings will increase. Some states have responded to this explosion in the caseload by taking fee and cost recovery policies more seriously than they have in the past.

How are fees and cost recovery treated in this paper?

This paper does not incorporate fees and cost recovery into the proposed financing options. However, there is nothing in any of the options considered which precludes the charging of fees or allowing States to undertake cost recovery.

III. OPTIONS FOR RESTRUCTURING CHILD SUPPORT ENFORCEMENT FINANCING

A. Assumptions

The fundamental premise underlying the options in this paper is that the purpose of the Child Support Enforcement program has changed, and that conforming changes therefore are needed in the financing structure to reflect and advance the program's new direction. Whereas when the program was created, it was designed to serve AFDC recipients and to generate revenue for the government which could be used to offset the cost of recipients' assistance payments, the Child Support program now serves as a vehicle to increase family well-being and economic stability for both AFDC and non-AFDC clients.

To this end, in developing options, a number of assumptions have been made, as discussed below:

- States need to be motivated to perform better. Despite having had a generous financing structure, including incentives, States have not worked a substantial portion of their caseloads, and their performance remains well below its potential. One focus of the options should be to devise a structure which more effectively induces States to provide services to more families so as to increase the number who are able to become self-sufficient.
- In motivating States to increase performance, the goal is to increase penetration for each activity, that is, to meet some absolute standard or making progress towards such a standard (e.g., establishing paternities in 75 percent of cases).
- Options should encourage States to reinvest resources in their IV-D programs and to simplify today's complex financing structure.

- No distinction is made between AFDC and non-AFDC families. The goal of the program is to increase the well-being of all families, helping those not on welfare to stay off, and those on the rolls to find their way to self-sufficiency. The emphasis needs to be placed on increasing the success of activities (e.g., paternity establishment, establishment of orders, increasing orders with collections) which benefit all individuals, rather than on activities for one group over another.
- Collections should go in their entirety to the families on whose behalf they were collected, and not be retained by the States or the Federal government. Consistent both with the effort to increase families' economic stability, and not to make distinctions between those on or off of AFDC, all of the options proposed below begin with the assumption of a 100 percent pass through of collections to all families.

In addition to these underlying assumptions, several areas were left unaddressed. None of the options preclude changes should decisions be made on these areas, nor are any of the options dependent on their inclusion. These are:

- Fees and Cost Recovery. No recommendation has been included on whether fees and cost recovery policy should be change. However, nothing in any option precludes the charging of fees or the recovery of costs.
- Universal Services. For the purposes of FFP and any incentives, all families will be treated alike. The issue of providing universal services is under review by other groups. However, should a decision be made to mandate child support services for everyone, the cost implications would need to be considered in terms of the options which have been developed.

- Treatment of Interstate Cases. For purposes of calculating incentives, some consideration will have to be made regarding the double counting of incentives. Given existing reported State data it is not possible to eliminate double-counting in estimating State performance or performance incentives.

B. The Options

Building from the premise and assumptions above, four options were developed:

- Option 1: Expanded Performance Incentives--Reduce direct Federal matching and link Federal funding to specific performance incentives which reward States for successful action on more difficult cases;
- Option 2: Variable FFP With Incentives--States receive variable direct Federal matching dependent on their different economic and financial abilities to fund their IV-D programs. Incentives would be linked to collections. Families would receive a bonus to establish support orders.
- Option 3: High FFP--States receive very high direct Federal matching providing a reliable and predictable source of funding. This option has no separate performance incentives but would have increased Federal control; and,
- Option 4: Tiered FFP--All direct Federal matching for States would be variable, dependent on how well a State performed. (A matching rate floor would be established below which no State would fall). Since performance is built into the matching rates, this option has no separate structure of incentives.

A separate description and discussion of each follows.

OPTION 1: EXPANDED PERFORMANCE INCENTIVES

Description

Reduce direct Federal matching and in its place allow States to meet or exceed their costs through strong performance incentives which reward States for caseload penetration and successful action on more difficult cases.

Rationale and Current Problems Addressed

Current incentives give States little encouragement or reward for investing resources in difficult cases. Every State receives a minimum incentive regardless of performance, and the spread between the minimum and the maximum incentive rates is small, limiting the marginal return from investment of additional dollars. Further, because direct Federal financial participation (FFP) at 66 percent is high, States have less need to generate additional dollars over and above their minimum incentive in order to cover their costs.

This option would correct the current situation by creating real incentives, paid only if a State achieves real performance-oriented goals. No longer would all States automatically receive a minimum incentive. Further, by decreasing the reimbursement States obtain from direct FFP, and increasing the amounts which can be paid out in incentives, earning incentives would become more far more important to States.

Discussion and Variations

Types of Incentives. While any combination of incentives could be packaged under this option, five have been chosen which are also used in other options which include a performance incentives component. These would apply to all collections, AFDC and non-AFDC alike, and could be implemented directly or phased in over time. These five incentives include:

Total Cost-effectiveness (total collections divided by total expenditures);

Paternity Establishment (Percentage of Paternities Determined);

Order Establishment (Percentage of Cases with Orders);

Paying Cases (Percentage of Cases in a paying status); and,

AFDC Terminations (due, at least in part, to child support collections)

The recommended approach to computing these five performance incentives is to use "Weighted Ratios." That is, the Federal Government would pay each State the equivalent of a weighted percentage of their Federal share of AFDC collections. This amount would be based on States percentages (determined by each State) on each of the five performance incentives. For example, a State might receive no bonus for determining paternity in the first 25 percent of its case load. From this 25 percent mark, as the percentage penetration increases, the percentage incentive would increase. The incentive would be set at the highest level (and most performance enhancing) for deep penetration of the case load.

Alternatives: There are two alternatives to weighted ratios: Fixed Ratios and Bonuses. Under Fixed Ratios, each State would be paid a fixed percentage based on its percentage achieved on each of the five performance indicators. Under a Bonus system, each State would be paid a fixed amount for each occurrence (\$20 for each paternity established, etc.) Fixed Ratios and Bonuses have the advantage of simplicity--but they provide little inducement for States to work more difficult cases.

Reduction in FFP. For planning purposes, States need to know that they will have a fixed rate of Federal financial participation. This is currently 66 percent. Option One would phase in a gradual reduction in FFP, with gradual conversion to a strong system of performance incentives. Thus, FFP could be reduced to 60 percent in modest increments of 2 percent every 2 years. The first drop could be delayed anywhere from 1 to 3 years, depending on the magnitude of the other programmatic changes the States are

asked to make. Alternatively, a more rapid phase-in could be used, e.g., reduction of the FFP in larger increments to a lower final percentage, such as 50 percent.

Pros

- o Places an emphasis on performance, and provides strong financial rewards to States that can do so.
- o Eliminates existing floor on incentives which renders current incentives impotent.
- o Encourages and rewards States for working more difficult cases which results in increased caseload penetration.
- o States would be less likely to charge expenditures to the Child Support Enforcement program to take advantage of high FFP rates as compared with all other options; cost allocation problems would be minimized.

Cons

- o A less certain funding alternative for States, reducing the direct FFP on which they can count. Subjects State planning to the uncertainties of whether performance goals will be achieved. Fails to recognize that some States will be hampered by an inability to increase resources necessary to increase performance.
- o Relatively complex option, especially in terms of setting the incentives schedule.

OPTION 2: VARIABLE STATE FFP RATES WITH MODERATE INCENTIVES

Description

States receive variable direct Federal matching reflecting their different economic and financial capacity to fund their IV-D programs. Incentives would be linked to collections. Families would receive a bonus to establish support orders.

Rationale and Current Problems Addressed

The current financing system of fixed national match rates for expenditures clearly favors the larger and more affluent States. Since the poorer States have less money to allocate among all programs, they find it more difficult to appropriate the resources needed to correct problems and expand child support activities. In addition, the current disparity between Federal match rates applicable to shared expenditures and those applicable to shared AFDC collections confers a significant and unwarranted advantage to the more wealthy States.

Option 2 attempts to correct both of these inequities. In lieu of the current fixed matching rate system, Option 2 proposes the adoption of a variable State-specific FMAP match rate structure. Such a system would encourage poorer States to spend more State funds on child support enforcement activities. At the same time, it would also remove the disparities created because of the use of FMAP match rates for shared AFDC collections.

The current formula for determining incentive payments rewards both inefficient as well as efficient State program operations. All States -- no matter how low their ratio of gross collections to program expenditures -- receive a minimum incentive of 6 percent of AFDC collections received plus 6 percent of non-AFDC collections (capped at 115% of AFDC collections). In addition, the current system for calculating incentives tends to discourage States from pursuing the more difficult or less productive child support cases.

Option 2 would replace the current cumbersome formula for determining incentive payments with a simplified fixed percentage commission system based solely on collections. Since collections might be viewed as a proxy for other actions (e.g., paternity and order establishment), State performance in these areas would implicitly be encouraged. Priority would go to the collection of child support funds from non-caretaker parents rather than to the achievement of marginal increments in the cost-effectiveness of the program. States would be able to set collections targets knowing what the amount of their performance rebates would be.

Finally, in order to secure the cooperation of the caretaker parent in establishing paternity, locating the absent parent, and securing a court order, there would be an assured bonus payment of \$300 to the family once a final court order has been established. This bonus could be limited to AFDC families, if costs need to be constrained. Alternatively, the bonus could be given as a \$50 monthly supplement to the AFDC payment rather than through the Child Support Enforcement program.

Discussion and Variations

This option has three principal components:

- o **Federal Financial Participation**

Set State FFP matching rates for expenditures at the variable Federal Medical Assistance Percentage (FMAP) -- the same match rates as are currently being used to distribute child support collections between the Federal and State governments, and the same rates as are used to reimburse State AFDC benefit costs. (Nothing would preclude the alternative of using other variable rates.)

- o **Performance Incentives**

Give each State a fixed commission percentage based on their collections as a performance incentive. The percentage amount could be applied to either total collections or differentially to AFDC and non-AFDC collections separately to produce the same level of Federal financial assistance. States could be mandated to reinvest all or part of the monies received into their child support programs or could be given flexibility in how these funds were used.

- o **Reward Families for Achieving Results**

Give each caretaker parent a one-time \$300 payment for each court order established. This bonus would be equivalent to a \$50 time-limited pass-through for the first six months after a final court order has been secured. Alternatively, replace the current \$50 pass through with an assured \$50 bonus payment once the final court order is in effect.

Pros

- o Does not confer advantages to larger and more affluent States.
- o Uses match rates already being used in other programs (e.g., AFDC, Medicaid).
- o Recognizes differences in State financing capabilities.
- o Incentives would be simple to administer and target a primary desired outcome -- child support collections.
- o Incentives could be flexibly structured to apply to all or only certain types of collections and would not penalize States for working difficult cases.
- o The bonus to families would assure them a guaranteed amount unrelated to the amount of child support collected. It would also motivate States to pursue collections once court orders are secured.
- o Bonus payment is large enough to encourage cooperation and participation by the caretaker parent.

Cons

- o Some States may suffer a loss of Federal financing
- o Does nothing to assure that needed program services will be provided for difficult cases
- o Bonus approach penalizes families if court orders are delayed or difficult to obtain, and could be very costly.

OPTION 3: HIGH FFP/NO INCENTIVES/SANCTIONS FOR NON-PERFORMANCE

Description

States would receive very high direct Federal matching providing a reliable and predictable source of funding. This option has no separate performance incentives but would have increased Federal control.

Rationale and Current Problems Addressed

This option is designed to eliminate the complaint that States lack sufficient funding for their child support enforcement programs, and therefore do not perform at high levels across all cases. By providing a very high level of direct Federal funding for the program, perhaps even funding at 100% of expenditures, States should be able to extend necessary services to all cases.

Discussion and Variations

This option could be structured to provide a base 82% funding level with variable rates increasing up to 100% to emphasize certain workload or administrative activities. The base 82% FFP funding level is roughly equivalent to the present funding structure of 66% FFP and incentives. In FY 1992, although the effective FFP rate for States in the aggregate was 82%, individual States received reimbursement under the current system of combined FFP and incentives that ranged from a high of 130% to a low of 71%.

- o FFP tiers could be created whereby certain activities are reimbursed at higher rates (e.g., FFP could be increased for paternity establishment activities from the 82% basic rate to 95%).
- o States could be given increased FFP to achieve certain goals such as develop a uniform CSE administrative process, centralize operations at the State level, develop a central registry system, develop uniform/compatible computer systems or develop uniform operating procedures.

Alternative: The Federal government could also provide total funding to States for all expenses necessary to administer their child support program operations. However, this would require increased Federal control through more extensive Federal monitoring involving both program oversight activities and audit activities (e.g., increased audit activities to control allowable costs).

Under this alternative, the program budget would be limited by an appropriation from Congress each year. However, the budget allocation for each State would be difficult to determine due to the variances in program administration among the States. To effectively implement this option, the States would have to have some uniformity in program administration so that a financial management system could be designed to develop State-by-State program budget estimates.

A successful example of this alternative is the joint administration of the disability program by the Social Security Administration (SSA) and the State Disability Determination Services (DDSs). SSA pays 100% of the costs (i.e., over \$1 billion) incurred by the States for performing this function while giving the States maximum managerial flexibility. To monitor the States, SSA has regulations which include standards for "acceptable" accuracy and timeliness of disability determinations and also give SSA authority to conduct technical management and assistance (TMA) on an optional or mandatory basis for poor performing DDSs. A recent GAO report concluded that the joint administration of the program was satisfactory while acknowledging that improvements could be made.

Pros

- o Simple to understand and simple to administer.
- o States retain full responsibility to manage and operate their programs with monitoring and oversight to be provided at the Federal level. States would still have some investment in the program, and would, therefore, be able to have influence over how the program is managed and operated.

- o Eliminates incentives that have historically distinguished AFDC and non-AFDC cases and treats all types of cases the same.
- o Provides a reliable and predictable source of funding for States, which would help States' Governors and legislatures to budget for the program. Also reduces the differences that States face in resource availability as a result of demographics. This type of approach has been advocated by the IV-D Directors and is being considered by the Congress.

Cons

- o Reduces States' investment in the program which could negatively affect their level of commitment.
- o Difficult to control costs as there is less incentive for States to limit costs or to improve cost-effectiveness. In addition, there may not be any corresponding improvements in program performance. Federal monitoring would significantly increase together with a corresponding increase in audits covering allowable costs; increased emphasis would be placed on Federal performance standards and operating procedures.
- o Resources needed at the Federal level for monitoring and oversight activities could be considerable and extensive. To justify their expenditures States could be requested to provide detailed information to include various workload reporting activities, staffing resources used, and reporting of administrative costs.
- o Federal level monitoring activities could be minimized or rendered ineffective if there is insufficient leverage provided to require States to meet certain minimal program performance requirements.
- o Approach is not performance-based which could make motivating States' performance more difficult, especially in terms of encouraging States to penetrate specific CSE workloads or concentrate on specific areas where performance improvements are needed.

- o Various FFP tiers ranging from 82% up to 100% FFP could create an administrative burden without a corresponding program improvement. For example, if 82% FFP were paid for one activity and 95% FFP paid for another activity, the percentage increase in FFP may not lead to any difference in State performance, and thus the additional administrative burden of differentiating costs and reimbursements may not be warranted.

OPTION 4: TIERED FFP (WITH INCENTIVES INCLUDED IN THE FFP RATE)

Description

All direct Federal matching for States would be variable. Higher FFP matching rates above the floor would be paid based on how well a State performed on a number of measures. (A matching rate floor would be established below which no State would fall). Since performance is built into the matching rates, this option has no separate structure of incentives.

Rationale and Current Problems Addressed

Current incentives give States little encouragement or reward for investing resources in their child support programs to improve State performance. Rather, every State receives a minimum incentive regardless of performance, and since the spread between the minimum and the maximum incentive rates is small, the marginal return from investment of additional dollars is limited.

This option would correct the current situation by linking FFP to performance. As States increased their performance, their Federal matching rate would also increase. As in option 1, performance would be measured across five scales: Total Cost-effectiveness, Paternity Establishment, Order Establishment, Paying Cases, and AFDC Terminations Due to Child Support Collections. Poor performing States would have less of their programs funded by Federal dollars but such States could always perform their way back to previous or higher FFP rates even after their FFP rate was reduced for poor performance.

This option will also encourage States to invest more money in their child support enforcement programs. States will only get money from the Federal government if they spend money on the IV-D program. This should be a strong incentive to invest in the kinds of activities that will maximize performance in such IV-D functions as paternity and order establishment, and to do so in a cost/effective manner. Where incentives are based on collections, working unprofitable cases is not a logical strategy for a State to follow. This option does not base its incentives on the magnitude of collections, but instead rewards the performance of the IV-D functions that are necessary to create a paying case.

Finally, this option would eliminate the current linkage of AFDC and non-AFDC collections, which is another problem with the current system. Presently, a State's performance in the area of non-AFDC collections may be constrained by its performance in the area of AFDC collections. Option 4 makes no distinction between the two types of collections. Option 4 would also simplify the incentive structure, since separate incentive payments would not be required. Further, the incentive under this option would be real, since it would stringently avoid paying States for non-performance.

Discussion

Under this option, each State would be scored on a scale consisting of each of the five performance measures. Each measure would account for 17 percent of the total possible points a State could get for maximizing that measure (100 percentage points divided equally among 5 measures). Thus, if a State established 80 percent of its paternities, it would receive $80 \times .17$, or 13.6 points for that measure. The five measures treated thus would add up to some number, with a ceiling of 100, that would represent that State's total FFP. If the State's total FFP score were below 50, then the State would receive whatever the floor was determined to be.

Theoretically, any of the five measures could be weighted differently than equally if policy determined it desirable to encourage paternity or orders or cost-effectiveness.

However, States would always be assured of a minimum Federal FFP match. A matching floor would be established, under which no State could fall, a State assurance for budget and planning purposes. Penetration of the hard-to-work cases would be the only way a State could successfully earn FFP above the designated floor. States would be audited to certify the reliability of the data on which their performance assessment and thus, FFP, are calculated.

FFP floors and ceilings would have to be revisited on some periodic basis in order to keep them realistic and meaningful. The system would establish an FFP floor that would be guaranteed to the State, but which could be set at different levels, but for purposes of exposition, say, at 50 percent. There would also be a ceiling that could likewise be set at different levels. It would be all or a portion of the percentage point distance between the floor and the ceiling that a State would earn and receive as an incentive for good performance.

Alternatives: Two alternatives to setting the ceiling at 100 percent include:

Ceiling at 85 percent FFP. Currently about 85 percent of the States' costs are paid by the Federal government, so this sub-option would be similar to what is done now, except that all Federal funding of the State programs in this option is done via the FFP rate, and nothing via special incentives. A State does not get full Federal funding unless it meets standards. The State could earn up to 35 percent additional FFP for its program if its performance were excellent.

Ceiling at 110 percent FFP. This sub-option would allow a still higher percentage for good performance with the possibility of a fully Federally funded program and a small bonus for exceptionally good performing States. Using the performance of the theoretical State above, and setting each of the measures equally at 22 percent (110 percent divided by 5 measures), the state would have earned an FFP rate of 67.32 percent.

Pros

- o Increases establishment of paternity and support orders. A state will not do well in this measure unless it establishes paternity and support orders. In this way it is skewed toward attention to AFDC cases because they are the cases more likely to be lacking paternity and support orders. Likewise, the measure "AFDC cases going off of welfare" does the same thing.
- o Focuses on getting all non-custodial parents to pay something. The measures promote attention even to cases where the payment potential would not necessarily be great. Paternity and order establishment may or may not pay big dividends, but in Option 4 would count toward earning FFP. Thus, there would be no motivation to ignore difficult cases as not likely to pay off, as often happens now with teenaged father cases; a state that worked such cases might not get immediate large collections, but would receive credit for paternities and orders established.
- o This Option will encourage the states to go after these short-run "unprofitable" cases.
- o The states are rewarded strictly for performance. Compared to the way incentives are now figured, the system is relatively simple and easy to understand and operate.
- o Will not waste federal funds meant to encourage child support functions on poorly performing states.
- o Performance measures could be weighted differently to emphasize paternity or order establishment. The state's incentives are balanced across all of the functions that IV-D needs to perform and generally do not reward working one type of case over another. The total federal cost is limited to current levels of expenditure, leaving room for future initiatives so that a creative and targeted set of incentives could be designed that would encourage state performance in child support areas not now covered.

Cons

- o States will have to work very hard to do well, and families may suffer from States inability or unwillingness to invest in their child support programs. States could, as they can now, decide the program level by deciding how much of it they are willing to underwrite. States do not always fund at the level that is needed to get the job done. This option would do nothing to change that fact, but the federal government would also not be putting money into the program in the absence of State commitment.
- o States would have to operate outstanding programs to achieve the level of federal funding that some of them now achieve under the current system, especially under the 85 percent ceiling sub-option.

C. Summary

The four options reflect different philosophies about role of the Federal government in supporting the Child Support Enforcement Program and in the expected behavioral response on the part of the States. All of the options have strengths and weaknesses in relationship to the other options. The options have purposefully been presented in highlight their differences. Variations or hybrids could easily be developed. A table comparing major provisions is presented on the following page.

SUMMARY OF FOUR FINANCING OPTIONS

	Expanded Performance Incentives	Variable FFP With Incentives	High FFP	Tiered FFP
	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>	<u>Option 4</u>
FFP Rate	Minimal	Variable	Very High	Variable
Incentives	High	Moderate	None	None
Federal Monitoring	Moderate	Moderate	High	High
Performance-Based	Yes	Yes	No	Yes
State Investment	High to Low	Variable	Very Low	High to Low

Option 1 (Expanded Incentives) and Option 4 (Tiered FFP) have the advantage of providing strong financial incentives for performance. For the States the incentive effect of Option 1 may be slightly greater since the amount of the incentive is unconstrained by state expenditures. Option 4 maximizes the Federal investment by limiting reimbursement to expenditures and ensures that all federal payments are invested in the program. Because both options have reduced FFP base rate of 50 percent this changed could be perceived as a retreat by the Federal government from its strong support for Child Support Enforcement even though both provide the States with an opportunity to make up through improved performance any funds lost by the reduced FFP.

Option 2 attempts to address the problem of lower FFP in Options 1 and 4 with a balance between an incentive approach and the need to provide States with sufficient resources to operate a sound CSE program. The incentive is much simpler in Option 2 than in Options 1 and 4 because it is based solely on collections. However, other results oriented performance criteria would have

to be built into the program management structure to prevent creaming.

Option 2 is also the only option which specifically includes an incentive payment for the family, although continuation of the \$50 disregard is not precluded by the other options. The bonus payment in Option 2 specifically rewards families for establishing awards. This moves the incentive closer to an event that the custodial mother can control. The current pass-through is dependent on the non-custodial parents willingness and ability to pay child support.

In Option 2 and Option 4 the variable Federal share represent different cost sharing strategies. In Option 2 the variable FFP rate recognizes that States have differing economic circumstances that can make financing program services (or benefits) more difficult. The higher matching rate attempts to level the playing field for the poorer States. In Option 4 the variable FFP rate is the incentive, with the Federal government's share of the costs is proportional to performance. Thus, good performance is rewarded with progressively higher matching rates.

Option 3 (High FFP) provides the States with a very high match rate. The approach addresses State CSE Administrators' concerns that the fiscal and political atmosphere in some States prevents the program from accessing needed resources, even when it is likely that the State would be fully compensated for its efforts. If resource limitations at the State level are the major barrier to program improvement, this option would likely have the greatest impact on program improvement. It also requires the greatest level of Federal monitoring/auditing and a willingness to take stiff sanctions if performance standards are not met. While the financing of the program is not performance-based, it is assumed that program reviews and any resulting sanctions (negative incentives) would be based on results oriented performance criteria.

Cost shifting is a problem which often materializes when one, of a related group of programs, has a substantially higher matching rate. Option 1 with its low FFP rate would be less likely to

tempt States to load up expenditures on the CSE program, minimizing cost allocation problems.

What should be noted is that the difference between the options would play out more in how they affect behavioral responses, than in any initial dramatic change in funding. Each option can be designed to replace, at least in the aggregate, the existing level of Federal support for the CSE program. The options which rely heavily on incentives can be based only on how well a state meets an absolute standard or it can include maximum payment of incentives for substantial improvements. Additionally, it would also be expected that the implementation of the new funding formula would be phased in over a period of years, with the new funding formula gradually replacing the current financing structure. This would prevent a substantial disruption in the CSE program during the transition period.

APPENDIX A

PROPOSAL FOR A NATIONAL CHILD SUPPORT ENFORCEMENT REVOLVING FUND

Development of a National Child Support Enforcement Revolving Fund would serve two purposes. Most importantly, it would provide States (and their localities) with a source of funds which could be used for short term, high payoff operational improvements. Such improvements, despite their potential for immediate returns, often are not made, victims of the need to concentrate scarce resources on simply insuring the provision of basic, day-to-day services.

Discussion of the Revolving Loan Fund Proposal

Why is there a need to establish a special revolving fund?

Currently, Federal reimbursement covers 66 percent of IV-D program costs. States also receive incentives based on cost efficiency and their level of collections. Nonetheless, additional funds, especially for program upgrades, must still come through State legislatures, which increasingly look askance at requests for additional funding.

For localities, especially counties, getting monies for improvements can be more difficult still. These jurisdictions may derive a large portion of their operating monies from the pass-through by States of incentive funding. Such funding may leave little money for improvements, especially where an up-front local match may be a prerequisite.

Options have been proposed in this paper which would modify the current Federal matching rate, the incentive structure, or both. This proposal could serve to replace incentives funds should changes be made in the incentives structure which eliminate separate incentive payments to States, as is proposed in Options 3 (High FFP) and 4 (Tiered FFP) in this paper. More to the point, a revolving fund would provide an additional means by which States could finance one-time program improvements

irrespective of the financing system which is ultimately selected to fund ongoing program operations.

How might a revolving fund be structured?

Loan funds, although not common at the Federal level, are administered by a number of Federal agencies, including the Departments of Agriculture, Education, Interior, State, Transportation, and Veterans Affairs, as well as smaller agencies like the Federal Emergency Management Agency and the Small Business Administration. Experience exists within HHS as well, which during the 1980's administered the Rural Development and the Community Development Credit Unions Revolving Loan Funds. Funds provided under current programs range from tens to hundreds of millions of dollars loaned annually. Various of these programs could be used as models in structuring a revolving fund for the Child Support program.

States can also provide relevant models. California, for instance, runs a state-wide revolving fund to provide its counties with "pump-priming" monies for child support program improvements. Taking this program as a model, a national revolving fund could be established using either appropriated funds, or monies from fees and cost recovery to provide initial capitalization (approximately \$100 million). A goal could be set to increase this total amount over time to a more viable level of \$250 million, which would allow maximum grants to States of \$5 million. These subsequent increases could also come from fees and cost recovery; alternatively, subsequent monies could be derived by retaining and allocating to the fund a percentage of the funds due to States as reimbursement for their ongoing program operations under the Federal matching provisions. States could also be encouraged to supplement these Federal funds with resources of their own. (California's program currently provides its counties with approximately \$10 million annually out of combined Federal, State and county funds.)

Administered by the Federal Office of Child Support Enforcement, the revolving funds would provide interested States with funds for "pump-priming activities." For purposes of illustration, most projects might be assumed to require from \$100,000 to

\$300,000. This is consistent with California's experience where, in FYs 1992-93, projects funding ranged from \$5,400 to \$3.6 million with median funding of \$90,000. A maximum limit of \$5 million per State and \$1 million per project is suggested, which would provide larger jurisdictions sufficient funds to undertake serious projects. Funds should be available for a maximum of three years. This will insure regular turnover and an ongoing stream of projects.

Who would receive the funds?

States would be responsible for review and approval of any local level projects, and serve as conduits for funding going to the local level. To do otherwise would be unwieldy, perhaps unmanageable, since counties and other local jurisdictions do not normally interact directly with the Federal government under the IV-D system.

However, where States themselves seek to apply for funds for Statewide projects the issue arises regarding who is responsible for choosing and approving what to fund. Such determinations could be retained at the local level or delegated to groups at the State level. One way of addressing this issue is to allow States where the child support program is State-administered and State-run to apply for funds to make Statewide changes or to propose projects which would only affect some of their subdivisions. And in State-administered, county-run programs, States could be allowed to apply for funds for Statewide changes, but be required to make a portion (e.g., 25 percent) of funds available to counties or similar subdivisions responsible for the IV-D program at the local level.

What activities should be allowable?

To have the greatest impact, this fund should focus on providing seed money to get projects going from which, once in place, States and localities will immediately benefit and incorporate into their ongoing program operations. Two criteria should be applied in deciding which projects will be funded: whether alternative funding already exists, and whether collections can be increased as a result. Within these guidelines, States should have maximum flexibility in deciding which projects to fund.

Suggested activities include: implementation of best practice approaches, provision of additional training, implementation of changes to meet identified audit deficiencies, improvements to reduce case backlogs, or administrative changes (e.g., addition of staff, installation of voice response systems, increases in service of process, or expansion of management information or analysis systems).

What issues still need to be resolved?

A key issue remains: If States receive these funds as loans, how will they repay them at the end of the three year project period? Further key considerations include whether to charge interest, and if so, at what rate.

In California, counties must currently repay the funds each receives out of the increased collections on behalf of AFDC families which are generated by their projects. Each California county is required to project the amount by which its project will increase collections during the project period. Counties realizing increases use their share to repay the fund; counties with projects which fail to generate the projected increase in collections must directly repay the amount provided by the State out of their own resources.

However, all of the options in this paper assume that AFDC collections will be passed directly through to AFDC families. This approach will remove such collections as a revenue source for purposes of this proposal. One alternative is to allow repayment out of incentive payments, assuming that projects will result in higher performance, and thus larger incentives. This would be a viable alternative under Options 1 and 2. However, there are no separate incentives paid to States under options 3 and 4. In these cases, an alternative approach might be to again tap some portion of child support fees, or more simply, to recoup the funds through equal reductions in the State's Federal matching funds over the following four quarters.

APPENDIX B

PERFORMANCE INDICATORS FOR PAYING INCENTIVES

Five performance indicators have been considered in this paper replacing the cost-effectiveness incentive for AFDC and non-AFDC collections. These performance indicators are:

Total Cost-effectiveness (total collections divided by total expenditures)

Paternity Establishment (Percentage of Paternities Determined)

Order Establishment (Percentage of Cases with Orders)

Paying Cases (Percentage of Cases in a paying status)

AFDC Terminations (due, at least in part, to child support collections)

These five incentives represent performance measures for processing a child support case from case start (paternity) to case closure (AFDC termination)--an advantage. The downside of having five indicators is the increased complexity of the financing system, especially if the incentives are weighted to encourage States to make deep penetration into their caseloads by working the more difficult cases. Using only the first three indicators would simplify the structure.

The Welfare Reform enforcement work group concluded that anywhere from three-fifths to three fourths of current IV-D cases with orders would be enforceable by wage withholding. The Paying Cases indicator could reward the States for an action that is fairly automatic, given a support order and an employer's address. If the Paying cases indicator were to be changed to encourage States to go after the self-employed (and other cases that don't lend themselves to wage withholding), the incentive would encourage States to use alternative methods to wage withholding--a action we certainly don't want the States to take.

If this indicator is used, the starting percentage for incentive computations (below which States would not receive any Paying Cases incentive) should be around 50 percent--which will encourage States to pursue the more difficult enforcement cases without discouraging them from pursuing wage withholding as the first choice enforcement remedy. An absolute standard for the Paying Cases indicator may not be appropriate unless the standard is set very high, e.g. 90 percent of cases with orders.

The incentive for AFDC termination has two problems. First, it is based upon data that is very shaky in many States. Second, it rewards State child support programs for occurrences that are to a large extent beyond their control. Data collection on this element would have to be improved before it could be used as a performance indicator.

APPENDIX C

POTENTIAL IMPACT OF NEGATIVE INCENTIVES

EFFECT OF AUDIT PENALTY ON STATE CHILD SUPPORT PROGRAMS (as of June 1993)

The audit and penalty provisions of the child support legislation have significantly improved the States' ability to operate effective child support programs. This is true even for States where no financial sanction has been imposed. In general, the audit penalty as a tool to motivate improvements in State programs has been more effective than any other mechanism used in the past, including incentive payments. Major improvement attributed to the audit did not occur, however, until after the first penalty was imposed on December 2, 1988.

The audit provisions in the child support legislation were implemented in 1978 and the first audits covered Fiscal Year 1977. Audit reports issued in these early years cited numerous program deficiencies, including many of which were recurring from one year to the next. States took minimal action to correct problems disclosed by audit because, at the time, Congress had imposed a moratorium on enforcing the penalty. Consequently, States most often ignored the audits.

The 1984 Child Support Amendments strengthened the audit provisions considerably by making them more reasonable and fair. The improvements included: the opportunity for States to take corrective action and avoid the penalty, changes in audit frequency, more precise evaluation standards, a definition for substantial compliance with Federal program requirements, and a sound statistical basis for evaluating results. Since these changes, 87 penalty notices have been sent to 52 different States and territories for one more audit criteria not in compliance with Federal requirements. In all cases, States elected the option of corrective action which suspends the penalty. Most States successfully corrected the program deficiency cited in the notice of substantial noncompliance. To date, 15 penalties have been imposed on eight States. Six of the eight States were

penalized in consecutive years, including one for three consecutive years.

In most cases where the penalty was imposed, States appealed the findings to the Departmental Appeals Board (DAB) and then later, in some instances, filed suit in District or Circuit court. None of the appeals or lawsuits were successful in challenging either the results in the audit reports or the audit methodology. One audit was not upheld by the Board, however, because the audit results had to be based on a judgmental rather than statistical case sample due to the inability of the State to furnish a case universe. The total amount available for collection from penalties to date after resolution of legal challenges is \$23.3 million, including \$1.8 million in interest.

Taking the penalty and successfully defending State legal challenges generated a new attitude and a healthy respect for the consequences of not complying with Federal program requirements. Unlike what happened after the early audits, States are making serious efforts to resolve problems. The numbers above; i.e., 44 States avoided the penalty by taking corrective action, show the extent of this effort. One State, for example, responded to the audit by significantly reorganizing its program, including moving the program to a different State department and eliminating ineffective cooperative agreements. Audit statistics updated in June 1993 show that in 72 percent of all audits, States failed one or more audit criteria. However, only 9 percent of the States continued to fail the audit after the corrective action period and Follow-up review.

Even after the penalty, the record suggests that States continue their corrective actions and improve their programs in order to eliminate the penalty. Several States in the penalty category have undergone extensive legislative and other reform in order to meet the minimum standards for operating a program in compliance with Federal requirements.

The audit and related penalty provisions of the child support legislation also greatly benefit the program by helping to ensure uniform and consistent delivery of all basic child support

services. In the early 1980s, States received incentive payments of 15 percent of AFDC collections. As a result, the more difficult functions of establishing paternity and support orders received a low staff priority to the more lucrative work of enforcing cases with existing AFDC child support orders. Audit disclosures of continuing problems in these areas led to legislative and programmatic changes to focus more uniform treatment on paternity and non-AFDC cases. Without the audit to disclose such trends and the penalty to enforce compliance, uniform treatment would be dependent upon the varying State assessments of the importance of individual child support functions.

APPENDIX D

DISTRIBUTION OF CHILD SUPPORT COLLECTIONS

Currently, child support enforcement (IV-D) services are provided to AFDC, title IV-E foster care, and Medicaid applicants and recipients referred to the IV-D agency. Services are also provided to former AFDC, title IV-E foster care, and Medicaid recipients who wish to continue to receive such services. In addition, services are available to any individual not otherwise eligible who files an application for IV-D services and pays the application fee if the State does not pay the fee itself.

Except for amounts collected through the Federal and State income tax refund offset process, amounts collected shall be treated first as payment on the support obligation for the month in which the support was collected. Amounts collected in excess of the required support obligation shall be treated as an amount which represents payment on the required support obligation for previous months.

Federal and State tax offset processes are used to enforce child support arrears. Under these processes, the State IV-D agency certifies arrears to the State tax agency and/or the IRS for offset. Amounts collected through tax offset may only be applied to arrears certified to the agency that performed the offset. Collections made through the Federal tax offset process must be applied first to AFDC and Title IV-E foster care arrears certified for offset. Collections made through the State tax offset process must be applied to certified arrears in accordance with the State's non-AFDC distribution policy when both AFDC and non-AFDC arrears were certified for offset. Amounts received through either tax offset process that exceed certified arrears must be paid to the non-custodial parent unless that individual agrees to have the excess amount applied to other arrears.

When a family applies for AFDC, an assignment of support rights is made to the State by the custodial parent on behalf of that parent and any child eligible for AFDC. The assignment includes current, past and future support rights so long as the family

remains on AFDC. Under Federal distribution requirements, the State pays an amount up to the first \$50 of current support to the family. Current support (child and spousal) in excess of the \$50 pass-through is retained by the State to reimburse the assistance payment made to the family for the current or next month. The State pays any remaining current support (child and spousal) to the family. Current support (specific dollar amount medical support) in excess of the \$50 pass-through) is paid to the State Medicaid agency to reimburse Medicaid expenditures incurred on behalf of the family. Support in excess of these expenditures is paid to the family.

Support (child and spousal) collected in excess of the current support obligation is applied to assigned AFDC arrears and retained by the State to reimburse past assistance payments made to the family. Collections in excess of past assistance payments are paid to the family. Support collected in excess of the current support obligation that is applied to assigned specific dollar amount medical support arrears is paid to the Medicaid agency to reimburse Medicaid expenditures incurred on behalf of the family. Collections in excess of these expenditures are paid to the family. If an amount is collected which represents payment on the required support obligation for future month(s), such amounts shall be applied to those months only when all prior support obligations have been satisfied.

When a child becomes a participant in the State's title IV-E foster care program, the State makes an assignment of support rights on behalf of the child to itself. The assignment includes current, past and future support rights so long as the child remains in IV-E foster care. Under Federal distribution requirements, current support (child and spousal) is retained by the State to reimburse itself for that month's foster care maintenance payment. The State pays any remaining current support (child and spousal) to the State agency responsible for supervising the child's placement and care for use in a manner that is in the best interest of the child. Current support (specific dollar amount medical support) is paid to the Medicaid agency to reimburse Medicaid expenditures incurred on behalf of

the family. Support in excess of these expenditures is paid to the family.

Child and spousal support collections in excess of the current support obligation are applied to assigned foster care arrears or assigned AFDC arrears and retained by the State to reimburse past foster care maintenance payments or past AFDC assistance payments. Collections in excess of these payments are paid to the State agency responsible for supervising the child's placement and care for use in a manner that is in the best interest of the child. Collections in excess of the current support obligation applied to assigned specific dollar amount medical support arrears are paid to the Medicaid agency to reimburse Medicaid expenditures incurred on behalf of the family. Collections in excess of these expenditures are paid to the family. If an amount is collected which represents payment on the required support obligation for future months, such amount shall be applied to those months only when all prior support obligations have been satisfied.

When a family applies for IV-D services, receives IV-D services as a Medicaid-only case with an assignment of support rights, or is a former AFDC, title IV-E foster care, or Medicaid recipient who continues to receive IV-D services, support collections are distributed as follows for these non-AFDC cases. Current support is paid to the family with the following exception. When the family is a Medicaid-only recipient, current support (specific dollar amount medical support) is paid to the Medicaid agency to reimburse Medicaid expenditures incurred on behalf of the family. Support in excess of these expenditures is paid to the family. Collections in excess of the current support obligation are, at State option on a state-wide basis, applied to non-AFDC arrears, including specific dollar amount medical support arrears assigned to the State by a non-AFDC Medicaid-only recipient, or to assigned AFDC or foster care arrears.

Collections applied to non-AFDC arrears are paid to the family with the following exception. Collections applied to specific dollar amount medical support arrears assigned to the State are paid to the Medicaid agency to reimburse Medicaid expenditures

incurred on behalf of the family. Support in excess of these expenditures is paid to the family. Collections applied to assigned AFDC arrears or assigned foster care arrears are retained by the State to reimburse past AFDC assistance payments or past foster care maintenance payments. Collections in excess of these payments are paid to the family (excess AFDC arrears), or paid to the State agency responsible for supervising the child's placement and care (excess foster care arrears).

APPENDIX E

DISTRIBUTION OPTIONS

We have identified several options for revising the current process for distributing child support collections. These options described below include the advantages and disadvantages of each. Under each option, all child support paid to an AFDC family would be reported to the State IV-A agency. Support payments would be used by the IV-A agency in redetermining the family's eligibility for and amount of assistance under the AFDC program. In addition, specific dollar amount medical support collections assigned to the State would continue to be paid to the State Medicaid agency. Also, collections made on behalf of children placed in foster care under the title IV-E program will continue to be paid to the State IV-E agency.

Option 1: State pays all child support collections to the family. Under this approach, the State would pay child and any spousal support collections to the AFDC family, and any other family receiving child support services. Medical support collections not assigned to the State would be paid to the family. The AFDC assignment of support rights would be replaced by a requirement that all support be paid to the State. Amounts collected in excess of the current support obligation would be applied to arrears in accordance with a state-wide distribution policy. Tax offset collections would be applied to certified arrears under a similar policy.

Advantages:

- The distribution process is simplified. Caseworkers will find it easier to understand and explain to child support recipients
- Costs related to the use and maintenance of State automated distribution systems would be significantly reduced
- The non-custodial parent may be more likely to comply with the support obligation because child support is going directly to the family

-Family responsibility and non-custodial parent relationship with the child are fostered by the payment of support to the family

Disadvantages:

-The AFDC grant would have to be adjusted on a more frequent basis because support payments are often not paid on a regular basis, and the amount of each payment may vary. As a result, AFDC administrative costs would increase

-States would have to reprogram their automated distribution systems to implement the new distribution process

-AFDC family receives more income if the non-custodial parent does not pay on time. For example, the non-custodial parent has a support obligation of \$200 a month. During January, February, and March, the non-custodial parent does not pay any child support. The family receives an AFDC grant of \$300 a month during each of these months (\$900). The non-custodial parent pays \$600 near the end of March which satisfies his current support obligation and arrears. The family receives the \$600 and goes off AFDC. If the non-custodial parent had paid the current support obligation during January and February, the State would have saved \$200 a month (\$400) in assistance payments to the family if the child support reduces dollar for dollar the amount of the grant to the family.

-AFDC collections currently made by the State are split between the State and Federal government to reimburse the cost of assistance payments made to AFDC families. Because all child support collections would be paid to the AFDC family under this option, the Federal government would have to come up with another funding source for incentive payments to the State

Option 2: State would pay current child and any spousal support collections to the AFDC family and any other family receiving child support services. Current medical support collections not assigned to the State would also be paid to the family. Any excess amount collected would first be applied to arrears owed to

the family, including arrears that accrued before the family went on AFDC, or the child was placed in title IV-E foster care. Under this approach, a assignment of support rights would only be in affect while the family was on AFDC, or Medicaid-only, or the child is in IV-E foster care. Assigned arrears would only be satisfied after all arrears owed to the family were satisfied. Tax offset collections would first be applied to certified arrears owed to the family.

Advantages:

- Costs related to the use and maintenance of State automated distribution systems would be reduced
- Family would receive any current child and spousal support payment made while the family is on AFDC, and any payment on child or spousal support arrears that accrued before the family went on AFDC. These arrears would be satisfied before arrears that accrued while the family is on AFDC
- The non-custodial parent may be more likely to pay support in a timely manner because all current child support payments go directly to the family
- Fosters family responsibility and the parent child relationship because the family receives all child support payments made in a timely manner
- The State would retain any support payments applied to AFDC arrears to reimburse the State and Federal government for assistance payments made to the family
- The Federal government could continue to use the Federal share of payments on AFDC arrears as a funding source for incentive payments to the State

Disadvantages:

- The AFDC grant would have to be adjusted on a more frequent basis because support payments are often not paid on a regular

basis, and the amount of each payment may vary. As a result, AFDC administrative costs would increase

- States would have to reprogram their automated distribution systems to implement the new distribution process
- The AFDC family does not receive any excess payments applied to AFDC arrears
- The Federal share of payments on AFDC arrears may not be a sufficient funding source for incentive payments to the State

Option 3: State would pay current child and any spousal support collections to the AFDC family and any other family receiving child support services. Current medical support collections not assigned to the State would also be paid to the family. The State would have flexibility regarding the treatment of excess payments. Under this approach, the State would establish a state-wide policy regarding the distribution of payments that exceed the current month support obligation. Excess payments could be applied first to arrears owed to the family, arrears owed to the State, or some other method applied to all cases. Tax offset collections would be applied to certified arrears in accordance with the State's policy for distributing payments in excess of current support.

Advantages:

- Costs related to the use and maintenance of State automated distribution systems would be reduced
- The family would receive any current child and spousal support payments made while the family is on AFDC
- The non-custodial parent may be more likely to pay support in a timely manner because all current support payments go directly to the family

-Fosters family responsibility and the parent child relationship because the family receives all child support payments made in a timely manner

-The State would retain any support payments applied to AFDC arrears to reimburse the State and Federal government for assistance payments made to the family

-The Federal government could continue to use the Federal share of payments on AFDC arrears as a funding source for incentive payments to the State

Disadvantages:

-The AFDC grant would have to be adjusted on a more frequent basis because support payments are often not paid on a regular basis, and the amount of each payment may vary. As a result, AFDC administrative costs would increase

-States would have to reprogram their automated distribution systems to implement the new distribution process

-The family would not receive payments applied to child and spousal support arrears that accrued before the family went on AFDC

-A State could elect first to apply all excess payments to AFDC arrears in order to give priority to the reimbursement of assistance payments made to the family

-The distribution of excess payments when both arrears are owed to the family and arrears are owed to the State would depend upon State policy. Therefore, a family in one State may not receive the same amount of child support as a family in another State under the same circumstances

-The Federal share of payments on AFDC arrears may not be a sufficient funding source for incentive payments to the State

Option 4: State continues to retain current child and certain spousal support to reimburse the AFDC grant with the AFDC family receiving the \$50 pass-through. Current child and any spousal support is paid to any other family receiving child support services. Current medical support collections not assigned to the State would also be paid to the family. Any excess amount collected would first be applied to arrears owed to the family, including arrears that accrued before the family went on AFDC, or the child was placed in IV-E foster care. Under this option, a assignment of support rights would only be in effect while the family is on AFDC, Medicaid-only, or the child is in title IV-E foster care. Tax offset collections must first be applied to certified arrears owed to the family.

Advantages:

- States would have to make minimal changes to their automated distribution systems to implement the new distribution system
- Family would receive any payment on child or spousal support arrears that accrued before the family went on AFDC. These arrears would be satisfied before arrears that accrued while the family is on AFDC.
- The Federal government could continue to use the Federal share of AFDC collections retained by the State as a funding source for incentive payments to the State

Disadvantages:

- The distribution process would continue to be complex and difficult for caseworkers and clients to understand
- Current child and spousal support payments would continue to be treated differently for families on AFDC and families otherwise receiving child support services
- Costs related to the use and maintenance of State distribution systems would be significant

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CHILD SUPPORT ENFORCEMENT PROGRAM ACCOUNTABILITY

EXECUTIVE SUMMARY

This paper outlines an outcome-oriented approach to child support enforcement program accountability and responsibility. The proposed option balances the Federal government's oversight responsibility with States' responsibilities for child support service delivery and fiscal accountability. It focuses on results, not procedures. It provides for performance measures and standards which encourage program improvement. It also ensures adequate scrutiny of State management control systems because, while the effectiveness of the program is our primary goal, efficiency and economy are integral to that end. The option has four elements:

Results-oriented performance measures and standards. First, a limited number of results-oriented performance measures would be developed and standards of performance set. States that meet or exceed the performance standards for each of the performance measures would receive an economic reward. Failure to meet the goals would preclude enhanced Federal funding or could result in reduced levels of funding.

Enhanced technical assistance. Because of the large proportion of interstate child support cases, this option would recognize the need for continued Federal mandates to ensure consistent paternity and support laws across State lines. It would enhance Federal scrutiny of State laws to ensure States have the proven, effective tools and structures to work cases. This option would enhance the Federal role and capabilities in providing technical assistance, training and dissemination of useful information to States.

State self-monitoring. Instead of Federal audit scrutiny of detailed statutory and regulatory case processing requirements, States would be responsible for ensuring that their programs operate under approved procedures. States would accomplish this through periodic reviews of program operations and the establishment of advisory committees, ombudsman programs and administrative grievance procedures to handle specific

individual's concerns.

Federal stewardship. States are responsible for creating and maintaining accurate automated and manual financial and case processing systems. With State responsibility clearly defined, the Federal audit could focus on evaluating the States' own verification systems and conducting those audits and tests determined to be essential to ensure fiscal accountability and accuracy of programmatic data.

ACCOUNTABILITY WITHIN THE CHILD SUPPORT ENFORCEMENT PROGRAM

Introduction

This paper proposes an approach to ensuring program accountability and responsibility which is much more outcome-oriented than the current detailed scrutiny of State child support enforcement programs. It retains aspects of the current process that are consistent with the new focus on effective and timely delivery of services to our customers. It presents opportunities for problem identification as a starting point for enhanced technical assistance to States. It balances the Federal government's oversight responsibility with States' responsibilities for child support service delivery and fiscal accountability. It draws on Vice President Gore's National Performance Review (NPR) report recommendations with respect to reorienting the focus of the Inspectors General and empowering State and local governments. It assumes maximum use of the latest technology to help get the job done. Finally, it recognizes that State-generated programmatic data must be accurate and reliable, which is critical to any evaluation of program performance.

Current process

First, the current process will be briefly described because aspects of that process are enhanced and retained under the proposed option outlined in this paper. Under current statute and practice, State program performance and compliance with Federal requirements are evaluated in four ways.

Scrutiny of State law and procedures. States submit plans certifying that the State meets Federal requirements for program operation and attach mandated State laws and procedures. Federal regional offices scrutinize the laws and procedures and approve plans which meet Federal mandates. A decision to disapprove a State plan or amendment can be made only after consultation with the Secretary of the Department of Health and Human Services, because disapproval would result in the loss of all Federal funding of a State's child support enforcement program, and the

possible loss of a portion of the State's AFDC program. Due to the severe consequences of State plan disapproval, no plan has ever been disapproved. The threat of disapproval has generally been sufficient to convince recalcitrant States to enact mandated paternity and child support laws. This can be a drawn-out process and does not always ensure that adequate laws and procedures are in place.

Audit and penalty process. The Federal statute also mandates periodic comprehensive Federal audits of State programs to ensure substantial compliance with all Federal requirements. States are audited at least once every three years, or annually should they fail an audit and not correct identified problems during their corrective action period. If deficiencies identified in an audit are not corrected, States face a mandatory fiscal penalty of at least one percent of the Federal share of the State's AFDC program funding. The penalty increases to up to 5 percent with repeated failure because of the same deficiency(ies). Once an audit determines substantial compliance with previously identified deficiencies, the penalty is lifted.

Driven by the statutory and regulatory specificity, the audit has grown to look at almost every aspect of the child support enforcement program to determine substantial compliance with detailed regulatory requirements. For this reason, as well as the organizational fragmentation and inadequate recordkeeping that have characterized many State support enforcement programs, the audit is a time-consuming and labor intensive process for both Federal auditors and the States. This, in turn, has led to criticism from State officials and client advocacy groups.

Federal monitoring. In addition to the State plan review process discussed above, Regional offices are responsible for providing policy guidance and technical assistance to States and for monitoring State programs. They review State procedures, conduct program reviews, and otherwise oversee program operations to help States adopt procedures and practices that increase the efficiency and effectiveness of their programs. The extent and impact of this monitoring varies, depending on priorities and the allocation of resources.

Financial reviews/audits. Regional offices are responsible for acting upon claims for Federal financial participation in State administrative expenditures and monitoring the resolution of financial and programmatic deficiencies identified in audits. To the limited extent that resources permit, Federal auditors conduct full-scope administrative cost audits of State programs to assess the adequacy and security of financial operations and conduct other audits of program operations as requested for the purpose of improving the efficiency, effectiveness and economy of State child support activities.

Considerations

The Federal government's oversight responsibility requires that States be held accountable for providing child support and paternity services to children. How should States be held accountable for operating their child support programs? Any approach should ensure that the most fundamental goal of the program is met: delivery of adequate and timely services to as many children (customers) as possible.

Second, the level of State performance in achieving that fundamental goal must be measured and standards of performance set which encourage improvement in all State programs. The focus should be on results, rather than the details of how States process cases to reach those desired results. The performance measures and standards should encourage States to be innovative and to adopt new approaches in order to achieve the desired results of the program -- establishing paternities and support orders and collecting support for children. This is consistent with Vice President Gore's National Performance Review goal of cutting red tape, most particularly with respect to helping improve State programs and empowering State and local governments.

The Federal government must ensure fiscal and programmatic accountability and responsibility. Given the Federal funding levels of the child support program, adequate scrutiny of State management control systems will ensure the appropriateness and

integrity of those systems. While the effectiveness of the program is our primary goal, efficiency and economy are integral to that end.

Proposed option

The option outlined here addresses each of the considerations just discussed: Providing adequate and timely services; evaluating and improving the level of State program performance; focusing on results, not procedures; and ensuring fiscal and programmatic responsibility. It ensures consistent paternity and support laws across State lines. It eliminates the current audit of detailed statutory and regulatory case processing requirements; audits instead would focus on ensuring the reliability of data used to measure performance. It also assumes maximum use of technology to help States and the Federal government meet their responsibilities to children. This means there must be operational automated child support enforcement case processing systems which possess adequate internal controls and permit self-evaluation as well as testing and evaluation of State data to ensure effective and appropriate provision of services.

Results-oriented performance measures and standards. To measure the effectiveness of the program in delivering services to children and to create incentives to States to improve their program performance, the first step would be to develop a limited number of results-oriented performance measures focused on the core functions of the program. Performance measures might include the penetration rate and timeliness of services delivered, e.g., what percentage of the paternities needed were established within a reasonable period of time, or what percentage of support ordered was collected? Next, standards of performance would be set; for example, States would be expected to establish paternity within a specified time period in 75 percent of cases needing paternity established.

States that meet or exceed the performance standards for each of the performance measures would receive an economic reward. For example, if the Federal reimbursement rate for program

expenditures is set at, say, 70 percent, a State might receive an additional 5 percent in Federal funding for every performance standard met. If three standards are met, the Federal funding level would be 85 percent. In this way, States would be encouraged to reach performance goals in service delivery and would be rewarded financially for doing so. Failure to meet the goals would preclude enhanced Federal funding, or might result in reduced levels of funding.

Clearly, this approach requires that meaningful reporting requirements must be developed which ensure that the data necessary to measure program performance and evaluate the program are maintained and accessible for testing. There must be a balance between necessity and burden, but it will be the State's responsibility (and to its ultimate advantage) to establish accurate and verifiable reporting mechanisms.

Enhanced technical assistance. With redirection of the Federal audit, enhancement of the Federal role and capabilities in providing technical assistance, training and dissemination of useful information to States and in scrutinizing their laws and procedures to determine that they meet Federal mandates are essential. It is critical that States have and employ the tools for successful child support enforcement. Federal agency efforts to ensure that States enacted proven effective laws and procedures to meet the detailed requirements of the 1984 and 1988 Amendments have paid off: most States have the framework and tools for an effective program in place. Problems remain in simplifying and completing this framework and translating laws and policies into day-to-day operational practice.

The direction of Federal involvement in the child support presents an interesting contrast to the general direction taken in the NPR Report, that of reducing the number of Federal mandates. On the contrary, the number of mandates being imposed on the States in the area of child support enforcement has increased. This trend will likely continue, in part because of the need of program consistency to address the particular problems in providing services to the 30+ percent of children whose responsible parents live in different States. Children

have a right to receive the support they are due, regardless of where they, or their noncustodial parents, live. The certainty of receiving that support should be assured by laws and procedures which are similar across State lines.

Nevertheless, continuing to impose detailed procedural requirements on State programs is inconsistent with a performance-oriented process which focuses on results. The option outlined here creates a balance which ensures consistency and measures results. The Federal government could require States to enact proven effective laws and procedures for the program without specifying detailed case processing requirements in regulations. For example, States could be required to enact laws mandating State-level administrative enforcement remedies and centralized collections, leaving the procedural details to the States. The audit to determine whether cases were processed in accordance with detailed regulatory requirements could be eliminated, in favor of measuring program results. Therefore, within a basic statutory framework, specific case processing decisions are left to the States while accountability is a function of performance levels which ensure that appropriate services are provided to children. And, rather than continue to publish and audit detailed, process-oriented requirements, the Federal government could provide that detail in the form of technical assistance and written guidance on innovative approaches to successful delivery of services. There would also be economic inducements for continuing, verifiable State performance improvement.

State self-monitoring. The first two elements of the option outlined here will ensure that State programs have the essential tools for an effective child support program and that State performance is measured against results-oriented goals, with financial incentives for improving program performance. However, in the absence of the current audit scrutiny of case processing, whether those tools are used and cases are processed appropriately must be determined, objectively and effectively.

States will have the inherent responsibility for ensuring that their programs operate under approved procedures. Rather than

having the Federal audit scrutinize overall State compliance with the detailed, case processing requirements, States could be required to conduct periodic reviews of program operations and to establish advisory committees, ombudsman programs and administrative grievance procedures to handle specific individual's concerns about program operations and case processing.

This aspect of the option outlined here would be responsive to anticipated advocacy concerns that States will fail to use the tools and procedures the Congress has determined are essential for successful delivery of services. A number of States already have advisory committees, administrative procedures to handle specific case complaints, or both.

Federal stewardship. The final critical element of this option would ensure fiscal accountability and accuracy of programmatic data. The need for fiscal accountability is basic. Equally important, however, is ensuring the accuracy of programmatic data upon which performance measures, standards and levels of program funding would be based. The current audit process was carefully crafted to ensure that it produces statistically valid and legally sustainable findings. These procedures have met with great success, and they have served as an important stimulus to promote significant change and improvement in many States' programs. If we refocus the audit and move to results-oriented measures which are determined based on State-produced program data, the integrity and accuracy of that data are critical. Without reliable data, any decision based on that data is subject to challenge. How do we ensure the validity of programmatic data?

The States are responsible for creating and maintaining accurate automated and manual financial and case processing systems. Mechanisms for testing the validity of systems and data should be required, making maximum use of available technology and meeting General Accounting Office audit standards. With State responsibility clearly defined, the Federal audit could focus on evaluating the States' own verification systems, and conducting those audits and tests determined to be essential to ensure

fiscal accountability and accuracy of programmatic data.

The NPR report recommends reorienting the Inspectors General focus from strict compliance auditing to evaluating management control systems so as to prevent waste, fraud and abuse, and to ensure efficient, effective service. This basic premise should guide the Federal audit function in the child support arena as well. The examination of these management control systems and opinions rendered must continue to be based upon a critical examination of the evidence maintained by the State. Whatever form this evidence takes, it must be sufficient, competent and relevant to enable sound determinations of the reliability of the management control system.

Workgroup to develop details of this option

This paper presents the outline of an option for ensuring accountability of State child support programs. The details of each aspect of the option are best defined by those interested in ensuring the success of the program. To draw on existing expertise, to forge consensus, and to ensure the resulting process is accepted by those who will implement it, the workgroup should include both State and Federal program representatives. An approach crafted through such a partnership can be successful.

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CHILD SUPPORT ENFORCEMENT TRAINING

October 1993

EXECUTIVE SUMMARY

The Federal Government's spending on CSE training, both for its own employees and for State staff, lags behind private business spending as a percent of budget. The Office of Child Support Enforcement (OCSE) assessments of States' CSE training programs have found them to be in substantial need of improvement.

Reasons include large caseloads, high staff turnover, the variety of staff to be trained--ranging from new front-line workers to experienced judges, and changes in the complexity and technical nature of the CSE Program over the past 10 years.

OCSE funded several large training contracts through most of the 1980s but, because of budget constraints and lacking hard data as to their effectiveness, discontinued all but one of them starting in the late '80s. The National Training Center (NTC), within OCSE's Division of Program Operations, was established to help fill the gap caused by the loss of these training contracts.

With a staff of just five professionals and one support, however, NTC has not had the resources to be a major factor in the States' training efforts.

A new approach is needed which takes advantage of the improvements in technology over the past decade and is backed by funding which permits simultaneous approaches along several lines: videotapes, teleconferencing, computer based training, and, where appropriate, contracting out of specific tasks.

Options presented include changing Federal laws to recognize the importance of training; mandating training at the Federal and State level; developing a core CSE curriculum; implementing a State Trainer Certification Program; and providing adequate funding for training activities.

The conclusion: training will continue to lag without an infusion of new funds and the aggressive support of agency heads.

CHILD SUPPORT ENFORCEMENT TRAINING

BACKGROUND

In 1991 the National Governors' Association issued the following pronouncement:

"The Governors believe that a major factor in operating successful child support enforcement programs is adequately trained staff." In spite of this endorsement, few States have appropriated funds adequate to the task.

State child support enforcement staff from top to bottom, from directors of programs to new front-line workers, face an urgent need for training. In the face of this need, meager resources are devoted almost exclusively to orienting new staff, with little follow-up or on-going training efforts.

Two negative consequences flow from this: line staff consistently demonstrate a poor understanding of even the most basic techniques of child support enforcement; and offices lack up-to-date manuals and other reference materials necessary for explaining policies and procedures to staff.

It is easy to find proponents of training when support is limited to the spoken word but much harder when funding is under discussion. The fact is that training is likely to be funded, if at all, only in flush times. At the first sign of fiscal trouble, the plug is pulled.

The National Commission on the Public Service reports that private businesses spend 3 to 5 percent of their budgets on training, retraining, and upgrading employee skills. That may not seem like much until comparison is made with the Federal Government, which spends less than one percent. The same can probably be said of State child support enforcement programs.

One reason for this discrepancy may have been a reluctance to fund evaluation of training programs. Without evaluation, it's difficult to show a relationship between training and increased productivity. Generally, however, Federal officials have only enough funding for one or the other--not both. It amounts to a Hobson's choice.

Training may get the funding but since it is seldom, if ever, evaluated no one knows whether it makes employees more efficient and/or increases productivity.

When money is tight, training budgets are among the first to be hit. Even the Office of Child Support Enforcement (OCSE), which has a better record of support for training than many other Federal agencies, cut back severely on its training contracts in the late '80s as budgets were being reduced.

To speak to this issue, OCSE is awarding a demonstration grant to develop a process for determining the impact of training on child support managers and front-line workers. The intent is to begin gathering information about the impact of training on both new and existing workers--does it, for example, improve the productivity of workers and quality of service to the public--relative to cost.

STATE TRAINING ASSESSMENTS

The record of States in support of training is no better than the Federal Government's. In 1991, OCSE carried out an assessment of States' training programs. The conclusion: in a period characterized by complex legal, economic, and social issues, CSE training activities were given low priority for developing staff and imparting program knowledge. Comprehensive training programs at the State level were largely ignored in favor of less costly supervisory orientation and on-the-job training.

Part of the difficulty for States is the enormous increase in the complexity and technical nature of the Child Support Enforcement (CSE) Program over the past 10 years. Legislative changes such as the CSE Amendments of 1984 and the Family Support Act of 1988, as well as initiatives like the Federal CSENet project, have reinforced the need for regular, professional training of CSE managers and front-line workers at the very time many States are reducing CSE staff or doubling up on responsibilities.

How a State is organized to deliver CSE services may also present obstacles to trainers. One IV-D director, for example, has noted how, under a centralized, State-

administered program, he could easily mandate training for all State staff. The situation is very different in county administered States.

Standardization of procedures, centrally administered, would reduce fragmentation and duplication of effort, enabling the efficient production and distribution of uniform training programs, core curricula, and other materials. State and local practices now vary so significantly that curricula must be tailored to individual States.

Other problems which frustrate the capability of States to provide regular training are the large caseloads--workers typically carry in excess of 1,000 cases and can barely keep pace with the workload let alone find time to be trained; the high turnover of staff--estimated to be in the twenty percent range for the 37,000 caseworkers nationwide (and probably much higher in urban jurisdictions); and the broad mix of staff to be trained--ranging from new front-line workers to judges who rotate assignments frequently and IV-D directors.

The training needs (and wants) of each of these audiences is different and must be met in different ways. Judges believe they are special and do not like to have IV-D officials in their training sessions. They prefer to be trained by other judges--not "trainers." Line workers tend to be uncomfortable when, as happens frequently, supervisory staff are included as part of their training. Also, in their efforts to attract these diverse audiences, training organizers must confront competition from other programs, interests, and demands.

An updated look at State training programs, this one a survey conducted by the National Council of State Child Support Enforcement Administrators in 1993, continues to point up problems for CSE training programs. A number of States with large caseloads, including California, Florida, Ohio, New Jersey, New York, and Pennsylvania did not respond--which may suggest they had little to report in terms of training activities.

Of the 34 States that did respond, three quarters said they provide orientation courses for new employees. Many of these, however, are of short duration--a day or two or even, in some instances, only a few hours. Every State but one reported having a

designated official responsible for training. But many of these individuals are responsible for other areas as well, such as policy, and spend only a fraction of their time on training activities.

Nearly two-thirds of the 34 States said they hold annual training conferences (either State or Association sponsored). But the typical attendance pattern for these conferences is for the same staff to go year after year. It is doubtful that more than a quarter of any State's CSE staff receives training over the course of a year.

While each of the 34 indicated that a substantial amount of training in the past 12 months had taken place on topics ranging from enforcement techniques to systems, responses were weak concerning the availability of training for legal staff; use of videotapes and other state-of-the-art training technology; regular contact and exchanges of information with trainers in other States; regular use of formal curriculum; and links with private sector suppliers, including colleges and universities, as sources for training.

Evidence that States see a continuing need for Federal training assistance can be found in the substantial list of course topics and related materials requested from OCSE:

- interstate and UIFSA;
- review and adjustment of orders;
- mid-level management;
- program standards;
- medical support;
- in-hospital paternity establishment; and
- training for new IV-D directors.

A survey made of Regional Office (RO) CSE Program Managers by OCSE's National Training Center, also in 1993, found, with one important exception, a similar identification of need. The exception: RO Program Managers identified mid-level management training for States as a low priority. This survey also documented continuing requests by States for training courses "such as those previously delivered by the National Institute for Child Support Enforcement (NICSE)," a request recalling the halcyon days of OCSE training in the early and mid-1980s.

OCSE ROLE IN TRAINING

From 1979 through the late 1980s OCSE contracted with outside organizations, at an aggregate commitment of \$1 to 2 million per year, to provide on-site training to States across a broad range of topics, including legal/judicial. These organizations included, along with the flagship NICSE, the American Bar Association (ABA), the Child Support Technology Transfer Project, the National Center for State Courts, the National Conference of State Legislatures, the National Council of Juvenile and Family Court Judges, the National District Attorneys' Association, and the National Governors' Association.

All of these contracts, with the exception of the one with ABA, were allowed to lapse in the face of budget constraints faced by the Federal Government during the late '80s. The ABA continues to provide training to the public and private bars at an annual cost of \$300 to \$350 thousand. But this training, while valuable, covers only a narrow band of CSE staff (attorneys and a few caseworkers and managers) when compared with what was formerly available.

Wanting to help fill the gap caused by loss of these contracts, in early 1991 OCSE established the National Training Center (NTC) within its Division of Program Operations. This decision was based partly on the recommendations of a training advisory group which met several times in late 1990 and early '91. The group's members included 15 experts from State and local child support enforcement programs and national associations.

The purpose of the Center--which is staffed with five full-time professionals and one support staff, is to bolster States' training initiatives through a variety of means: curriculum design/development; dissemination of information and materials; and, to the extent that resources allow, the conduct of direct training. The Center's training budget: less than \$1,000 a year. Center staff coordinate their efforts with those of training managers in the States to keep duplication to a minimum.

The Center is assisted in its goals by designated training liaisons in each Regional Office, who serve as the primary training link between Central and Regional Offices. Regional Training Liaisons work with NTC staff in identifying training materials and resources, provide periodic briefings to Regional staff on training issues, and are active participants in NTC's National Training Workshops.

During its first two and one-half years of operation, NTC has delivered three national training workshops, several training of trainer workshops for State trainers, and a few on-site presentations at State CSE conferences. The Center has also distributed some training curricula to States and prepared a number of articles on training for publication in the OCSE newsletter, "Child Support Report."

In no meaningful sense, however, can the efforts of the National Training Center be said to be meeting States' training needs. The job is simply too big to be handled by a few conferences and a small number of publications. Even if OCSE were still funding training contracts in the \$1 to \$2 million range, however, it would still not be enough. The CSE landscape in 1993 bears little or no relationship to the one of a decade ago, and training units, like other parts of the organization, must adjust.

A NEW APPROACH

What is needed is a new approach which takes advantage of the improvements made in technology over the past decade and is backed by funding which permits simultaneous approaches along several lines: videotapes, teleconferencing, computer based training, and, where appropriate, contracting out of specific tasks.

Teleconferencing holds promise as an effective means of reaching large audiences at reasonable cost per participant. Videotapes can supplement and update, and in some instances replace, publications and curricula which take considerable time to produce and, because of the speed of change in the Program, tend quickly to become dated.

This approach requires training to be available to Federal as well as State staff. OCSE should be the leader in CSE training, but, in fact, training is rarely available to its own staff. This leads inevitably to feelings on the part of Federal staff that managers considers training to be a matter of low priority. In particular, as the CSE Program continues to evolve into areas of high tech, it becomes doubly important for Federal staff who work with State trainers to keep up-to-date, since advances in technology may well hold the most promise for helping States.

ROLE OF TECHNOLOGY

To ensure that the training needs of staff are met, regardless of which facet of the CSE Program they represent, while providing training in the most cost-effective and efficient manner, OCSE must take the lead in developing state-of-the-art training methods. This is especially true as States design and implement statewide automated systems. One example of state-of-the-art training is computer based training technology (CBT).

Developing curriculum with the use of this technology has several advantages over conventional methods. First, CBT is ideal for self-instructional courses. Besides doing away with the need for--and saving the cost of--a live trainer, CBT enables staff to coordinate their own training when it is most suited to their schedules and pace themselves through the curriculum on an individual basis.

Second, CBT courses ensure consistency of information. While different live trainers may present the same information in ways that leave room for interpretation, everyone hears the same message in the same words from CBT.

Third, CBT offers an important indirect advantage. As more training is designed and developed that requires upgraded computer hardware and software, States become more willing to invest funds in the necessary equipment. That is, state-of-the-art training "pushes" technology.

This type of behavior was observed in 1991 when OCSE developed a software package that generated automated interstate forms. As States became aware of this product and realized what a potential time saver it could be, many purchased additional upgraded printers so staff could use the software.

Technology by itself, however, is not the cure-all for what ails States' CSE training programs. Even those States with advanced automated systems seldom use them to full advantage in child support enforcement caseloads. For example, with respect to locating noncustodial parents and their resources, access to data may be plentiful but only for the relative few who know how to use the system well.

The continuing automation of the Program, like other changes, presents training challenges as well as opportunities: challenges to assist States in their efforts to acquire necessary training in the use of systems hardware and software; opportunities to blend state-of-the-art training, including, as mentioned earlier, computer based training technology, into training sessions for both managers and front-line staff.

OPTIONS

The combination of high caseloads and insufficient training resources led the U.S. Commission on Interstate Child Support in its Report to Congress, "Supporting Our Children: A Blueprint for Reform," to make a number of recommendations concerning training, including:

- that Federal law be changed to recognize the importance of training to the effective, efficient operation of the Program.

- that the Federal Government promulgate regulations that require States to have minimum standards in their plans for training that include initial and ongoing training for all persons involved in the Child Support Enforcement Program under Title IV-D.

Minimum standards could be defined by convening a State/Federal Work Group, similar to the already-mentioned training advisory group, to study the issue and make recommendations to OCSE.

Frequently overlooked in training plans are State IV-D directors. But this group is among the most "needy" in terms of training. First of all, the turnover rate among directors of child support enforcement programs is very high--perhaps 25 to 30 percent a year. Secondly, a State's performance is influenced by the leadership and management ability of those at the top. Training which focused on leadership, including, for example, sessions on how to draft effective legislation, work with individual legislators to obtain support for the Program, and make strong presentations before legislative committees could pay off in increased support.

New IV-D directors in particular could benefit from an intensive 3-5 day course which included, besides leadership/management styles and a legislative component, attention to such topics as allocation of resources, personnel policies, and media and public relations. Follow-up training for this audience could be provided by making arrangements for time on the agendas of regularly scheduled meetings and conferences of IV-D directors.

Other Commission recommendations:

- that States be required to offer a minimum number of hours of training each year to their CSE employees.
- that OCSE be required to train all Federal employees upon initial employment on the operation of the program and on changes in Federal laws, policies, and procedures as they occur.

- that OCSE provide a federally funded core curriculum, with annual updates, to all States for use in developing state-specific training guides, since each State's laws and requirements are different.

TRAINER CERTIFICATION PROGRAM

One way to ensure that minimum training standards would be met, would be to establish a Trainer Certification Program. This could either be Federally administered or State administered in accordance with Federal regulations. Such a program could provide for increased management and worker training, as well as encourage a greater commitment to training on the part of States. Key elements of such a plan would include:

- development of certification standards appropriate for both managers and front-line staff, which could be accomplished by a joint Federal/State Work Group;
- design and development of a training curriculum based on those certification standards;
- a pilot test of the curriculum, drawing staff from several States to provide sufficient variety of background and experience; and
- design and implementation of a formal evaluation process to assess the impact of the certification program on improving operating performance.

This program, like those of other professions such as family counseling, accountancy, and law, also would require a stated number of hours of training each year to retain certification.

FUNDING

As mentioned, the Federal Government spends less than one percent of its budget on training. The reason, according to the Vice President's National Performance Review:

Federal managers tend to view training as a **cost**, in contrast to corporate CEOs who view it as an **investment**. Here again, this may be true of government as a whole.

During the final two years of the NICSE contract, however, States paid \$1,000 for each course delivered by NICSE trainers. Prior to implementation of this policy, courses were provided without cost. There was a reduction in requests for courses after the fee was installed, but States generally showed a willingness to pay for training they believed to be worthwhile, so long as the expenditure qualified for Federal Financial Participation (FFP).

We should not, however, fool ourselves into thinking that a serious training effort can be mounted without significant new expenditures. All plans for CSE training, in the final analysis, stand or fall on adequate funding. The idea that training can be provided to States or anyone else without a realistic funding base carries about the same chance for success as undercapitalized new businesses.

In summary, the need for training clearly exists at the State level, as does the willingness to support it at the Federal program level. But if any lasting results are to be achieved, training must be adequately funded. States may well be willing to put up limited amounts of money for training (during good times and with assured FFP), but no substantial amount of training is likely ever to take place without a fresh infusion of Federal funds earmarked for training and supported by heads of agencies.

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CHILD SUPPORT ENFORCEMENT STAFFING ISSUES

September 1993

EXECUTIVE SUMMARY

Since its inception in 1975, the Child Support Enforcement (CSE) Program has become increasingly more complex. State and local organizational structures and operations vary widely. IV-D caseloads have grown while staffing has not kept pace and lean budgets at every level of government as well as State staffing ceilings limit IV-D hiring.

An array of Federal, State, and local data show that IV-D staffing levels are inadequate and that worker to caseload ratios are frequently over 1,000. However, because comprehensive data on national staffing of the CSE Program is almost nonexistent, further study is urgently needed.

Two approaches, which differ in scope and depth, are described. One approach is to conduct a comprehensive national study. The second approach is to conduct individual studies of each State CSE program. Under both options, not only staffing but the factors which impact it must be examined. As part of the national study a staffing simulation model that would accommodate major program variables and forecast optimum staffing levels could be developed.

Regardless of which option is selected, we must encourage States to undertake their own internal operations analysis and make program improvements. States will need hands-on technical assistance to do this and this may require the provision of enhanced funding and the redeployment of OCSE resources. If, despite all of these efforts, substantial deficiencies continue to be identified, or if State authorities are unable or unwilling to hire additional staff, OCSE could mandate staffing standards.

In summary, substantial improvement in State staffing levels and program performance will require both the commitment of States to evaluate and reengineer their programs and the provision of adequate technical assistance under Federal leadership.

STATEMENT OF THE PROBLEM

Since its inception in 1975, the Child Support Enforcement Program has become increasingly more complex. IV-D caseloads have grown while staffing has not kept pace. Although Congress gave the Office of Child Support Enforcement (OCSE) the authority to establish minimum organizational and staffing requirements for IV-D programs, this has only been done on a very limited basis because of the difficulty of establishing minimum staffing standards when State and local organizational structure and operations vary so widely.

BACKGROUND

The Child Support Enforcement Program has grown increasingly more complex since 1975. The CSE Amendments of 1984 and the Family Support Act of 1988 mandated a wide variety of far reaching and complex requirements. For example, in response to the requirement that States use expedited processes, State programs have moved away from exclusive use of the court system for establishing and enforcing child support obligations to using quasi-judicial and administrative processes. IV-D staff in States with administrative process have additional responsibilities and are called upon to make more decisions about what actions to take on cases. This increase in both program scope and complexity necessitates a lower caseload to staff ratio.

A primary fact of life is the current fiscal climate. Governments are dealing with budgetary shortfalls at all levels--national, State, and local. This is occurring at a time when additional IV-D requirements are being added such as non-IV-D income withholding, periodic review and adjustment of orders, increased paternity establishment, and medical support. For example, a recent report calculated that the average time it takes to modify one child support order is 48.5 hours.

A related constraint which States frequently face is a staffing ceiling above which they cannot hire. Some then hire contractors to get around this requirement. Hiring contractors and/or

privatizing parts of the program, of course, has both pros and cons but is another issue which must be considered when analyzing staffing.

Despite all of the improvements that have been made in the CSE Program and all of the Federal and State funds that have been invested, staffing levels remain totally inadequate. Strengthening the laws related to CSE will only benefit the Program and the public if States have adequate staff to implement and enforce the laws.

THE NEED FOR NATIONAL CASELOAD STANDARDS

Comprehensive data on national staffing of the CSE Program is almost nonexistent. However, DHHS's Preliminary Data Report for FY '92 showed:

- the IV-D caseload increased 13 percent nationally to an all-time high of 15 million;
- the national caseload has grown almost 37 percent since 1988;
- the number of cases per FTE, which dropped slightly in FY '91, increased to 368; and
- even though States have continually set records in some areas, the percentage of paying cases has remained essentially the same for several years; only 19 percent of the national IV-D caseload are paying cases.

For GAO's February 1992 report, "Interstate Child Support - Wage Withholding Not Fulfilling Expectations," they interviewed a sample of 136 offices that serve counties with more than 100,000 population. GAO asked these offices "to rank the top three factors that might contribute to the time it takes to obtain wage withholding." The size of the caseworkers' caseloads is ranked as the third highest cause.

In January 1989, under contract to OCSE, the National Governors' Association published an issue of their newsletter, Capital Ideas, entitled, "Staffing Deficiencies in the Child Support Enforcement Program." Some relevant highlights of this publication are:

- The national average caseload for an AFDC worker is 66 while for a CSE worker it is 361.
- As many as half of the FTEs (in child support) do not work on cases; they are supervisors, policy analysts, clerical staff, accountants, and trainers. Net them out of the equation, and the caseloads would look even more burdensome.
- Staff turnover in the CSE Program is a major hurdle facing CSE directors, and that constant turnover wastes training funds.

State data further illustrate the current situation.

- In 1991, the IV-D caseload in Washington, DC was approximately 65,000. The staffing ceiling was 140 but only 107 positions are filled. Therefore, each DC caseworker had a caseload of over 1,200 cases.
- In late 1992, OCSE staff provided onsite technical assistance to the Domestic Relations Branch (DRB) of the Philadelphia Family Court. Staffing was found to be a major problem. The resulting report concluded that:
 - In the past 2 years, the DRB caseload had increased by 12,000 cases while the enforcement unit had experienced a 40% reduction in staff.
 - The DRB's caseload was 328,249. Their full-time equivalent staff was 286. This yielded a staff to caseload ratio of 1:1,148.

It is good to keep in mind that there is considerable skepticism about State caseload data as reported for various reasons. An example which demonstrates how difficult it is to gather meaningful and comparable data is that jurisdictions vary in how they define a case. In some States, a noncustodial parent and child constitute a case. In other States, a custodial parent and child constitute a case. One noncustodial parent may have several cases with various children and custodial parents. Sometimes the same family will have both a AFDC and a non-AFDC case.

The US Interstate Commission report contained two recommendations on staffing.

- The Federal Office of Child Support Enforcement should be required to conduct staffing studies for each State child support program and report such results to Congress and State officials. As a condition of receiving Federal funding, States should be required to provide staff at the level recommended in the study.
- Each study should include a staffing standard for each agency and court involved in the IV-D child support process. All such studies should include a review of the automated case processing system and include methodology for review of staffing standards when systems are implemented. The Commission recommends that the report address space, systems, and other nonstaff resources needed to support additional staff.

OCSE has long been aware of staffing problems in State and local IV-D programs and is very close to awarding a program improvement grant to develop and test a methodology to determine the appropriate staffing standards for child support offices, related contractor services, or discrete functions within a child support office. This includes an examination and analysis of the way the program is organized, the way cases are processed, the level of automation, the level and use of administrative procedures and the extent of program fragmentation. This is a first step in addressing the staffing issue.

Two options to address IV-D staffing nationally follow.

OPTIONS

Below are two options designed to address the inadequacy of IV-D staffing nationally. Because data is lacking, both recommend studying the issue further. The first option is to undertake a national staffing study. A possible product of this study could be a staffing simulation model. The second option echoes the staffing recommendations of the Interstate Commission. Both options require that States do their part in conducting internal operations analysis and advocate technical assistance to States.

OPTION #1. UNDERTAKE A NATIONAL STAFFING STUDY.

A comprehensive, national staffing assessment has never been made. Given the great diversity in State and local program structure and operations and the lack of data, further study is urgently needed.

A national staffing study would need to examine a wide range of management and organizational issues not just staffing. Poor management, inefficient use of resources, lack of training, and duplicative procedures aggravate staffing problems. Management literature recognizes that productivity does not increase in a direct ratio to the size of the project team and that excessive, misplaced resources actually cause productivity and efficiency to decrease.

Implementing Activities for Option #1.

The following four components--development of a staffing model, State internal reviews, provision of technical assistance, and possibly mandating staffing standards--are integral to implementing option #1.

- A staffing simulation model to forecast optimum staffing levels and configurations could be developed.

Discussion

The model could accommodate variables such as the degree of program centralization, organizational structure, urban versus rural, the various levels of automation, and other factors deemed appropriate. The model might also identify staffing levels and configurations that impact most positively on productivity in the varying environments.

- **States must conduct internal operations analysis and reengineer their IV-D programs.**

Discussion

At the same time that the national staffing study is being conducted, States should be encouraged to conduct their own comprehensive, internal analysis. State and local IV-D officials must examine and work to improve their organizational structure, case flow, administrative procedures, and address the full array of management considerations. They must increase efficiency and effectiveness, reduce duplication and waste, and improve client service. The current national move toward provision of universal CSE services makes this "clean up" effort even more critical.

In order to accomplish this objective and have every State examine and reengineer its IV-D program, enhanced funding may be necessary. Enhanced FFP at the rate of 90 percent is currently available to States for automated systems and genetic testing. The anticipated payoff makes the investment in these two critical areas worthwhile. This is in addition to the 66 percent Federal match for administrative costs. If State inefficiencies are allowed to flourish and continue to bog down case processing and client service, much of the anticipated benefits will not be realized. State operations analysis will ensure that all invested resources will be maximized and yield benefits for all parties.

Providing the enhanced funding and conducting the internal analysis should be done in concert with the statewide automated systems process. Simplifying and streamlining procedures and eliminating duplication will complement the development and implementation of the automated system. Automation of inefficient procedures must be avoided.

■ **Provide comprehensive technical assistance to States.**

Discussion

A national effort to assist States is critical. A full range of technical assistance is needed in management, programmatic, systems, and administrative functions. OCSE does not currently possess sufficient resources to offer such assistance. In the spirit of the Vice President's NPR report recommendation to reorient the Inspectors' General focus from strict compliance auditing to evaluating management control systems to prevent waste and ensure efficient, effective service, refocusing OCSE's areas of emphasis and shifting OCSE resources could help to address the provision of technical assistance to States.

Providing adequate technical assistance to States is a huge undertaking and will require the commitment of substantial resources, both financial and human. Funds must be made available to enable Federal, State, and contractor staff to work onsite. In order to avoid reinventing the wheel and conserve resources, a technology transfer system could be used to share best practices among States.

OCSE's past experience with technical assistance has been very positive. In the late 1970s and the early 1980s, OCSE invested considerable resources in conducting onsite management studies. At that time, there was considerable feedback that these studies were very helpful in promoting program efficiencies. Under OCSE's Technology Transfer contract, onsite technical assistance and analysis of management and staffing issues were provided to jurisdictions including Washington, DC and Mississippi.

More recently, OCSE staff provided onsite technical assistance in locate and enforcement to Philadelphia and to Prince Georges County, MD.

- **Consider mandating staffing standards.**

Discussion

If substantial deficiencies continue to be identified or if State authorities are unable or unwilling to hire additional staff, OCSE could impose the requirement that those States hire additional staff. The actual number of mandated staff would be based on data from the national staffing study, the results of the State staffing demonstration grant, and projections based on the simulation model.

Mandating staffing standards has both pros and cons. Sometimes Federal mandates are helpful to IV-D agencies because they cannot be ignored by State legislators. Mandates will ensure improved staffing levels and provide better service to families. It will, however, be costly to the Federal government under the current funding structure. In addition, States may resent yet another Federal mandate even though they will realize additional revenue from increased child support collections.

Conclusion for Option #1.

State program performance cannot be optimized without the investment of substantial resources. OCSE cannot be a full partner in this effort without shifting resources to refocus on these objectives. With an eye toward assisting States rather than punishing them, these resources must be invested wisely. The activities described under option #1--the internal State analysis, technical assistance, and a staff forecasting model--will result in greatly improved program performance in all States.

OPTION #2. IMPLEMENT THE RECOMMENDATIONS OF THE US INTERSTATE COMMISSION TO CONDUCT STATE STAFFING STUDIES FOR EACH STATE CSE PROGRAM.

The Interstate Commission recommends that each State study should include a staffing standard for each agency and court involved in the IV-D process as well as a review of the automated case processing system, and an analysis of relevant nonstaff resources. (See page 6 for full text of recommendations.)

This indepth approach of conducting an individual, comprehensive staffing study in each State may require even more resources than undertaking a national study as described in option #1. Given sufficient resources, some or all of the State studies could be done under contract. OCSE could, in conjunction with contractors, conduct some of the studies.

In addition to reviewing each State's automated system during the study, a methodology must be developed to reassess staffing after the automated system is implemented. As a State progresses through the various stages of automation, frequent realignment of staff may be necessary to maximize benefits. Other factors which impact on staff such as space, currency of policy and procedures, and sufficiency of training must also be examined.

An additional consideration is that conducting studies in and mandating staffing standards for program components outside of the IV-D agency may well be problematic. OCSE has no authority to set standards for courts or for agencies within county government such as the sheriff's office. If both parties do not agree to execute a cooperative agreement, IV-D has no authority to mandate requirements. As discussed above, mandating staffing standards for IV-D agencies has both pros and cons.

Implementing Activities for Option #2.

Since there is considerable similarity between option #1 and option #2, much of the discussion of State internal analysis and technical assistance under option #1 is also relevant to option

#2. To avoid duplication, this discussion has been shortened under option #2.

- **States must conduct internal operations analysis and reengineer their IV-D programs.**

Discussion

The sooner that State inefficiencies are minimized the sooner will resources be conserved and client service improved. State operations analysis leading to program improvements will help to ensure that all invested resources will be maximized and yield benefits for all parties.

- **Provide technical assistance to States.**

Discussion

Again, a national effort to assist States is critical to success. A full range of technical assistance is needed in management, programmatic, systems, and administrative functions.

Conclusion for Option #2.

As in option #1, requiring States to "clean up" their programs and providing them with adequate technical assistance to do so will yield program improvements in all States.

CONCLUSION

Staffing levels impact all parts of the CSE Program and child support is a critical component of welfare reform. The great diversity among State and local programs and the lack of data, necessitate further study.

Bringing State staffing levels and program performance up to where they should be and up to public expectation is a mammoth undertaking. States must do their part to analyze and reengineer

their programs and substantial technical assistance is critical to this effort. States cannot do this alone. OCSE must take the lead.

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WELFARE REFORM INFORMATION TECHNOLOGY WORKGROUP

Child Support Enforcement

To improve child support enforcement, welfare reform workpapers have been developed to consider: making child support services more universally available; improving enforcement and collection procedures; ensuring equity through timely review and adjustment of orders; establishing a new-hire reporting system to improve the timeliness and increase the effectiveness of wage withholding; and improving the location of putative/non-custodial parents. This paper considers ways to bring added value to the program proposals by leveraging the effectiveness of these proposals through the application of Information Technology (IT).

This paper proposes: improvements to States' automated systems, including a State centralized collection capability; a national capability to improve both intrastate and interstate processing; and other IT options for fusion with program goals. It is structured as follows:

- Section I** Introduces the subject and provides an overview of the CSE information infrastructure proposed in this paper.
- Section II** Presents the baseline technology at the State level, highlighting the automated capabilities that States will be required to have by 1995.
- Section III** Discusses proposals for IT improvements to States' systems, including a technology for centralized collections.
- Section IV** Examines the CSE Clearinghouse concept, including options for its development and the communications network which would be needed to support it.
- Section V** Presents other IT alternatives to improve establishment and enforcement.
- Section VI** Summarizes the proposals by child support functional area. In addition, proposal considerations are highlighted, and noted as to whether the individual proposals are appropriate for legislation/operation or should be treated as tests or demonstrations.

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I. INTRODUCTION

Over the past years, many--including the States responsible for its operation--have criticized the ineffectiveness of the Child Support Enforcement (CSE) Program. Federal and State reform efforts have resulted in comprehensive legislation intended to correct the weaknesses in the program, and program improvements are expected. However, more needs to be done to ensure that both parents provide for the support and well-being of their children.

Some of the basic problems with the program stems from the organizational fragmentation, and the lack of uniformity in the programs among States, or even within a State. In effect, there is no "system" for operating the child support program. While this systemic problem affects the entire program, it has proved particularly problematic in the enforcement of interstate child support cases. Because of the organizational fragmentation and the lack of structure, automation efforts have been extremely difficult. In fact, many States have either not attempted, or have attempted and failed, to automate the entire program. Now, they will succeed--thanks to the Family Support Act provision which requires each State to have a statewide, operational system by 1995. To the extent that problems are due to a lack of information, a statewide automated system will correct some of the deficiencies associated with organizational fragmentation. Because the major portion of transactions across program operation lines are informational, i.e. State/county to prosecutor, State/county to court, or prosecutor to court, the application of technology will result in an infrastructure which can foster strong partnerships and cooperation.

The automation required by the Family Support Act, will help to alleviate another major program problem--ineffective case management. Currently, actions taken on a case are caseworker-reliant and reactive. Extensive human intervention is needed to move a case through the processes of locate, establishment, enforcement and collection. As a result, caseworkers are continuously working off a backlog of cases. Having individual caseworkers make decisions on each case was not a problem when caseloads were small. But with more than 13 million cases nationwide, this degree of individualism becomes impossible. Statewide automation projects, when implemented, will make a big difference in the management and aggressive working of a case. The systems now being developed and

implemented are proactive--designed to automatically take the "next logical step" in a process without caseworker intervention. The Family Support Act automation requirements coupled with performance standards, will go far in ensuring that all cases receive the proper service and will establish a basic structure for an operational CSE system which will move the program into a new age of service to the public.

The Massachusetts Department of Revenue serves as an example of what can be achieved through automation--the exact type of automation envisioned by the Family Support Act system requirements. Rather than relying on individual caseworker actions, case activities for the enforcement function, are routinized and handled through automation to the extent possible. Cases with similar characteristics are grouped together; decision rules determine what type of enforcement actions are to be applied to the cases within the groups; and the computer automatically takes the appropriate enforcement action.

In August 1992, when Massachusetts began its automated enforcement strategy, collections stood at 65% of the child support owed by obligors living in Massachusetts. By March 1993, with the automation strategy fully implemented, the ratio had risen to 80%. Unfortunately, the compliance rate for out-of-State obligors was much lower since Massachusetts couldn't apply its strategy to those cases. With an estimated 30 percent of cases being interstate, this same problem will be replicated nationwide unless a strong system to ensure efficient interstate case processing is instituted.

A. Overview of Information Infrastructure

The basic technology principle of this paper is the creation of a CSE information infrastructure. In creating the infrastructure, this paper introduces the concept of a Child Support Enforcement Information Clearinghouse (hereinafter the "Clearinghouse"). The Clearinghouse concept is presented as a result of the Workgroup's analysis of other papers, where reforms of the child support program were examined. With the Clearinghouse, States will have a powerful locate capability and information source, of which the FPLS will

become a part. The Clearinghouse concept and statewide automated systems are the principle entities of the infrastructure. In combination, they have the potential to improve enforcement nationally, through improved locate and increased wage withholding, and to also make a dramatic difference in interstate case processing.

To better understand this principle, this section provides a logical view of the information infrastructure concept. The options presented later in this paper relate to this technology principle and its parts: State automated systems; the Clearinghouse; External organizations; and a Communications Hub (the Network) to connect each entity. (See **Figure 1**)

1. Statewide Automated Systems

These are the first and primary entities in the CSE information infrastructure. The major processing of case actions will happen here. For illustration purposes, **Figure 2** shows only some of the major data sources coming to the State system.

2. Clearinghouse

As its name implies, the Clearinghouse isn't a federal data system that performs individual case activities. Rather, it is a compilation of abbreviated case and employment information that logically "points" to where detailed case data resides. While information will be coming to and from the Clearinghouse for processing, the Clearinghouse will contain only enough data to do an intelligent match. The State CSE Agency still retains overall processing responsibility. It also avoids the perception that the Clearinghouse would indeed be the "mother" of all databases for the child support program.

3. External Organizations

Collectively, these are important entities as data sources. Standardized data transactions, e.g. electronic data interchange, will become critical to ensure the accuracy of data transmission between the various entities which form the infrastructure. Please note that only some of the major sources are listed here. As **Figure 2** shows, external organizations may be other government agencies or information networks.

4. Communications Hub (the Network)

In order to connect all entities in the infrastructure, a communications hub would serve as an information pipeline. Consistent with the "information superhighway" concept, this paper recognizes that there are several different options to achieve the connectivity that would be needed, with a focus on utilizing an existing network.

Since connectivity can take the form of several different media, (audio, data, images, text, and video), the hub is identified not only for communication, but also for value-added network services. This would allow the testing of IT alternatives presented.