

N00H00
Child Support Enforcement
Department of Human Resources

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04 Change</u>	<u>FY 05</u>	<u>FY 04-05 Change</u>
Operations	\$38,321	\$48,250	\$45,033	\$6,712	\$45,822	\$788
Contractual Services	39,178	37,290	35,970	-3,208	38,751	2,781
Grants	158	59	45	-113	\$45	0
Contingent & Back of Bill Reductions	0	0	0	0	-\$284	-284
Adjusted Grand Total	\$77,657	\$85,599	\$81,049	\$3,392	\$84,334	\$3,285
General Funds	18,279	17,599	18,508	229	18,606	98
Contingent & Back of Bill Reductions	0	0	0	0	-94	-94
Adjusted General Funds	\$18,279	\$17,599	\$18,508	\$229	\$18,512	\$4
Special Funds	3,664	8,048	4,879	1,215	6,261	1,383
Contingent & Back of Bill Reductions	0	0	0	0	-3	-3
Adjusted Special Funds	\$3,664	\$8,048	\$4,879	\$1,215	\$6,259	\$1,380
Federal Funds	55,714	59,952	57,662	1,948	59,751	2,089
Contingent & Back of Bill Reductions	0	0	0	0	-187	-187
Adjusted Federal Funds	\$55,714	\$59,952	\$57,662	\$1,948	\$59,564	\$1,901
Adjusted Grand Total	\$77,657	\$85,599	\$81,049	\$3,392	\$84,334	\$3,285
Annual % Change		10.2%	-5.3%		4.1%	

- The agency experienced cost containment in fiscal 2002, about 55% of which was restored with a fiscal 2002 deficiency appropriation. According to the agency, the primary effect of cost containment since fiscal 2002 has been due to the hiring freeze.
- In fiscal 2004, cost containment actions have reduced the agency's budget by \$606,154 in general funds. Related special and federal fund reductions total over \$1.5 million.
- The total budget for the agency increases about 4%, or \$3.3 million. Less than 1% of the total change is attributable to general funds.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	641.3	713.4	721.3	80.0	721.3	0.0
Contractual FTEs	3.6	1.0	0.0	-3.6	0.0	0.0
Total Personnel	644.9	714.4	721.3	76.4	721.3	0.0

Vacancy Data: Regular Positions

Turnover Expectancy	25.10	3.48%
Positions Vacant as of 12/31/03	27.50	3.81%

- There is no change in regular position employment from fiscal 2004 to 2005.
- All but one of the 27.5 vacancies as of December 31, 2003, are in local child support enforcement operations.
- The agency will need about 25.1 vacancies to achieve its target for turnover savings. Thus, it is unlikely that the agency could afford to hire many additional employees, if any relief from the hiring freeze were available.

Analysis in Brief

Major Trends

Performance Progress Stalls in 2003: Performance progress in three of the four primary performance measures for this agency stalled in fiscal 2003. Only the percentage of cases with arrears for which a payment is made declined appreciably. The fourth measure, the percentage of current support paid, increased as projected.

Issues

Privatization Contractor Transitions January 1, 2004: The contract to provide child support enforcement services in Baltimore City and Queen Anne’s County was awarded on December 17, 2003, to Policy Studies, Inc. (PSI). Despite the shortened transition period, PSI appears to have met the transition requirements included in the contract.

Recommended Actions

	<u>Funds</u>
1. Reduce general funds to recognize availability of special funds.	\$ 1,430,000
Total Reductions	\$ 1,430,000

N00H00 – DHR - Child Support Enforcement

N00H00
Child Support Enforcement
Department of Human Resources

Operating Budget Analysis

Program Description

The functions of the Child Support Enforcement Administration (CSEA) include locating absent parents, establishing paternity and support orders, collecting and disbursing support payments, reviewing and modifying child support orders, and enforcing support obligations.

The department has several techniques for enforcing child support obligations, including administrative earnings withholding, garnishment of accounts held by financial institutions, findings of civil contempt, and the interception of tax refunds, unemployment benefits, and lottery winnings of delinquent obligors. Delinquent parents also may have their drivers', professional, and commercial licenses suspended. For the State to receive federal funding, it must require Temporary Cash Assistance (TCA) recipients to assign their support rights to the State and federal government as partial reimbursement for TCA payments made on behalf of the children of the obligor. Federal law also requires the State to provide child support enforcement services to anyone who applies and pays a one-time fee. Maryland's \$25 fee is the maximum allowed under federal law.

Child support enforcement activities are undertaken by local departments of social services and other local agencies with technical support and program monitoring provided by CSEA staff located in the Department of Human Resources (DHR) central office. In accordance with State law, all child support enforcement activities in Baltimore City and Queen Anne's County were privatized in November 1996. Since January 1, 2004, Policy Studies, Inc. has been the contractor for both jurisdictions.

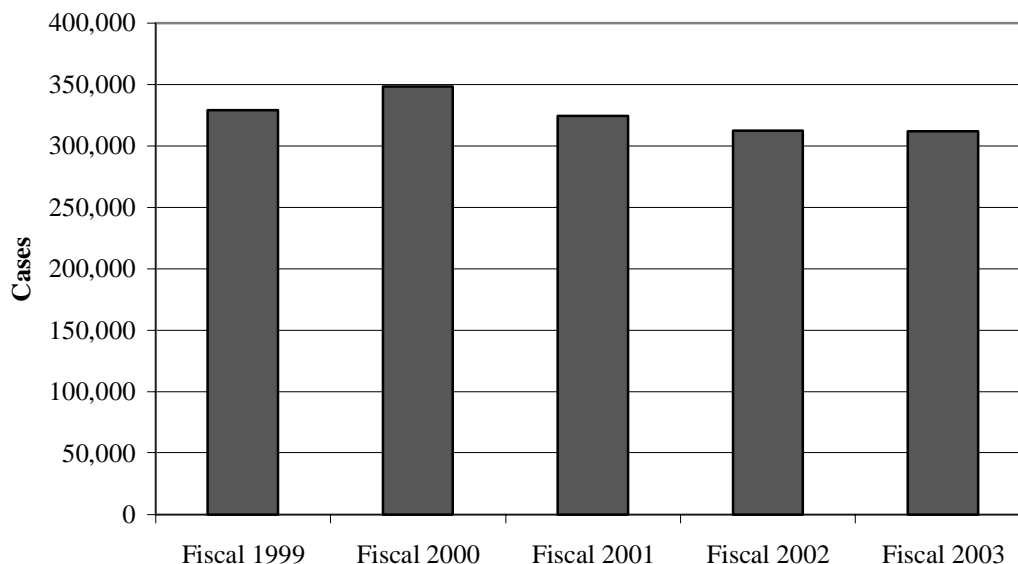
The federal fund participation rate for most program activities is 66%. The State match for activities undertaken by State and local agencies with no affiliation to DHR is included in the budgets of the individual agencies.

The key goal for CSEA is to enable, encourage, and enforce parental responsibility.

Performance Analysis: Managing for Results

Exhibit 1 shows CSEA's caseload from fiscal 1999 through 2003. For CSEA, a "case" is a mother, father, and children in common. The caseload has shown little change over time, remaining between 300,000 and 350,000.

Exhibit 1
Child Support Enforcement Caseload



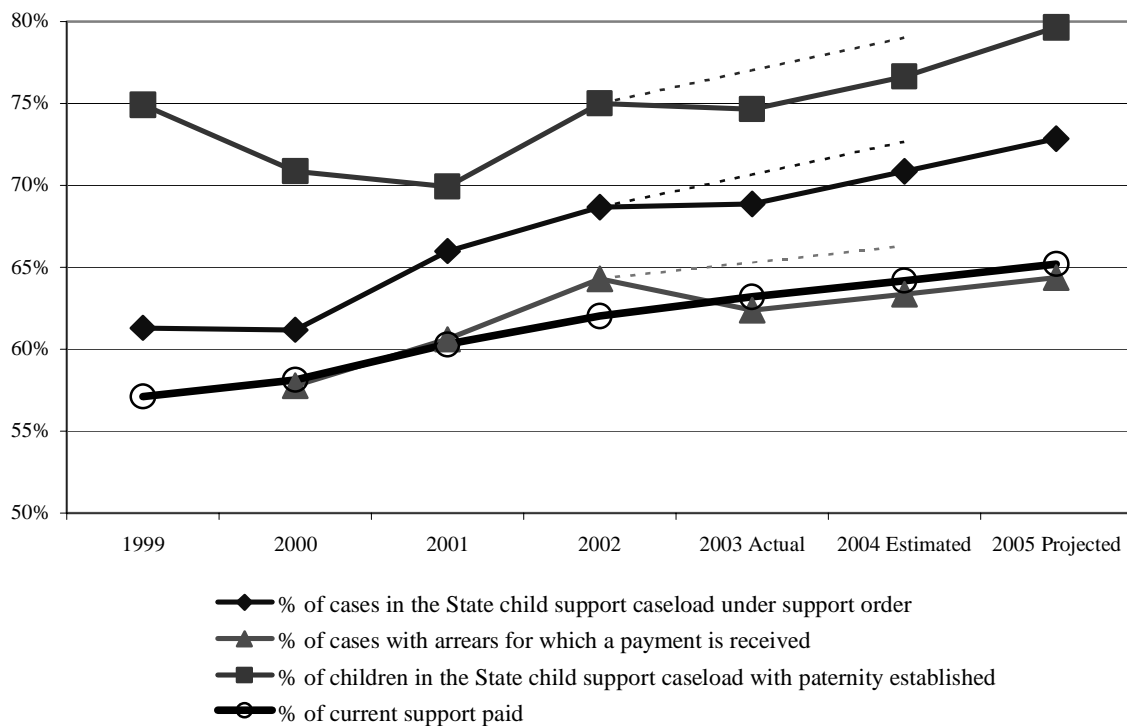
Case = a mother, a father, and a child or children in common.

Source: Child Support Enforcement Administration, Department of Human Resources

Exhibit 2 illustrates CSEA’s performance on four measures from federal fiscal 1999 through 2005, as projected by the department. The exhibit shows the department’s projections from last year as dotted lines for three of the four measures. Performance on these three measures had improved over the last one to two years, but gains stalled noticeably in fiscal 2003. The department attributes this to decreasing resources related to cost containment, specifically the hiring freeze.

On all three measures, the department is at least 10 percentage points away from its performance goal. It comes closest to its goal for cases under a support order, for which fiscal 2003 actual performance is almost 69% and the goal is 80%.

**Exhibit 2
Enable, Encourage, and Enforce Parental Responsibility
Federal Fiscal 1999 – 2005**



Notes: Performance levels are based on a federal fiscal year and 2003 actual reflects performance as of September 30, 2003. End-of-year actual arrears percentage decreases from previous year due to a one-time systems adjustment required by Federal Data Reliability standards.

Source: 2005 Governor’s budget books; Department of Human Resources.

Exhibit 2 does not show last year’s projection for the percentage of current support paid because actual performance and updated estimates for fiscal 2004 are not significantly different from last year’s projection of improvements of about 1% per year. The goal of the department for current support paid is 80%.

Given that DHR attributes stalling progress in fiscal 2003 to the hiring freeze, the Secretary of DHR should comment on whether projected improvements in fiscal 2004 and 2005 are feasible, given the continuing hiring freeze. If so, how will they be achieved? If not, what other resources, if any, would make improvements possible without additional personnel, e.g., technology enhancements, training, statutory changes, federal waivers, etc.?

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Impact of Cost Containment

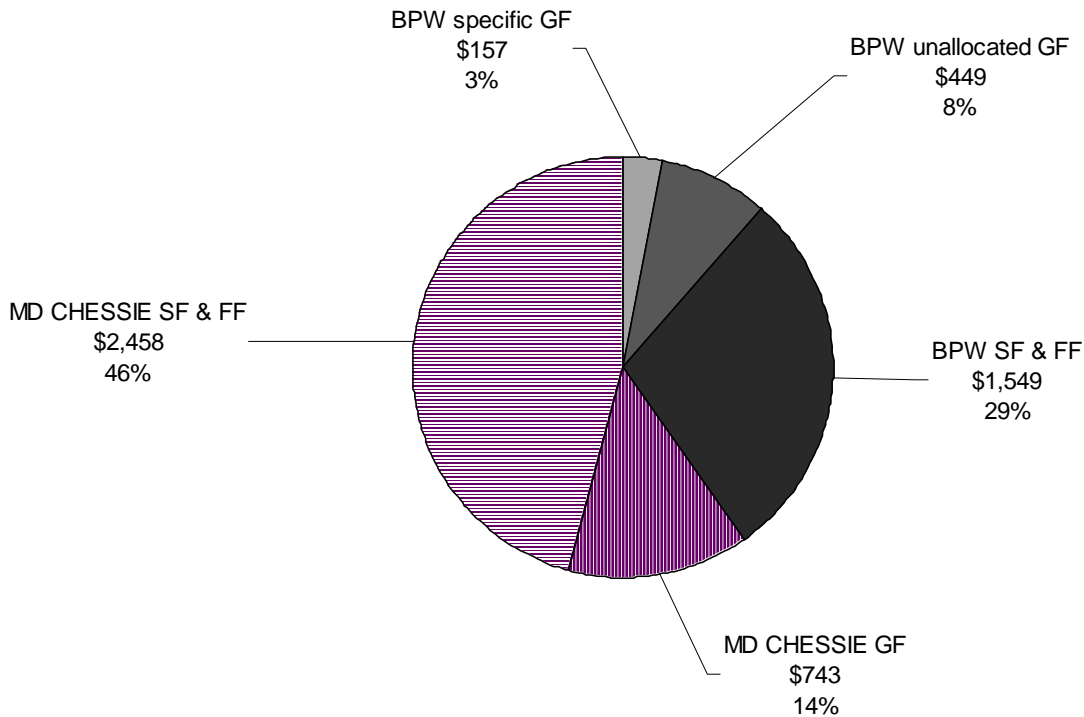
In July 2003, the Board of Public Works reduced the general fund budget for CSEA by \$157,000. The board also reduced DHR's administrative budget by \$6 million, leaving the allocation of the reduction to the department. CSEA absorbed \$449,154, or 7.5%. Finally, DHR has elected to impose \$3.3 million more administrative cost containment to make funds available to fund the Maryland Children's Electronic Social Services Information Exchange (MD CHESSIE) computer system. CSEA absorbed \$743,187, or 23%, of this agency-imposed general fund cost containment.

General fund reductions of \$1,349,341 reduce special and federal funds by \$4,006,784, resulting in \$5,356,125 in total cost containment for CSEA. It is likely that the department overestimated the federal fund impact of cost containment in CSEA because some federal funds in this budget are matched by State funds in other areas. General fund reductions to this program would not affect federal funds matched elsewhere.

Exhibit 3 shows the distribution of CSEA's cost containment by fund and cause. (The portion of cost containment taken to fund MD CHESSIE, \$3.2 million, has been transferred within the department or restricted internally, but the working appropriation has not been reduced.)

According to the agency, the primary effect of cost containment since 2002 has been related to the hiring freeze. As described in the Managing for Results' section of this analysis, CSEA attributes stalled progress on performance measures to staffing issues caused by the hiring freeze.

Exhibit 3
Child Support Enforcement Administration
Fiscal 2004 Cost Containment
(\$ in Thousands)



BPW = Board of Public Works
GF = General Funds
SF = Special Funds
FF = Federal Funds

Source: Department of Budget and Management; Department of Human Resources

The department has gained positions since fiscal 2002. **Exhibit 4** illustrates that the overall gain, however, masks changes within administration and the local jurisdictions' child support enforcement staff. Of currently authorized positions, 113.5 were associated with the transition of employees to the State from either the county (Allegany or Anne Arundel) or a private contractor (Baltimore City). There are four jurisdictions that have either the same or two more authorized positions for local child support enforcement. Sixteen jurisdictions have lost authorized positions since fiscal 2002. (One jurisdiction, Queen Anne's, is completely privatized.) Given current vacancies, local child support enforcement – in jurisdictions other than Allegany, Anne Arundel, Baltimore City, and Queen Anne's – has, on average, a workforce 9% smaller than it was in fiscal 2002.

Exhibit 4
Changes in Child Support Enforcement Workforce
Fiscal 2002 – 2005

# of jurisdictions with loss	16		
# of jurisdictions with no change ¹	4		
# of jurisdictions with substantial gain (Allegany, Anne Arundel, Baltimore City)	3		
# of jurisdictions with no State employees (Queen Anne's)	1		
Total Jurisdictions	24		
	<u>20 Selected Jurisdictions</u> ²	<u>3 Other Jurisdictions</u> ³	<u>Administration</u> ⁴
Fiscal 2002 authorized positions ⁵	554.5	32.5	148.3
12/31/01 vacancy rate ⁶	9.3%	9.3%	16.7%
Fiscal 2002 filled positions ⁶	502.9	29.5	123.6
Regular position change since fiscal 2002	-80.7	113.5	-46.8
Fiscal 2004 authorized positions	473.8	146.0	101.5
12/31/03 vacancies	-15.0	-11.5	-1.0
Current filled positions	458.8	134.5	100.5
Total change in workforce since fiscal 2002	-8.8%	356.3%	-18.7%

¹ This category includes Garrett, Kent, and Worcester counties, where the local CSEA workforce has not changed. It also includes Somerset County, where the local CSEA workforce has increased by two.

² The 20 selected jurisdictions include Baltimore, Calvert, Caroline, Carroll, Cecil, Charles, Dorchester, Frederick, Garrett, Harford, Howard, Kent, Montgomery, Prince George's, St. Mary's, Somerset, Talbot, Washington, Wicomico, and Worcester counties.

³ This category includes Allegany and Anne Arundel counties and Baltimore City.

⁴ Administration includes the central office, as well as positions in local offices where the jurisdiction could not be determined.

⁵ To facilitate comparison, the position count in the working appropriation is used.

⁶ Vacancy data is not available by jurisdiction, so these figures are estimated. They assume that the vacancy rate is evenly applied throughout local jurisdictions.

Source: Department of Budget and Management

Governor's Proposed Budget

The fiscal 2005 budget for CSEA contains relatively small changes, compared to fiscal 2004. The total budget increases \$3.3 million, less than 1% of which is general funds. The increases are due to Child Support Reinvestment funds and matching federal funds.

Exhibit 5
Governor's Proposed Budget
Child Support Enforcement Administration
(\$ in Thousands)

	FY 03	FY 04	FY 05	FY 04-05	FY 04-05
	<u>Actual</u>	<u>Approp.</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
General Funds	\$17,599	\$18,508	\$18,606	\$98	0.5%
Contingent & Back of Bill Reductions	0	0	-94	-94	
Adjusted General Funds	\$17,599	\$18,508	\$18,512	\$4	0.0%
Special Funds	8,048	4,879	6,261	1,383	28.3%
Contingent & Back of Bill Reductions	0	0	-3	-3	
Adjusted Special Funds	\$8,048	\$4,879	\$6,259	\$1,380	28.3%
Federal Funds	59,952	57,662	59,751	2,089	3.6%
Contingent & Back of Bill Reductions	0	0	-187	-187	
Adjusted Federal Funds	\$59,952	\$57,662	\$59,564	\$1,901	3.3%
Adjusted Grand Total	\$85,599	\$81,049	\$84,334	\$3,285	4.1%

Where It Goes:

Personnel Expenses

Increments and other compensation	\$499
Employee and retiree health insurance	346
Turnover adjustments.....	260
Reclassification.....	2,573
Other fringe benefit adjustments	560

Other Changes

Consolidation of central office space.....	-256
Elimination of spring conference for statewide child support staff.....	-156
Reduction in collections contract for obligations with no payments for 180 days	-327
Other	-214

Total **\$3,285**

Note: Numbers may not sum to total due to rounding.

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Impact of Cost Containment

The fiscal 2005 allowance reflects the elimination of \$284,310, the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation.

Allowance Contains Administrative Changes

An increase of \$4.2 million in personnel costs is offset by a decrease of \$1 million in other costs. The personnel increase is due mainly to employee reclassifications. Offsetting reductions align rent expenditures with actual costs, eliminate the annual conference for all child support staff statewide, and reduce a collections contract for obligations on which no payment has been made for 180 days.

Issues

1. Privatization Contractor Transitions January 1, 2004

On December 17, 2003, the Board of Public Works awarded the contract for providing child support enforcement services in Baltimore City and Queen Anne's County to Policy Studies, Inc. (PSI) of Denver, Colorado. The delays in making the award required a short transition from the incumbent contractor, MAXIMUS, to PSI. PSI assumed responsibility for operations in the two jurisdictions on January 1, 2004.

Transition Requirements Appear to Be Met

PSI has apparently met the transition requirements included in its contract. By January 1, 2004, PSI was required to:

- enter into leases for space and complete installation of equipment, furniture, telephone, and data connections necessary to access the statewide automated child support enforcement system;
- ensure a safe work environment for staff and customers;
- receive, transfer, and organize file folders;
- hire staff;
- complete log-on identification (ID) request forms for all employees and submit them to CSEA in sufficient time for log on IDs to be effective by January 2, 2004;
- establish the necessary banking arrangements in coordination with CSEA and the State Treasurer's Office;
- establish contracts for other services;
- implement all standard operating procedures, including accounting, audit, security, and computer system security procedures (supervisory staff in these areas were to be trained and able to provide oversight); and
- implement the call center.

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In addition, PSI was required to establish relationships with other child support service providers in Baltimore City and Queen Anne's County and the directors of the two departments of social services by January 15, 2004. It was also to have trained non-supervisory staff in accounting, audit, security, and computer system security no later than January 15, 2004. Finally, PSI should have implemented the call center desk guide by January 31, 2004. Preliminary reports from CSEA indicate that these transition requirements have been met.

PSI's final transition requirement is to implement the quality assurance and audit function by March 30, 2004.

DLS recommends that the Secretary of DHR comment on the transition of contractors in Baltimore City and Queen Anne's County, including whatever data on performance is available for January 2004.

Contract Dispute Continues

The contract award in December 2003 followed an extended dispute with the incumbent contractor, MAXIMUS. The Board of Public Works (BPW) twice delayed its final approval of the award to PSI while the dispute unfolded. In November 2003, the Maryland State Board of Contract Appeals (MSBCA) ruled that the department acted properly in recommending that BPW award the contract to PSI. MAXIMUS has elected to pursue a judicial appeal of the MSBCA decision. The Baltimore City Circuit Court will hear the MAXIMUS appeal on March 15, 2004.

DLS recommends that the Secretary comment on what action the agency will take if the circuit court rules in MAXIMUS' favor.

Recommended Actions

	<u>Amount Reduction</u>
1. Reduce general funds to recognize availability of special funds. The department may earn Child Support Reinvestment funds based on its performance. Reinvestment funds are like general funds in that they can be spent and used to draw federal matching funds. If the agency were to earn reinvestment funds in fiscal 2004 and 2005 equal to 85% of the amount it earned in fiscal 2003, it would have approximately \$1,430,000 more available than is currently budgeted. The reinvestment funds can be spent in place of general funds in the fiscal 2005 allowance.	\$ 1,430,000 GF
Total General Fund Reductions	\$ 1,430,000

Current and Prior Year Budgets

**Current and Prior Year Budgets
Child Support Enforcement Administration
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$20,152	\$3,603	\$58,076	\$0	\$81,830
Deficiency Appropriation	\$0	\$0	\$0	\$0	0
Budget Amendments	-\$2,164	\$5,508	\$3,284	\$0	6,628
Cost Containment	-\$388	\$0	\$0	\$0	-388
Reversions and Cancellations	\$0	-\$1,063	-\$1,408	\$0	-2,470
Actual Expenditures	\$17,599	\$8,048	\$59,952	\$0	\$85,599
Fiscal 2004					
Legislative Appropriation	\$19,114	\$4,988	\$59,102	\$0	\$83,204
Cost Containment	-\$606	\$0	\$0	\$0	-606
Budget Amendments	\$0	-\$109	-\$1,439	\$0	-1,549
Working Appropriation	\$18,508	\$4,879	\$57,662	\$0	\$81,049

Note: Numbers may not sum to total due to rounding.

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Fiscal 2003

In fiscal 2003, CSEA spent \$3.8 million more than was originally appropriated. Special fund spending increased most, in reinvestment funds. Federal fund spending also increased, primarily related to the Spherix contract for operation of the call center. General fund spending declined due to cost containment and the availability of reinvestment funds.

Fiscal 2004

The working appropriation for fiscal 2004 is about \$2.1 million lower than the legislative appropriation due to cost containment.

**Object/Fund Difference Report
DHR - Child Support Enforcement**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	713.35	721.25	721.25	0	0%
02 Contractual	1.00	0	0	0	0.0%
Total Positions	714.35	721.25	721.25	0	0%
Objects					
01 Salaries and Wages	\$ 36,544,066	\$ 35,473,951	\$ 39,996,763	\$ 4,522,812	12.7%
02 Technical & Spec Fees	216,468	45,223	45,223	0	0%
03 Communication	6,656,272	3,802,010	1,073,462	-2,728,548	-71.8%
04 Travel	200,820	153,524	153,524	0	0%
06 Fuel & Utilities	56,149	54,715	54,715	0	0%
07 Motor Vehicles	41,081	90,063	96,986	6,923	7.7%
08 Contractual Services	37,290,454	35,969,964	38,751,305	2,781,341	7.7%
09 Supplies & Materials	440,186	242,459	242,447	-12	0%
10 Equip - Replacement	25,856	0	0	0	0.0%
11 Equip - Additional	964,096	0	0	0	0.0%
12 Grants, Subsidies, Contr.	58,640	45,351	45,351	0	0%
13 Fixed Charges	3,105,070	5,171,450	4,158,553	-1,012,897	-19.6%
Total Objects	\$ 85,599,158	\$ 81,048,710	\$ 84,618,329	\$ 3,569,619	4.4%
Funds					
01 General Fund	\$ 17,598,913	\$ 18,507,887	\$ 18,605,789	\$ 97,902	0.5%
03 Special Fund	8,047,805	4,878,570	6,261,414	1,382,844	28.3%
05 Federal Fund	59,952,440	57,662,253	59,751,126	2,088,873	3.6%
Total Funds	\$ 85,599,158	\$ 81,048,710	\$ 84,618,329	\$ 3,569,619	4.4%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary
DHR - Child Support Enforcement**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
06 Local Child Support Enforcement Administration	\$ 36,075,940	\$ 37,022,325	\$ 36,420,035	1.0%	\$ 40,941,837	12.4%
08 Support Enforcement - State	49,523,218	46,181,207	44,628,675	-9.9%	43,676,492	-2.1%
Total Expenditures	\$ 85,599,158	\$ 83,203,532	\$ 81,048,710	-5.3%	\$ 84,618,329	4.4%
General Fund	\$ 17,598,913	\$ 19,114,040	\$ 18,507,887	5.2%	\$ 18,605,789	0.5%
Special Fund	8,047,805	4,987,823	4,878,570	-39.4%	6,261,414	28.3%
Federal Fund	59,952,440	59,101,666	57,662,253	-3.8%	59,751,126	3.6%
Total Appropriations	\$ 85,599,158	\$ 83,203,532	\$ 81,048,710	-5.3%	\$ 84,618,329	4.4%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.