

N00H00
Child Support Enforcement
 Department of Human Resources

Operating Budget Data

(\$ in Thousands)

	FY 06 <u>Actual</u>	FY 07 <u>Working</u>	FY 08 <u>Allowance</u>	FY 07-08 <u>Change</u>	% Change <u>Prior Year</u>
General Fund	\$15,836	\$17,585	\$21,081	\$3,496	19.9%
Special Fund	8,067	9,201	8,472	-729	-7.9%
Federal Fund	<u>56,699</u>	<u>65,573</u>	<u>64,705</u>	<u>-868</u>	<u>-1.3%</u>
Total Funds	\$80,603	\$92,360	\$94,258	\$1,898	2.1%

- The fiscal 2008 allowance increases the Child Support Enforcement Administration's (CSEA) budget \$1.9 million, but the actual growth in costs is masked by one-time health insurance savings being used to fund a portion of health insurance premiums. Excluding spending on health insurance in fiscal 2007 and 2008, costs increase \$3.7 million, or 4%.
- General fund support for CSEA is increasing by \$3.5 million in the fiscal 2008 allowance, while special and federal funds are decreasing by \$870,000 and \$730,000, respectively. This shift in funding sources is caused by a federal change in which reinvestment funds (child support performance incentive payments) are no longer eligible to draw down federal matching funds.
- The major increase in the allowance is \$1.8 million for computer system enhancements.

Personnel Data

	FY 06 <u>Actual</u>	FY 07 <u>Working</u>	FY 08 <u>Allowance</u>	FY 07-08 <u>Change</u>
Regular Positions	703.25	703.25	741.25	38.00
Contractual FTEs	<u>3.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	706.25	703.25	741.25	38.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	29.87	4.03%
Positions Vacant as of 12/31/06	29.00	4.12%

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

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- The fiscal 2008 allowance increases the number of employees by 38 positions. The Prince George's County insourcing staffing initiative will terminate at the end of fiscal 2007, at which point the individuals working in the Prince George's County office as employees of the contractor will have the option to become State employees.
- The vacancy rate and the budgeted turnover are virtually the same. As of December 31, 2006, CSEA had a vacancy rate of 4.12% with 29 vacant positions. One of the vacant positions has been vacant for longer than a year but most (24 vacancies) have been vacant for less than six months.

Analysis in Brief

Major Trends

Progress: CSEA is progressing toward achieving the Managing for Results goal of placing 80% of the caseload under order.

Static: Performance in the area of paternity establishment was level from fiscal 2005 to 2006. Also, the percent of current child support paid has been stagnant since fiscal 2003.

Regression: The percent of child support cases with arrears that received payment dropped from fiscal 2005 to 2006 after being static for a few years.

Issues

Equalizing Child Support Services: The level of services provided at each child support office throughout the State should be comparable. However, currently, the State's child support services vary dramatically by jurisdiction.

Federal Changes to Child Support Enforcement: In January 2006, Congress passed legislation that will have widespread impact on a number of social programs, including child support enforcement. The changes include medical support enforcement; the match for genetic testing; the implementation of an annual administrative fee; and the use of child support reinvestment funds.

Status of the Implementation of Audit Recommendations: Fiscal 2007 budget bill language withheld \$1 million of the Department of Human Resources Child Support Enforcement Administration appropriation pending the receipt of a report detailing the implementation of the recommendations from the audit of the CSEA released in May 2005. This issue reviews that report and the implementation of the audit recommendations.

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Add budget bill language restricting funds for an evaluation of the privatization pilot project.		
2. Delete one position from the headquarters office.	\$42,886	1.0
3. Adopt committee narrative requesting a report on reallocating child support resources.		
Total Reductions	\$42,886	1.0

Updates

Performance Contracting: Over the last few years, the State has emphasized results and accountability. To ensure the State’s vendors are focused on the State’s objectives, payments or continuation of the contract should be linked to specific performance measures. This issue will analyze the use of monitoring, reporting, performance measures, incentives, and penalties for the larger CSEA contracts.

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Child Support Enforcement
Department of Human Resources

Operating Budget Analysis

Program Description

The Child Support Enforcement Administration (CSEA) administers and monitors child support services provided by local departments of social services and other agencies, provides technical assistance, formulates policy, develops and implements new programs, and ensures compliance with regulations and policy. CSEA also operates several centralized programs designed to locate non-custodial parents, establish paternity, enforce support orders, collect and disburse payments, and process interstate cases. Its key goal is to enable, encourage, and enforce parental responsibility.

Performance Analysis: Managing for Results

There are four key performance measures for child support enforcement: court order establishment, paternity establishment, current support paid, and cases paying on arrears. Not only are these good measures for assessing the administration's performance, but the Department of Human Resources (DHR) may earn Child Support Reinvestment funds based on its performance in these four areas.

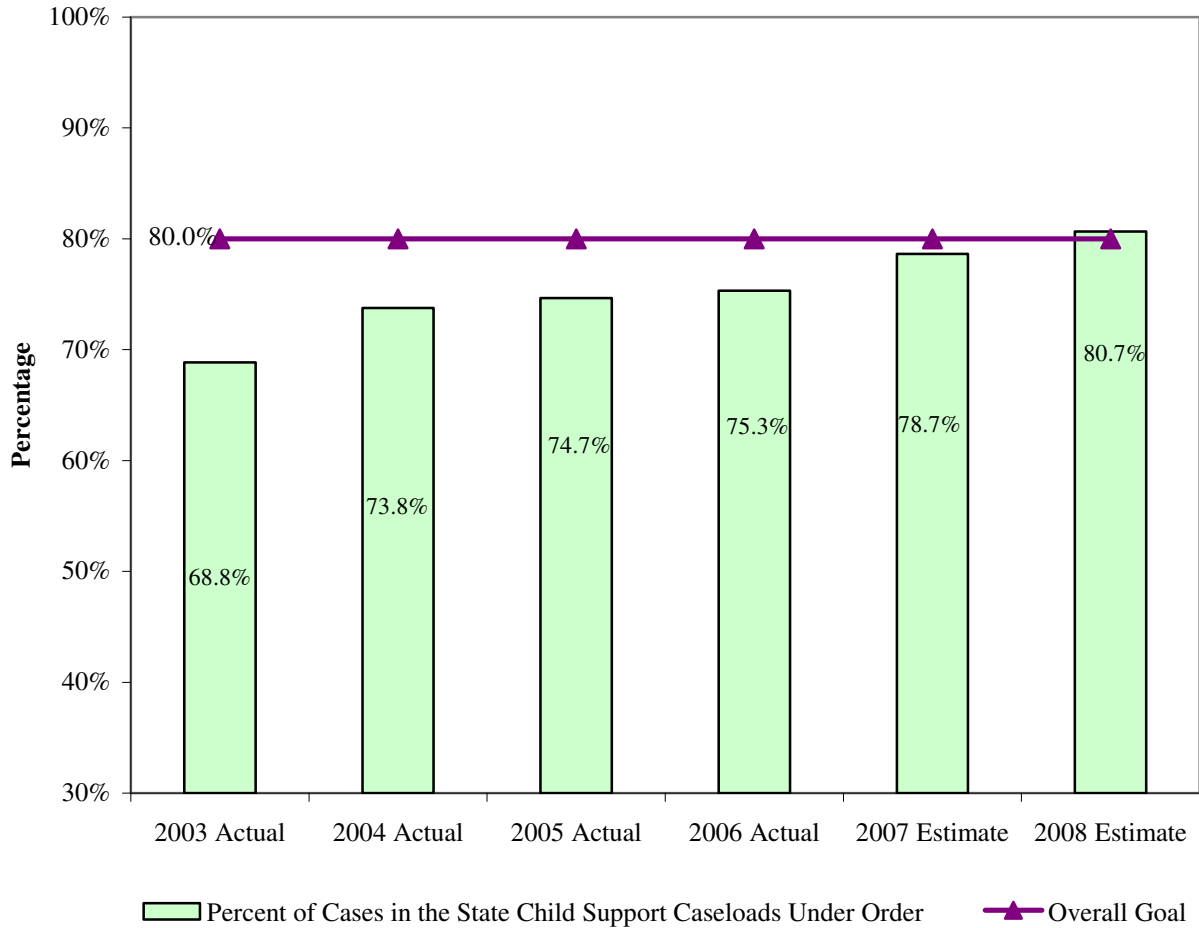
Progress

Over the past few years, CSEA has been steadily progressing towards its overall goal of placing 80% of the child support cases under order. As shown in **Exhibit 1**, if CSEA continues to reach the annual objectives, the 80% goal for this measure should be achieved by fiscal 2008.

Static

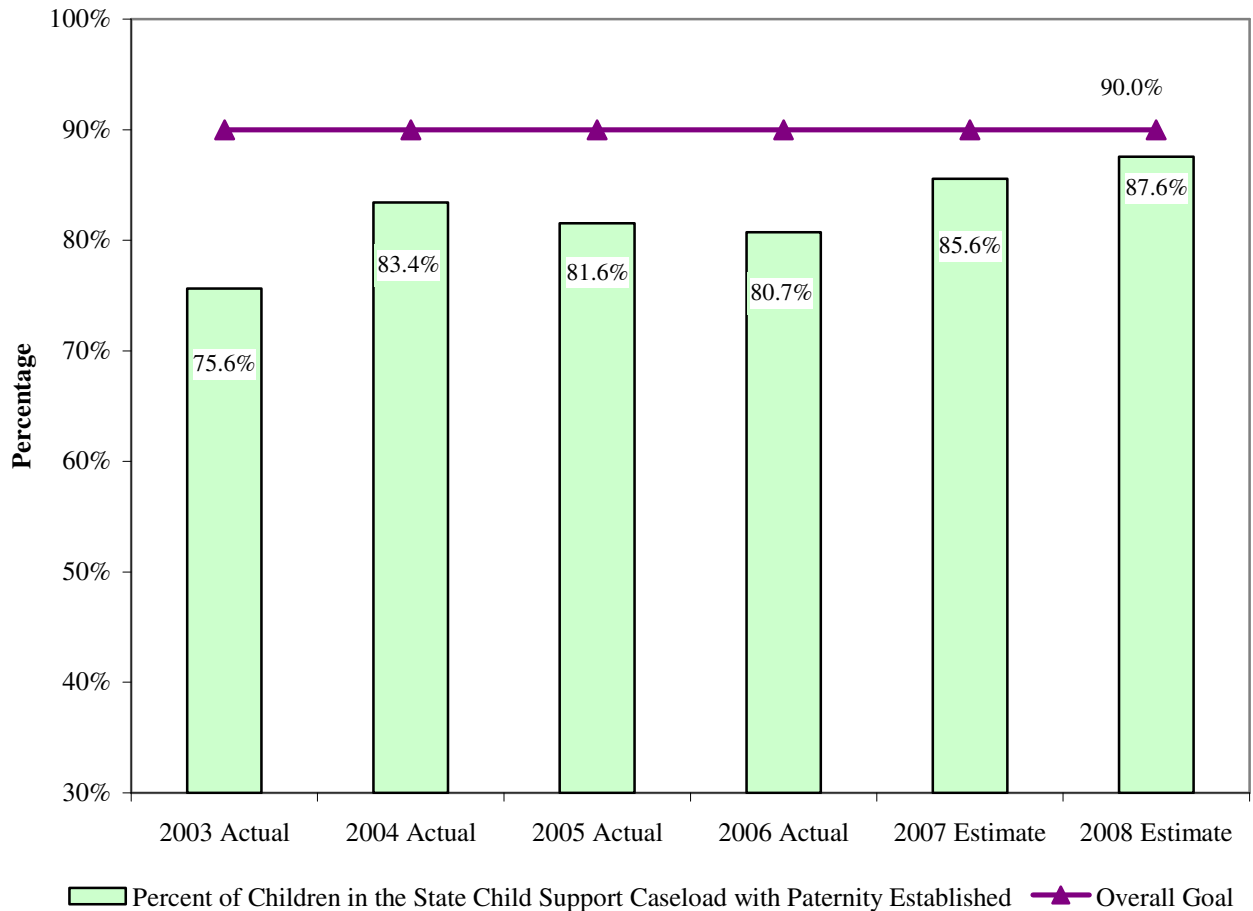
CSEA has made improvements in the area of paternity establishment since fiscal 2003. However, **Exhibit 2** shows that the percent of child support cases with the paternity established has slightly decreased over the past two years. The department anticipates CSEA will reverse the current trend in fiscal 2007 by increasing the percent of cases with paternity established by 4.8 percentage points.

Exhibit 1
Managing for Results
Child Support Caseload Under Order
Fiscal 2003-2008



Source: Department of Human Resources

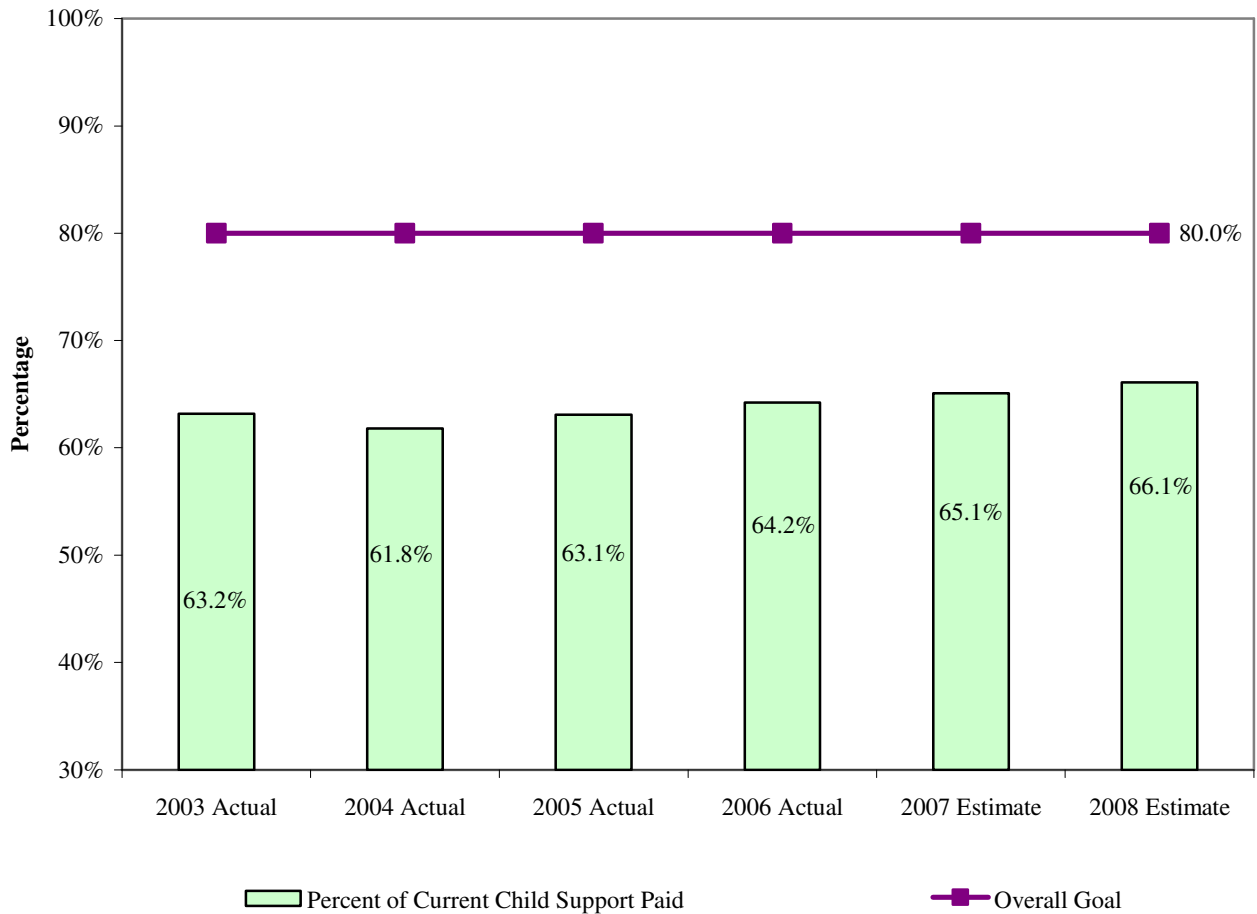
Exhibit 2
Managing for Results
Child Support Caseload with Paternity Established
Fiscal 2003-2008



Source: Department of Human Resources

In fiscal 2006, CSEA collected 1% more child support than in fiscal 2003. If CSEA achieves the amount of estimated collections for fiscal 2007 and 2008, then as shown in **Exhibit 3**, 34% of families owed child support will not receive child support in fiscal 2008, and CSEA will continue to be below its goal of 80%.

Exhibit 3
Managing for Results
Current Child Support Paid
Fiscal 2003-2008

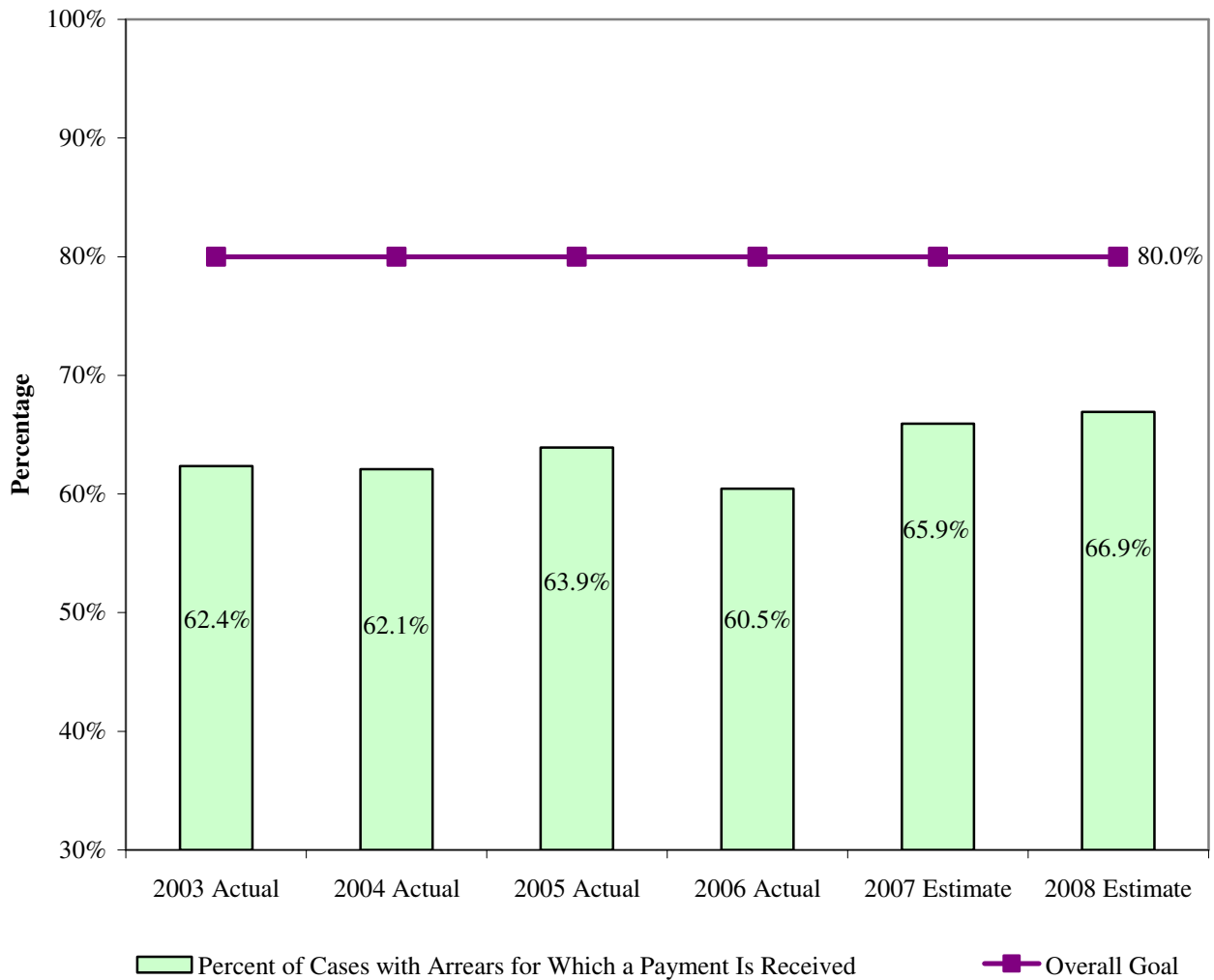


Source: Department of Human Resources

Regression

Exhibit 4 shows the percent of child support cases with arrears that received payment dropped to 60.5% in fiscal 2006. From fiscal 2003 to 2005, this performance measure was relatively static. In fiscal 2007, the department estimates that this performance measure will increase by 5.4 percentage points. Even if CSEA is able to achieve the goal set for fiscal 2007, CSEA will continue to be well below the goal of collecting from 80.0% of the cases with arrears.

Exhibit 4
Managing for Results
Arrears for Which a Payment Is Received
Fiscal 2003-2008



Source: Department of Human Resources

Governor’s Proposed Budget

As shown in **Exhibit 5**, CSEA’s budget increases \$1.9 million, or 2.1% in the allowance. However, the actual cost of the allowance is masked by the use of one-time health insurance savings to fund retiree health insurance costs. CSEA’s underlying costs are increasing by \$3.7 million, or 4%.

General fund support is increasing by \$3.5 million, or 20% while special and federal funds are decreasing by \$870,000 and \$730,000, respectively. This shift in funding sources is caused by a federal change in which reinvestment funds (child support performance incentive payments) are no longer eligible to draw down federal matching funds. As a result, the State must spend \$3.5 million more in general funds to maintain the same level of child support enforcement funding.

Personnel

Personnel costs are shown as changing \$1.8 million in Exhibit 5, but the actual increase to the cost of personnel is \$3.6 million. CSEA’s retiree health insurance premiums are projected to cost \$1.8 million in fiscal 2008, but a portion of the insurance premiums are going to be funded with health insurance savings from previous fiscal years. Therefore, the funds are not included in CSEA’s allowance.

CSEA received 38 new regular positions in the allowance. These new positions are in response to the intent of the General Assembly. In fiscal 2007, the State funded an insourcing staffing initiative for Prince George’s County in which the State contracted with a private vendor to hire and manage child support staff for Prince George’s County. In the fiscal 2007 budget bill, the General Assembly added language encouraging the Governor to address the long-term need for additional staff in the local child support enforcement offices by adding regular positions instead of using employees hired and paid by a private contractor, as is the case with the insourcing contract. Currently, there are 36 working in the Prince George’s child support office through the insourcing contract. When the contract finishes at the end of the fiscal year, these employees will have the option of becoming State employees.

Child Support Enforcement System Enhancements

The allowance for CSEA increases by \$1.8 million to fund a number of enhancements to the Child Support Enforcement System (CSES) in response to new State and federal requirements. A few of the enhancements are related to an audit recommendation to ensure that data submitted to the federal government for the Data Reliability Audit is accurate. The enhancements to implement the annual administrative fee and the three-year review of Temporary Assistance for Needy Families (TANF) cases are caused by the passage of the federal Deficit Reduction Act. Another federal initiative that requires enhancements to CSES is the Query Interstate for Kids, which provides states access to other states case information whenever necessary. Also, enhancements will be done to automate phone calls and the issuing of letters to remind non-custodial parents of payments or to refer cases to the Central Collections Unit.

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

How Much It Grows:	General <u>Fund</u>	Special <u>Fund</u>	Federal <u>Fund</u>	<u>Total</u>
2007 Working Appropriation	\$17,585	\$9,201	\$65,573	\$92,360
2008 Governor’s Allowance	<u>21,081</u>	<u>8,472</u>	<u>64,705</u>	<u>94,258</u>
Amount Change	\$3,496	-\$729	-\$868	\$1,898
Percent Change	19.9%	-7.9%	-1.3%	2.1%

Where It Goes:

Personnel Expenses

38 new positions for Prince George’s County	\$1,325
Salary increments	1,129
Retirement	598
Reclassifications and deferred compensation	138
Turnover	-29
Health insurance costs decline due to one-time savings	-1,383
Other fringe benefit adjustments	-12

Other Changes

Enhancements to Child Support Enforcement System	1,821
Local incentive payments	522
University of Maryland Baltimore School of Social Work research contract	296
Office equipment for the 38 new positions.....	185
Rent.....	161
Privatization pilot project contract.....	112
Maintenance for the 24-hour automated telephone service	85
Travel for out-of-state conferences.....	52
Implementation of financial institution data matching	47
Telephones to reflect actual fiscal 2006 expenditures	-145
Genetic testing based on fiscal 2006 experience	-192
Hard to collect cases contract overbudgeted in fiscal 2007	-686
End of insourcing contract.....	-2,200
Other	74

Total **\$1,898**

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

University of Maryland Baltimore School of Social Work Research Contract

CSEA contracts with the University of Maryland Baltimore School of Social Work to conduct analytic research, collaborate on the Voluntary Paternity Acknowledge Program, provide statistics, and prepare *ad hoc* reports as requested by CSEA staff. The contract amount is an estimate because the deliverables have yet to be determined. The fiscal 2008 allowance increases the funding for this contract by \$296,000.

Issues

1. Equalizing Child Support Services

The level of services provided at each child support office throughout the State should be comparable. However, currently, the State's child support services vary dramatically by jurisdiction. With respect to management, 2 jurisdictions are privatized, 12 jurisdictions have increased management flexibility, and 10 jurisdictions are State-run without management flexibility. With respect to resources, there is a considerable range in the level of funding per child support case and the caseload ratios for each jurisdiction.

Privatization

During the 1995 legislative session, a major piece of child support legislation was passed that included a provision implementing a privatization pilot project in Baltimore City and Queen Anne's County. The legislative intent of the privatization provision was to increase child support collections, which would increase the amount of money the State could use to offset the cost of welfare payments and prevent many families from having to apply for welfare assistance. Also, it was thought that privatizing child support collections could result in the elimination of approximately 350 positions within CSEA.

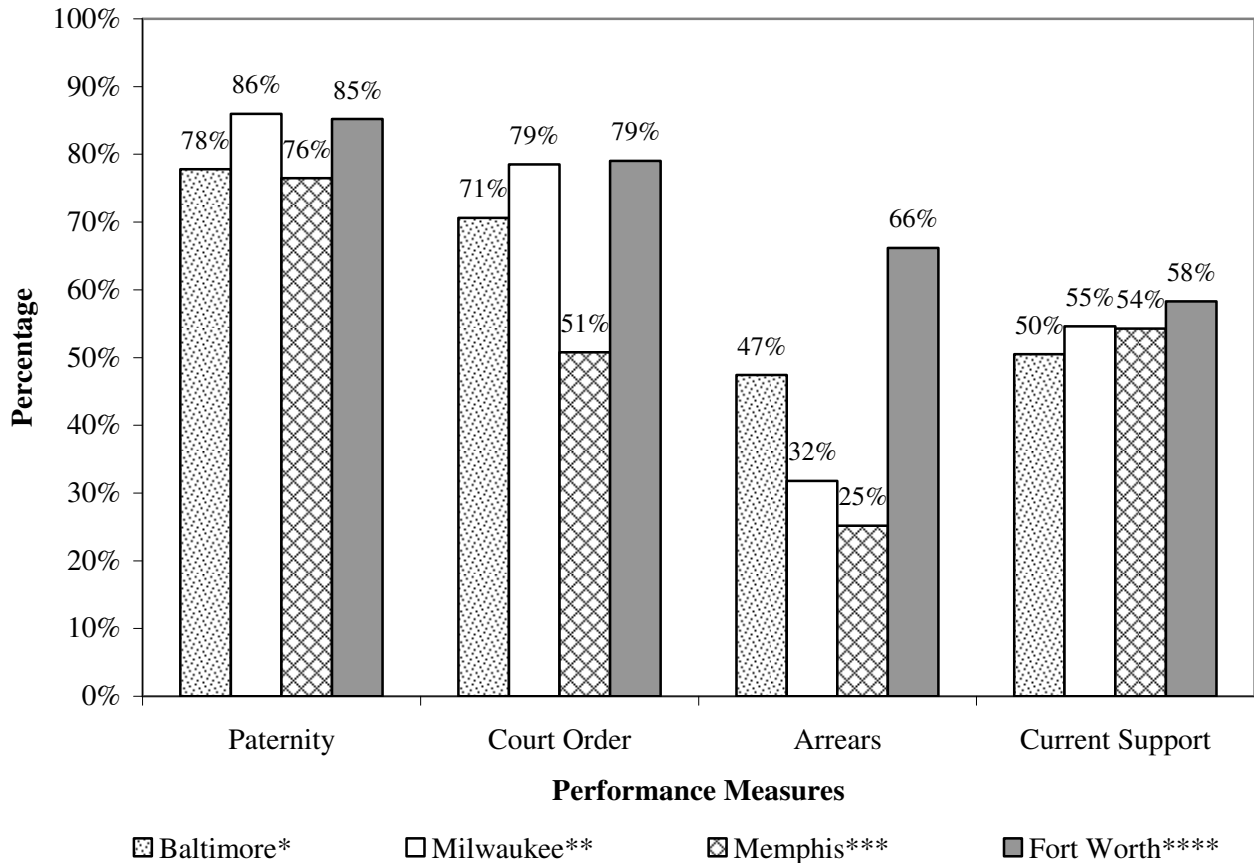
Performance Evaluation

The only independent evaluation of child support privatization was conducted by The Johns Hopkins University Institute for Policy Studies, which covered the timeframe of November 1999 through September 2001. The evaluation concluded that privately operated jurisdictions performed no worse than the publicly operated jurisdictions after accounting for differences in caseload characteristics. When the study forecasted out one year, the publicly administered sites were predicted to outperform the privatized sites.

An evaluation of the privatization pilot project has not been conducted since the Johns Hopkins evaluation. In recent years, Queen Anne's County has outperformed similar jurisdictions in the State. However, it is important to note that Queen Anne's County performed relatively well prior to the privatization contract.

It is difficult to assess Baltimore City's performance because Baltimore City faces challenges not shared by other jurisdictions in the State. Finding a comparable urban area in the United States is also difficult because each urban area has unique characteristics. However, three cities in the United States that are similar to Baltimore City in population and level of median income are Milwaukee, Wisconsin; Memphis, Tennessee; and Fort Worth, Texas. In a cursory comparison to these three cities, Baltimore City compares relatively well as shown in **Exhibit 6**. The data are a little mixed with Baltimore City outperforming Memphis but generally falling short of the outcomes in Milwaukee and Fort Worth. Overall, what the data show is that Baltimore City's performance is not uncommon for an urban area of its size with its level of median income.

**Exhibit 6
Baltimore City’s Performance Relative to Similar Cities**



* Data for fiscal 2006.

** Data for calendar 2006.

*** Data for first six months of fiscal 2007.

**** Data for federal fiscal 2006.

Source: Department of Human Resources; Wisconsin Bureau of Child Support; Tennessee Department of Human Services; Texas Office of the Attorney General

Drop in Performance with Change in Vendor

The privatization contract is currently held by the third vendor since 1996, and the transition between vendors has proven to be disruptive to child support services. The 1998 privatization annual report explains that performance results for the first year-and-a-half of privatization were less than anticipated, which was attributed to Lockheed’s rough transition into providing child support

services. When Maximus took over the contract in 2000, the annual report for that year details the smooth transition Maximus experienced. However, the end of the Maximus contract was volatile with Maximus appealing DHR's choice for Policy Studies, Incorporated (PSI) to take over the privatization contract. Effective January 1, 2004, PSI was the contractor, and in the first six months of PSI holding the contract, undistributed child support collections (which was identified as a problem area for Maximus) jumped 130%.

Privatization has not proven to be more or less effective than State-run child support enforcement. However, the privatization model can provide blips in performance when there is a change in vendor. **The current privatization contract ends March 2008, at which point the State can execute two 1-year options. Also, by statute the privatization pilot project ends September 30, 2009. DLS recommends an evaluation of the privatization contract be conducted prior to considering the use of the two 1-year options and the reauthorization of the privatization pilot project.**

Demonstration

A demonstration pilot was also included in the 1996 legislation to facilitate a fair comparison of whether the private sector or the public sector was better suited for sustaining increased performance levels. During the first three years of the privatization pilot project, the State had one demonstration site in Washington County that had flexibility in hiring legal representation and considerable personnel discretion. In 1999, three more demonstration sites were added in Calvert, Howard, and Montgomery counties. In July 2005, eight more jurisdictions became demonstration sites (Allegany, Anne Arundel, Baltimore, Carroll, Charles, Dorchester, Frederick, and Prince George's counties). By July 2008, CSEA claims all jurisdictions will have management flexibility and incentives like the demonstration sites.

The Regional Economic Studies Institute (RESI) Research and Consulting at Towson University put together another report summarizing the data from The Johns Hopkins University Institute of Policy Studies preliminary report. The RESI report stated that performance is improving among all jurisdictions, though demonstration jurisdictions had greater improvements than other jurisdictions. The cause for the greater improvement among demonstration sites appeared to be the introduction of employee incentives and competition.

The information in the RESI report supports the results of the composite ranking shown in **Exhibit 7**. In the composite ranking, demonstration sites performed better than most of the State in federal fiscal 2005. The composite ranking was developed by DLS by totaling the ranking for five measures and dividing by five. The five measures used were court order establishment, current support collected, cases paying on arrears, cost effectiveness, and expected collections. The first three measures are performance measures from the agency's Managing for Results. The cost effectiveness measure is the amount of child support collected divided by the funding for child support services. The expected collections measures the likelihood of collecting child support in each jurisdiction based on the number of Temporary Cash Assistance (TCA) cases and the level of median income.

Exhibit 7
CSEA's Composite Ranking
Federal Fiscal 2005

<u>Jurisdiction</u>	<u>Court Order Establishment</u>	<u>Current Support Collected</u>	<u>Cases Paying Arrears</u>	<u>Cost Effectiveness</u>	<u>Expected Collections*</u>	<u>Overall Rank</u>
Calvert	2	2	1	11	2	1
Howard	11	5	6	3	1	2
Washington	7	1	2	10	12	3
Queen Anne's	1	13	13	8	3	4
Charles	17	8	3	5	6	5
Talbot	9	4	8	15	5	6
Carroll	20	3	4	16	4	7
Frederick	16	6	7	13	6	8
Kent	6	12	5	21	5	9
Allegany	4	7	9	18	15	10
Garrett	10	12	10	18	7	11
St. Mary's	12	9	15	9	12	11
Worcester	3	17	11	20	6	11
Caroline	8	11	14	17	9	14
Montgomery	19	10	20	4	7	15
Cecil	14	19	16	6	8	16
Baltimore County	22	14	18	2	13	17
Harford	21	15	12	12	9	17
Anne Arundel	18	18	19	7	10	19
Prince George's	24	16	22	1	13	20
Somerset	13	20	17	23	7	21
Dorchester	5	22	21	22	11	22
Wicomico	15	21	23	19	14	23
Baltimore City	23	23	24	14	16	24

Bold = Demonstration site.

*Expected collections measures a jurisdiction's likelihood of collecting child support based on the number of Temporary Cash Assistance (TCA) cases and the median income for each jurisdiction. Those jurisdictions with fewer TCA cases and higher median income rank higher on the expected collections measure.

Source: Department of Human Resources

Cost Effectiveness

The 2006 *Joint Chairmen's Report* (JCR) requested CSEA submit a report on the cost effectiveness of child support services throughout the State. As defined by the federal government, the cost effectiveness of child support services is the amount of total child support collected divided by the total amount expended on child support services. The federal benchmark for maximum cost effectiveness performance is \$5.00 collected for every dollar spent, and the State's average cost effectiveness is \$4.91 collected for every dollar spent. **Exhibit 8** shows that all jurisdictions achieved the minimum federal performance level of \$1.99 collected for every dollar spent, but cost effectiveness ranges significantly throughout the State from \$2.50 to \$7.47 collected for every dollar spent. Only four jurisdictions exceeded the federal benchmark for maximum cost effectiveness.

Exhibit 8 Cost Effectiveness by Jurisdiction Federal Fiscal 2005

<u>Jurisdiction</u>	<u>Cost Effectiveness Ratio</u>
Prince George's	\$7.47
Baltimore County	6.17
Howard	5.84
Montgomery	5.69
Charles	4.95
Cecil	4.81
Anne Arundel	4.80
Queen Anne's	4.77
St. Mary's	4.72
Washington	4.32
Calvert	4.20
Harford	4.09
Frederick	4.02
Baltimore City	3.90
Talbot	3.67
Carroll	3.58
Caroline	3.54
Allegany	3.27
Garrett	3.27
Wicomico	3.17
Worcester	3.04

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<u>Jurisdiction</u>	<u>Cost Effectiveness Ratio</u>
Kent	3.00
Dorchester	2.86
Somerset	2.50
State	\$4.91

Source: Department of Human Resources

The cost effectiveness measure ensures State funds are spent wisely, but cost effectiveness is not a strong measure in assessing child support services. Prince George's County is the prime example. Prince George's County child support services are the most cost effective in the State, but when other performance measures are taken into consideration, Prince George's County child support services rank toward the bottom (as shown in Exhibit 6).

Allocation of Resources

Child support services can also be affected by the level of funding and staffing for each jurisdiction. Throughout the State, the expenditures per case vary extensively by jurisdiction from \$830 spent per case in Calvert County to \$206 spent per case in Baltimore City. Also, the caseload levels range from 238 cases per worker in Dorchester County to 1,228 cases per worker in Prince George's County. These ranges seem to indicate that child support dollars could be allocated more efficiently.

Together Baltimore City and Prince George's County account for almost 60.0% of the State's child support cases, but they receive only 26.0% of the funding and 40.0% of the staffing. While the jurisdictions ranking first through fifth in the composite rankings account for 6.9% of the cases and receive 14.9% of the funding and 10.0% of the staffing. **Exhibits 9 and 10** show the jurisdictions ranked highest on the composite ranking tend to have higher expenditures per case and fewer cases per worker, while those jurisdictions at the bottom of the composite ranking tend to have lower expenditures per case and more cases per worker. These trends do not appear to be impacted by the size of the jurisdiction.

With the 38 new positions in Prince George's County, the expenditure per case for Prince George's County would increase slightly to \$267 per case, which would keep Prince George's County as the jurisdiction with the second lowest expenditure per case. Assuming all of the new positions work with caseloads, the caseload ratio would drop to 676 cases per worker, which would drop Prince George's County from the highest to the fourth highest caseload ratio in the State.

Exhibit 9
State Expenditure Per Case Related to Composite Ranking
Fiscal 2005

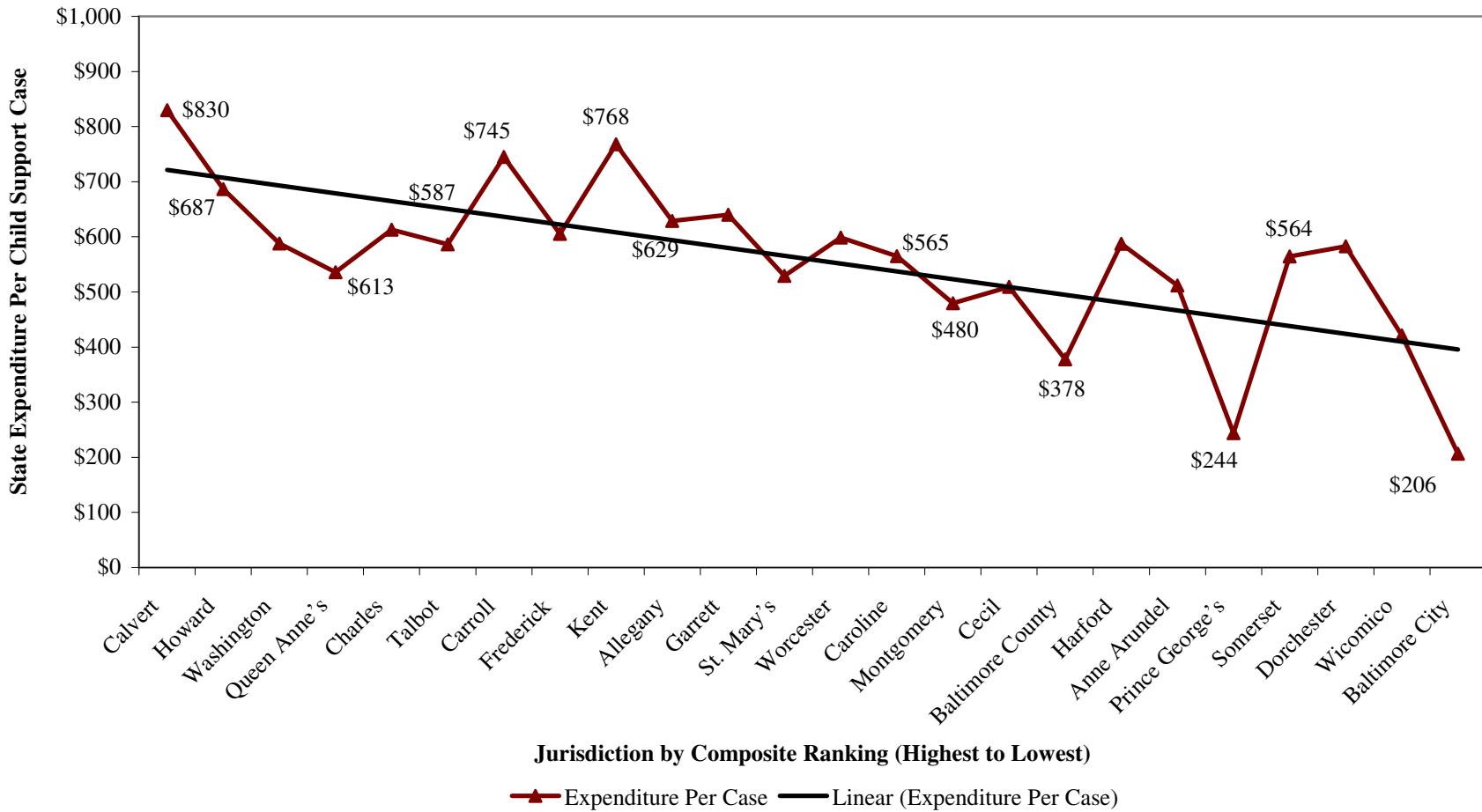
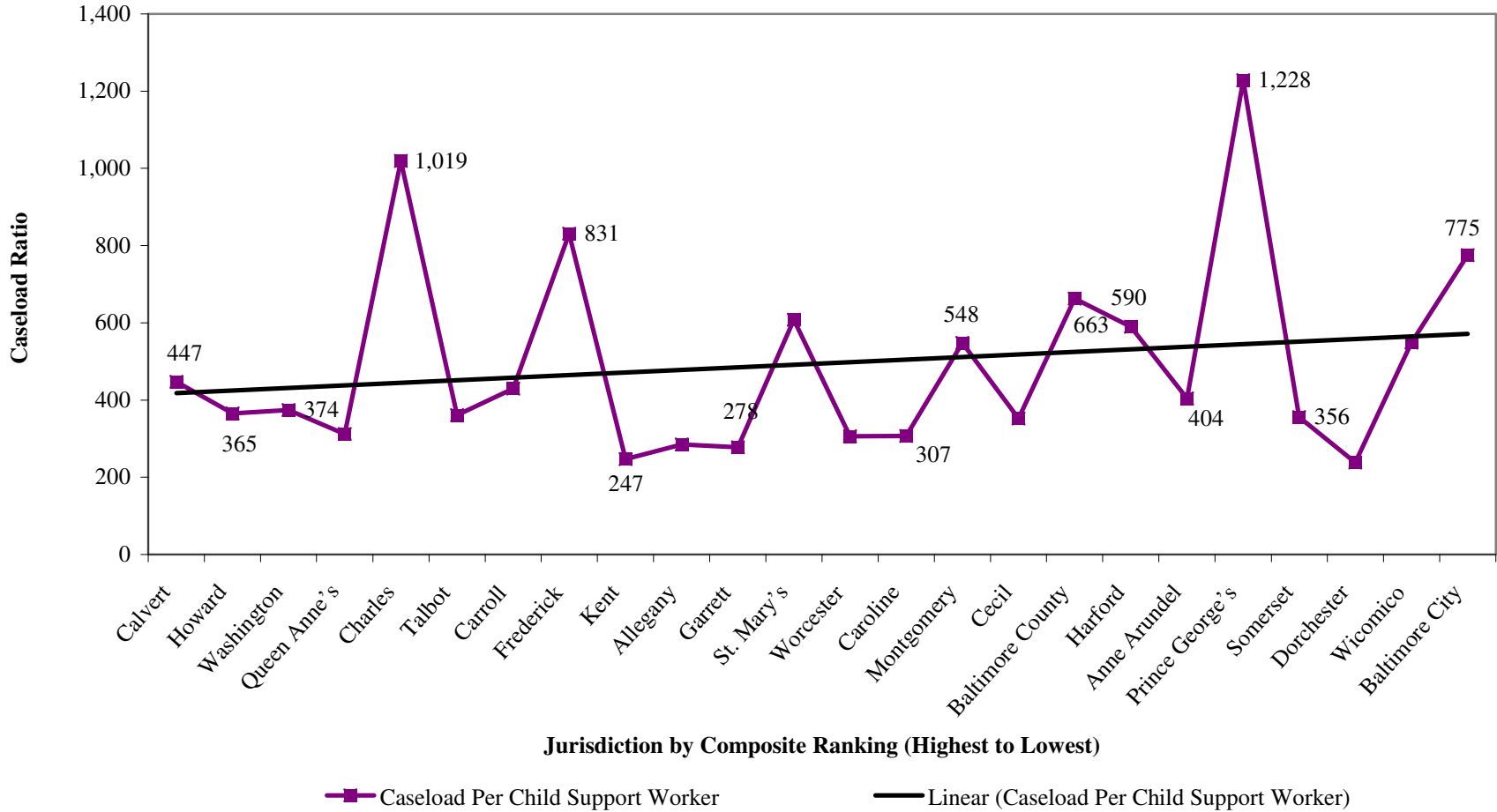


Exhibit 10
Caseload Ratio Related to Composite Ranking
Fiscal 2005



Source: Department of Human Resources

Conclusion

As a whole, the State's child support services are producing satisfactory outcomes, but when the data is broken down by jurisdiction, some jurisdictions are performing extremely well while others are not. Jurisdictions performing well tend to have more funding and staffing per case than jurisdictions at the lower end of the composite ranking. A reallocation of current resources could improve the performance of the jurisdictions at the lower end of the composite ranking and possibly statewide. **The department should explore the possibility of reallocating or augmenting resources to improve and equalize the child support services throughout the State.**

2. Federal Changes to Child Support Enforcement

In January 2006, Congress passed the federal Deficit Reduction Act which made some changes to a number of social programs. Child support is one of the many programs affected by the legislation. Congress changed the way medical support is administered. For federal fiscal 2007, the federal government reduced the match for genetic testing from 90 to 66%. Also, effective in federal fiscal 2007, the states are required to implement an annual administrative fee of \$25. Starting in federal fiscal 2008, states are prohibited from using reinvestment funds (child support performance incentive payments) to draw down federal matching funds.

Medical Support Enforcement

The Deficit Reduction Act included new medical support requirements effective in federal fiscal 2006. Specifically, this requires states to consider both parents' access to health insurance permitting enforcement against both parents. If health insurance is not available, states may pursue cost-sharing of children's medical expenses.

The federal government requires the reporting of statistics on medical support orders, but CSEA does not currently have the capability to capture the data required for the federal reporting. However, CSEA has funds to implement the automation of medical support in fiscal 2007, and the Board of Public Works approved the contract for this implementation January 24, 2006.

CSEA has created a workgroup to address this and other medical support issues, including the possibility of outsourcing the medical support process. **The department should update the committees on any decisions made by the workgroup to address the issue of implementing the new federal requirements for medical support, specifically, addressing the issue of outsourcing.**

Match for Genetic Testing

Prior to the Deficit Reduction Act, funds spent by a state on genetic testing received a matching rate of 90%, which is significantly higher than the 66% match for all other child support activities. The federal legislation reduced the matching rate for genetic testing to the level of all other child

support functions (66%), which was effective October 1, 2006. The impact of this provision is minimal because the State only spends \$300,000 to \$500,000 on genetic testing annually.

Annual Administrative Fee

Currently, federal law mandates a \$25 application fee to be charged to cases that have never received assistance through TANF or Medicaid. In addition to the application fee, the new federal legislation imposes a \$25 annual administrative fee for cases that have never received public assistance and have collected over \$500 in child support.

The new provision gives the State three options for implementation: (1) charge the applicant for child support services; (2) charge the non-custodial parent; or (3) pay the fee from State funds. DHR has appointed a workgroup to establish an implementation plan for the annual administrative fee. **The department should explain to the committees which option CSEA plans to use for implementing the annual administrative fee.**

The annual administrative fee will be used to reduce the federal expenditure on child support. Since every State dollar spent on child support is matched by federal funds, depending on how the fee is implemented, the fee could also result in savings to the State. The revenue from the fee will fund the administrative functions of CSEA, which will reduce both the State and federal funding of the administrative functions by 34 and 66%, respectively, of the total fee collections.

Although the annual administrative fee requirement is effective October 1, 2006, states, like Maryland, that require legislation to implement the fee are provided additional time. Therefore, CSEA anticipates implementing the collection of the annual administrative fee after obtaining necessary State legislative authority during the 2007 legislative session.

Reinvestment Funds

Finally, the most significant change with respect to the budget for CSEA, the federal legislation prohibits using reinvestment funds (child support performance incentive payments) to draw down federal matching funds. Maryland has spent between \$5 million and \$6 million in child support incentive funds over the past few years. With the federal match, this has resulted in program funding of between \$15 million and \$18 million annually. Elimination of the ability to use the incentive funds to match additional federal dollars means that beginning in fiscal 2008, Maryland will have to spend an additional \$3.5 million to \$4 million in State funds to match federal dollars in order to maintain the same level of child support enforcement funding. The fiscal 2008 allowance includes a general fund increase of \$3.5 million to address this federal change.

3. Status of the Implementation of Audit Recommendations

The audit of CSEA for the period of December 2000 through March 2004 determined that CSEA's accountability and compliance level was unsatisfactory. The February 2006 Follow-up

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Review evaluated the progress of 11 out of the total 21 recommendations from the audit, and the review found only one of the recommendations had been implemented. The 2006 JCR required CSEA to submit a report in November 2006 providing the status of the implementation of audit recommendations. The language in the JCR requested specific detail about the recommendation regarding the bank account reconciliation.

According to the CSEA report, 12 of the 21 recommendations have been implemented, including 6 of the 11 repeat findings. **Exhibit 11** shows the schedule for implementing the 9 remaining recommendations. The implementation or progress toward implementation of the recommendations regarding the federal reliability audit, undistributed funds, and bank account reconciliation are detailed below.

Exhibit 11
Schedule for Implementing Audit Recommendations

<u>Audit Recommendation</u>	<u>Anticipated Completion Date</u>
Resolve undisbursed funds	December 2006
Obtain supporting documentation from contractors	December 2006
Cost effectiveness of local offices	January 2007
Security access to CSES	January 2007
Driver license suspension referrals	June 2007
Bank account reconciliation	June 2007
Bank account separation of duties	June 2007
Financial institution data matching collection	Fiscal 2008
Review collection techniques of vendor	Fiscal 2008

Source: Department of Human Resources

Federal Data Reliability Audit

The audit found performance data submitted for the federal fiscal 2001 and 2003 data reliability audit was inaccurate, which caused CSEA to lose \$4.2 million in federal incentive funds. In August 2006, CSEA finished the implementation of the auditor's recommendation, and that same month DHR was informed that CSEA passed the federal fiscal 2005 data reliability audit in all performance categories.

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To ensure CSEA continues to pass the federal data reliability audit, CSEA established a quality review control in September 2006. Also, CSEA is in the process of reorganizing the Internal Review Division to conduct data reliability audit type activities on a continual basis.

Undistributed Funds

Lack of sufficient accountability and control over undistributed funds and outstanding checks was a repeat audit finding. During the four years of the audit period, CSEA did not distribute \$5.3 million in child support payments. The response to the JCR item explains that 82% of the \$5.3 million in undistributed funds have been distributed. CSEA is using all available resources to research and distribute all identifiable funds and move any undistributed funds to Abandoned Property. This recommendation was expected to be completed by December 2006.

Bank Account Reconciliation

The audit found CSEA's central disbursement account was not properly reconciled, and the auditors identified \$2.1 million in unreconciled funds. In September 2005, CSEA set up a reconciliation process and trained personnel, so that bank reconciliation could become an ongoing process. The report stated that CSEA is working on reconciling the bank account for the period of April 2003 through August 2006. Also, CSEA is implementing procedures to ensure that appropriate entries are made in the General Ledger and reconciliation is occurring as required. The audit recommendation is expected to be completed by June 2007. **CSEA should explain the procedures that have been implemented to ensure entries are made and reconciliation is completed. Also, CSEA should explain why this recommendation is still not completed when staff was trained on the reconciliation process over a year ago.**

CSEA is in the process of implementing a number of the audit's recommendations with all but two of the recommendations expected to be completed by June 2007. **CSEA should update the committees on the status of implementation of the recommendations. CSEA should specifically address the four recommendations that were slated to be completed by January 2007, which are the recommendations related to undistributed funds, contracts, cost effectiveness for local offices, and security access to CSES.**

Recommended Actions

1. Add the following language to the federal fund appropriation:

, provided that \$500,000 in federal funds for the contract with the University of Maryland Baltimore School of Social Work may only be used to fund an evaluation by an independent party of the Child Support Enforcement Administration’s privatization pilot project in Baltimore City and Queen Anne’s County.

Explanation: The current privatization contract term ends March 31, 2008. At which point the State has the option of extending the contract with two 1-year renewal options. Also, by statute the privatization pilot project ends September 30, 2009. The privatization pilot project has not been evaluated in about five years, and the one evaluation of the project concluded that the privately operated jurisdictions performed no worse than the publicly operated jurisdictions after accounting for differences in caseload characteristics.

This language restricts a portion of the funds for the University of Maryland Baltimore School of Social Work research contract for a performance evaluation of the child support privatization pilot project. The evaluation will provide the State with up-to-date data prior to considering options at the expiration of the current privatization contract and the project termination date.

The performance evaluation should assess whether the contract has increased child support collections as intended by the original legislation. The cost effectiveness of the privatization contract should be factored into the evaluation of the privatization pilot project. Also, the evaluation should take into account performance relative to similar jurisdictions in Maryland and in other states.

Information Request	Author	Due Date
Evaluation of the privatization pilot project	Evaluation Contractor	February 1, 2008

	<u>Amount Reduction</u>		<u>Position Reduction</u>
2. Delete one position from the Child Support Enforcement Administration headquarters office that has been vacant for more than a year. This position is a human services specialist for the income intercept program with the position identification number 050789.	\$ 18,870	GF	1.0
	\$ 1,286	SF	
	\$ 22,730	FF	

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3. Adopt the following narrative:

Reallocation of Child Support Resources: The committees are concerned about the variation in child support services provided throughout the State. As a whole, the State’s child support services are producing satisfactory outcomes, but when the data is broken down by jurisdiction, some jurisdictions are performing extremely well while others are not. The differences in outcomes appear to be at least partly related to differences in the allocation of resources. The committees request that the Department of Human Resources (DHR) submit a report examining the possible advantages and logistics of reallocating current child support resources throughout the State to improve child support services.

Information Request	Author	Due Date	
Report on the reallocation of child support resources	DHR	October 1, 2007	
Total Reductions		\$ 42,886	1.0
Total General Fund Reductions		\$ 18,870	
Total Special Fund Reductions		\$ 1,286	
Total Federal Fund Reductions		\$ 22,730	

Updates

1. Performance Contracting

Over the last few years, the State has taken steps to better evaluate the outcomes produced by its programs. The Department of Budget and Management (DBM) is spearheading this effort through its Managing for Results initiative which attempts to link State spending to outcomes. DBM has required every agency to develop a mission, vision, key goals, objectives, and performance measures for each budgetary program. For the State's emphasis on results and accountability to be effective, it must permeate throughout the agency, as well as throughout all vendors doing business on the State's behalf. Managers in public agencies and vendors delivering services on the State's behalf must be equally aware of the relevant goals and objectives and share responsibility for producing the desired outcomes. The best way to ensure that vendors focus on the State's objectives is to link payments or continuation of the contract to specific performance measures.

Performance contracting is especially critical for CSEA because the agency relies heavily on contractual services to manage child support cases. In fact, more than half of the State's child support enforcement cases are handled in some way by a contract. CSEA's major contract is the privatization of all child support enforcement services in Baltimore City and Queen Anne's County, and this contract costs over \$10 million in fiscal 2007.

CSEA has a team of individuals that monitor the privatization contract. CSEA appoints a CSEA Child Support Liaison, which is a DHR employee, to manage the monitoring team and to coordinate with the vendor's managers and supervisors on all personnel matters. Also, DHR has two employees working onsite in the Baltimore City office ensuring vacancies are filled in a timely manner and training of employees is accomplished whenever needed.

In addition, DHR monitors the privatization contract through reports and data. The vendor is required to submit a monthly invoice validation report, a monthly customer service report, and a quarterly quality assurance report. Since the Baltimore City and Queen Anne's County offices are linked to the State's child support enforcement system, DHR has full access to the vendor's data regarding the amount of collections and undistributed funds.

The privatization contract includes a number of performance measures. The vendor must meet minimum performance measure standards, as established by the federal government, in the areas of paternity establishment, support order establishment, current support collected, and cases paying toward arrears. Also, the contract includes performance measures relative to collections, customer service, and outreach. The contract includes customer service measures regarding how long people wait before their call is answered, how many calls are lost, how many inquiries are resolved, and how many inquiries are referred. If any of the performances measures or goals is not achieved in each year of the contract period, then a corrective action plan is established.

The privatization contract includes one incentive and one penalty. The annual incentive payment is with regard to the child support collections in Baltimore City. If the vendor meets the

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minimum collection goals in Baltimore City for each year of the contract period, then the vendor is eligible to earn an annual incentive payment. The penalty corresponds to a cost-effectiveness ratio (the amount of total child support collected divided by the total amount expended on child support services) for Baltimore City and Queen Anne's County as established in the contract. If the vendor does not achieve the annual cost-effectiveness ratio, then the vendor must return to the State the amount by which the vendor exceeded the ratio.

CSEA's privatization contract has an extensive amount of monitoring and an adequate amount of reporting. Also, a number of meaningful performance measures are included in the contract with one financial incentive and one financial penalty, which are utilized by the department.

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2006					
Legislative Appropriation	\$16,334	\$7,170	\$59,192	\$0	\$82,695
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-498	2,080	1,452	0	3,035
Reversions and Cancellations	0	-1,183	-3,944	0	-5,127
Actual Expenditures	\$15,836	\$8,067	\$56,699	\$0	\$80,603
Fiscal 2007					
Legislative Appropriation	\$17,315	\$9,192	\$65,573	\$0	\$92,080
Budget Amendments	270	9	0	0	279
Working Appropriation	\$17,585	\$9,201	\$65,573	\$0	\$92,360

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

Fiscal 2006

The Child Support Enforcement Administration (CSEA) spent \$80.6 million in fiscal 2006, which is \$2.1 million less than the legislative appropriation. In net, general funds decreased about \$500,000. General funds increased \$400,000 due to lower than budgeted turnover (\$253,006) and cost-of-living adjustments (COLA) (\$153,716), while general funds decreased \$900,000 due to less than anticipated activity in the debt collection (\$523,111) and lower lease costs (\$381,231).

Special funds increased \$2.1 million due to additional available child support reinvestment funds (\$1.8 million) and higher than expected local government participation (\$266,702). Federal funds increased \$1.5 million due to the federal match triggered by the expenditure of reinvestment funds for the insourcing initiative.

In fiscal 2006, cancellations for CSEA amounted to \$5.1 million. CSEA cancelled \$1.2 million in special funds due to less than anticipated Cooperative Reimbursement Agreement Monitoring Fees (\$748,000) and overestimated training costs (\$435,000). Federal funds were cancelled in the amount of \$3.5 million due to less than anticipated expenditures at the call center (\$1.7 million), training (\$860,000), salaries (\$405,000), the Interstate Processing Service (\$383,000), and telephones costs (\$134,000).

Fiscal 2007

The working appropriation for CSEA is \$279,292 higher than the legislative appropriation. The increase is due to the transfer of funds for the employee COLA from the Department of Budget and Management.

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

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	703.25	703.25	741.25	38.00	5.4%
02 Contractual	3.00	0	0	0	0.0%
Total Positions	706.25	703.25	741.25	38.00	5.4%
Objects					
01 Salaries and Wages	\$ 38,371,705	\$ 40,531,811	\$ 42,297,606	\$ 1,765,795	4.4%
02 Technical and Spec. Fees	242,266	36,923	46,845	9,922	26.9%
03 Communication	805,160	1,068,364	903,235	-165,129	-15.5%
04 Travel	146,009	118,922	170,593	51,671	43.4%
06 Fuel and Utilities	65,130	71,801	111,328	39,527	55.1%
07 Motor Vehicles	77,472	155,008	89,611	-65,397	-42.2%
08 Contractual Services	36,782,397	45,918,475	45,820,627	-97,848	-0.2%
09 Supplies and Materials	388,826	408,925	431,642	22,717	5.6%
10 Equipment – Replacement	120,870	0	0	0	0.0%
11 Equipment – Additional	151,903	0	184,870	184,870	n/a
12 Grants, Subsidies, and Contributions	44,126	40,661	29,765	-10,896	-26.8%
13 Fixed Charges	3,406,714	4,008,848	4,171,474	162,626	4.1%
Total Objects	\$ 80,602,578	\$ 92,359,738	\$ 94,257,596	\$ 1,897,858	2.1%
Funds					
01 General Fund	\$ 15,836,018	\$ 17,585,146	\$ 21,080,745	\$ 3,495,599	19.9%
03 Special Fund	8,067,086	9,201,194	8,471,737	-729,457	-7.9%
05 Federal Fund	56,699,474	65,573,398	64,705,114	-868,284	-1.3%
Total Funds	\$ 80,602,578	\$ 92,359,738	\$ 94,257,596	\$ 1,897,858	2.1%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

**Fiscal Summary
DHR – Child Support Enforcement**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
06 Local Child Support Enforcement Administration	\$ 38,692,030	\$ 41,410,250	\$ 42,918,350	\$ 1,508,100	3.6%
08 Support Enforcement – State	41,910,548	50,949,488	51,339,246	389,758	0.8%
Total Expenditures	\$ 80,602,578	\$ 92,359,738	\$ 94,257,596	\$ 1,897,858	2.1%
General Fund	\$ 15,836,018	\$ 17,585,146	\$ 21,080,745	\$ 3,495,599	19.9%
Special Fund	8,067,086	9,201,194	8,471,737	-729,457	-7.9%
Federal Fund	56,699,474	65,573,398	64,705,114	-868,284	-1.3%
Total Appropriations	\$ 80,602,578	\$ 92,359,738	\$ 94,257,596	\$ 1,897,858	2.1%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.