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Director Hawkins and Associate Director Santilli:

The Office of Internal Audit has shortened its audit of the Office of Child Support Services due to outstanding corrective actions remaining from our June 6, 2014 audit report. There are no new recommendations resulting from this shortened audit. However, we are repeating the recommendations from the June 6, 2014 audit report in this final audit correspondence.

RIGL § 35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on January 25, 2019 and such response is included in this report. Pursuant to this statute, the OIA may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the DHS staff for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,



Dorothy Z. Pascale, CPA
Chief

c—Jonathan Womer, Director, Office of Management and Budget
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Marvin Abney, Chairperson, House Finance Committee
Honorable Stephen Whitney, Senate Fiscal Advisor
Honorable Robert C. Bromley, Senior Legislative Fiscal Analyst



AUDIT Executive Summary

Why this Audit was Performed

The objective of this engagement was to expand upon the prior work reported in our June 6, 2014 limited scope audit report which addressed the longstanding variance related to the child support escrow liability reconciliation. The previous report raised concerns about the financial oversight of child support collection activity of the Office of Child Support Services.

Background Information

Title IV-D of the Social Security Act requires every state to establish and administer a child support enforcement (CSE) program that administers statewide child support laws.

The Office of Internal Audit (OIA) performed an audit of financial controls over the administration of Rhode Island's Office of Child Support Services unit during state fiscal year 2013. We issued a limited scope audit report regarding oversight of the program and made recommendations for improvements to internal controls. Specifically, the OIA suggested implementing regular reconciliations for the escrow cash and liability accounts. Management agreed that reconciliations were necessary to provide adequate assurance that escrow funds were administered appropriately.

We recommend:

This audit report repeats the corrective actions stated in our June 6, 2014 audit report. They are to:

- Develop improved procedures to reconcile child support collection activity daily. The daily reconciliation should be documented and approved by department management.
- Develop improved procedures to reconcile the escrow Liability account with the escrow cash balance monthly.

Contents

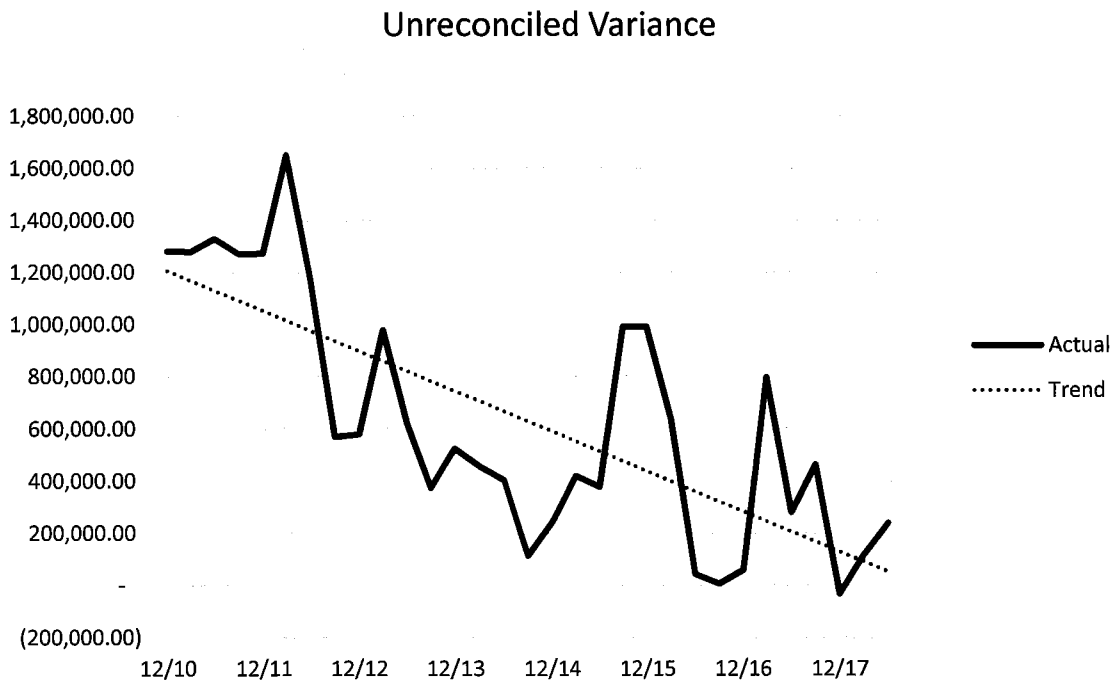
Why the OIA Did This Review	2
Background Information	2
Introduction.....	4
Recommendations for Improved Controls.....	5
Prior Audit Findings	5
Document and Reconcile Daily Cash Collections	5
Reconcile Escrow Cash Monthly.....	8
Objective and Scope.....	10
Methodology	11

Introduction

Our June 6, 2014 audit report¹ identified significant weaknesses with accounting practices and financial controls over the general ledger (RIFANS) child support escrow liability account, the child support escrow bank account, and the corresponding sub-ledger (RIKidsBRIDGE).

During initial conversations with the Office of Child Support Services (OCSS) accounting staff at the outset of this audit, the OIA found that OCSS financial staff did not fully implement the reconciliation procedures recommended by the OIA and agreed to by OCSS in the prior limited scope audit report.

Historically, cash available to make child support payments has been greater than the recorded liability. However, an analysis of the unreconciled variance since our prior audit indicates that the excess cash position is diminishing as illustrated below.



The chart above shows the unreconciled monthly variance between the available cash and recorded liability for the past eight years. While there are significant fluctuations in the variance month-over-month, the general trend indicates that the variance may soon cross the critical threshold in which the liability for child support payments exceeds escrow cash.

In order to identify the root cause of these variances and determine an accurate liability position, the accounts must be fully reconciled. Until that time, the State cannot be certain that it has adequate escrow cash to meet its long-term obligations. There is no indication that OCSS is in danger of experiencing any

¹ http://www.omb.ri.gov/documents/audits/DHS_OCSSAuditReport_6-2014.pdf

cash-flow problems in the short-term, but it may eventually encounter solvency issues in the longer term if financial control deficiencies are not addressed.

Because these prior recommendations were not fully implemented by management, the OIA could not continue this follow-up audit. The audit has been suspended indefinitely until prior control recommendations are fully implemented.

Recommendations for Improved Controls

Prior Audit Findings²

In our prior audit report, the OIA made recommendations to improve the operations and financial oversight of the OCSS. Based on these recommendations, the office has:

- Accounting reports are now received electronically
- RIFANS accounts recommended by OIA were established with Accounts and Control
- Improved documentation of office-wide procedure
- Cross-trained office personnel
- Enhanced journal entry posting accuracy and timeliness
- Developed methodology for recording state and federal program income for escheated funds
- Segregated operational expenses and revenues (application fees, offset fees, and paternity test reimbursements from the escrow fund)

However, OCSS did not fully implement the internal control recommendations related to escrow account reconciliations as discussed below:

Document and Reconcile Daily Cash Collections

Child support collections are received through three methods:

Direct Payments - Cases established prior to the contract with a third-party vendor ("vendor"), whereby, the noncustodial parent remits support payments via electronic transfer directly to the OCSS bank.

RI Family Court- Collects and deposits child support receipts daily in the escrow bank account as part of its court proceedings.

Third Party Vendor - A vendor manages and administers child support collections, identifies the case associated with the payment, updates case information in RIKidsBRIDGE, and transfers the money to the escrow bank account daily.

² Certain information including vendor and information system names have been updated for accuracy since the prior audit report.

The agency provided documentation of policy and procedure to record the daily deposit in the general ledger (RIFANS); however, neither the policy or procedure address how to reconcile bank account deposits to the daily activity recorded to sub-ledger (RIKidsBRIDGE) or the vendor reports. General ledger journal entries are based upon cash deposits noted on the bank statement. This method prevents OCSS from identifying differences in cash receipts recorded in the sub-ledger (RIKidsBRIDGE) and the general ledger (RIFANS). This fundamental control breakdown contributed to the variance between the general ledger (RIFANS) and sub-ledger (RIKidsBRIDGE) and to the variance between the escrow liability and escrow cash balances discussed in the following section.

The vendor provides a series of web-based reports accessible by program personnel to facilitate collection reconciliation. Rhode Island Family Court also provides information to OCSS regarding daily collections. Program staff do not utilize the available information to perform a daily reconciliation of child support collections.

Recommendations:

1. Access the reports provided by the vendor daily as part of the reconciliation process.
2. Reconcile cash collection activity daily. The daily reconciliation should be documented and approved by department management.
3. Notify the Office of Accounts and Control of any quarter-end outstanding items identified that may impact the related escrow liability account reconciliation.

Management Response:

1. The child support accounting office does access the reports provided by the vendor as does the systems staff.
2. The child support accounting office does validate cash collection daily. However, comprehensive reconciliation has not been done daily between the sub ledger and the general ledger because of either a lack of documentation from the current legacy system in some instances, or the current documentation that is available to the accounting staff from the current legacy system is not helpful in that regard. OCSE recently acknowledged the limitations of the financial component of the child support legacy systems in about 30 states stating that they may develop a financial model for states to implement. The task of reconciliation is extremely challenging because of the nature of the ever-changing case management system. There is a possibility, state budget permitting, that a comprehensive financial report can be generated by Northrop Grumman to assist in reconciling the accounts. A change order has been submitted to conduct the analysis and meetings held to discuss details. As stated in the previous audit response in 2014, reconciliation between the general ledger RIFANS and the subledger INRHODES is a manual and highly complex process. DHS/OCSS collects and distributes over \$90 million annually. Additionally, the INRHODES computer system was designed as a case management system. It houses over 50,000 active cases in addition to closed cases and is over 30 years old. Because it was not designed as an accounting system, current financial management reports do not comprehensively result in a full account reconciliation with RIFANS. There are numerous transactions that occur daily on INRHODES including but not limited to: receipt of child support payments, posting to the correct case account, distribution of payments receipts among one or more cases where the non-custodial parent has been ordered to pay money held for various legal reasons, payments made with insufficient funds, mis-postings, changes in court orders which result in retroactive adjustments or other issues resulting in adjustments. These must be captured and entered appropriately on the RIFANS general ledger in an on-going and daily manual process. Additional staff is required to do a comprehensive and manual reconciliation of these two accounts as well as transfer of funds to the general fund when appropriate.

DHS/OCSS has worked with numerous State partners over the past decade in an attempt to address the reconciliation issues. DHS/OCSS has been working with our vendor to develop daily financial reports to assist with reconciliation. Currently, most procedures are manual and are maintained on excel spreadsheets. There are only 3 staff in the accounting office to handle numerous manual procedures. The additional financial reports requested from the vendor to assist with reconciliation must be programmed and given our limited IT budget may not be capable of being produced this year. We will work on implementing the audit recommendations given the scope, scale and complexity of this reconciliation. In addition, the accounting office does access the reports provided by the payment processing vendor. The accounting office does reconcile cash collection daily.

Responsible Party: Sharon A. Santilli, Esquire Associate Director- DHS- OCSS

Anticipated Completion Date: 6/30/2020

Reconcile Escrow Cash Monthly

As of June 30, 2013, the general ledger escrow cash account exceeded the escrow liability account by \$1,314,041. The agency was unable to provide a recent reconciliation of the two escrow accounts. Factors identified which caused the discrepancy between the cash and liability accounts include:

- An insufficient process to ensure that the accounts are reconciled
- Incorrect journal entries
- Timing differences
- Breakdown of basic controls
- Inconsistent recordkeeping between the two accounts

The OIA reconciled the accounts to within \$9,719 as of June 30, 2013, after making recommended adjustments. Additionally, in an effort to educate and improve controls over the escrow and cash accounts, OCSS was given a copy of this reconciliation along with suggested procedures and all corresponding journal entries to be recorded in either the general ledger (RIFANS) or sub-ledger (RIKidsBRIDGE).

Recommendation:

4. OCSS should reconcile the escrow cash account with the escrow liability account monthly. Any variances should be investigated and resolved in a timely manner.

Management Response

The decrease in the escrow liability account is attributable in large part to the following:

- IRS Reversals- The issue of IRS Adjustments wherein the IRS recoups funds from the state that have already been remitted to the custodial parent is a national issue. As part of the national workgroup child support directors worked with the federal office and the IRS to implement a revision to the statutory regulation limiting the IRS to recoupment to a period of 6 months in non-welfare cases. This certainly limits the state's liability but does not eliminate the state's liability. In the past 4 years, since the last audit, approximately **\$1 million dollars** has been recouped by the IRS which directly effects the balance in the escrow liability account. In the majority of instances, the IRS refund has been intercepted as past due child support for a custodial parent who is not receiving cash assistance, has already been disseminated to the custodial parent via her Kids Card debit card. The IRS recoupment results in a decrease to the child support escrow account. A reserve account in the amount of \$300,000.00 for IRS offsets was appropriated by the budget office for state fiscal year 2016, and thereafter not established for subsequent state fiscal years. This account must be established annually to cover these offsets loses or the escrow **liability account will continue to decrease** to cover the offsets.

- Identification and dissemination of unidentified funds to the proper party- Often there are checks or money orders that cannot be identified or linked to a specific case. These funds are designated as unidentified and remain in the child support escrow liability account sometimes well over a year. It was recommended by OIG during the last audit in 2014, and more importantly, it is the responsibility of OCSS to research and identify to whom the funds belong. Over the past 4 years a good faith effort has been made to identify these funds and return them to either the custodial or non-custodial parent. As a result, approximately **\$1,112,150.00** has been identified and properly distributed to custodial or non-custodial parents. This distribution is extremely important and appropriate and in accordance with our mission, but certainly further contributes to the **decrease in the liability account**.
- Escrow Cases- The RI Family Court may order a non-custodial parent to pay the child support weekly but specify that the money be held in escrow. This may occur for a variety of reasons but primarily if the custodial parent is not complying with orders of the Court. Escrow placed by the Court should only be released by the Court. Due to unintentional oversight, there are times that the order does not reflect the release of escrow despite the underlying legal issue having been resolved. Cases with an escrow flag are contained in a report. They are manually reviewed, and funds released if appropriate. In many instances, the case must be brought back before the court to request a release of escrow funds. In the last audit report in 2014, OIG encouraged OCSS to research these cases and release these funds, and more importantly, it is the responsibility of OCSS to research and release the funds. Over the past 4 years since the last audit, a good faith effort has been made to research and release the funds. The total amount of **\$492,682.60** has been released from escrow which further contributes to the **decrease in the liability account**.
- Escheatment of Abandoned Property- Rhode Island General Laws Section 33-21.1-13 provides that the state agency or court among others must escheat money to the State Treasurer "which remains unclaimed by the owner for more than 1 year after becoming payable or distributable since it is presumed abandoned. Furthermore, the Federal Office of Child Support Enforcement requires reporting of the abandoned funds on various annual federal reports with specific instructions as to how the federal government will receive its 66% share of said abandoned funds before the state retains its 34% share. In the last 4 years OCSS escheated approximately **\$ 509,228.85** to the Treasurer's Office as abandoned property. This amount came directly from the liability account which further contributes to the **decrease in the liability account**.

- **Insufficient Funds-** As part of doing business, in any business, there is the issue with respect to checks drawn on accounts with insufficient funds. With our current State Disbursement vendor, the NSF checks are identified early, and the case flagged to prevent further receipt of checks after the first NSF check. The collection strategy for returned deposits on insufficient funds are consistently applied, reviewed and analyzed by the OCSS accounting office. This is a tedious, manual process that must be maintained on excel spread sheets and monitored daily. The InRhodes system or subledger is not capable of maintaining a record of NSF return payments. Everything is handled manually on excel spreadsheets. There are only 3 employees in the accounting office. We have over 50,000 cases on our system. Attempts are made at recoupment on two levels. Letters are sent to request recoupment. Funds recouped must be manually entered on InRhodes as an adjustment to the account. We do not have a high rate of obtaining reimbursement from the non-custodial parent or employer who submitted the check with insufficient funds. When a non-custodial parent pays child support with a bounced check, his arrears or past due support is thereby increased, and all collection efforts employed by the state agency permitted by law are implemented including but not limited to: credit bureau reporting, bank liens, real estate liens, tax offset, driver's license suspension, lottery intercept, insurance settlement intercept and contempt proceedings. Those collection efforts are highly successful. We can continue to attempt collection on NSF until a case is closed. All collection must be manually monitored to recoup the state money. At that point it is safe to say the collections efforts have been exhausted and the check can be written off as a bad debt. Child Support payments made from a non-custodial parent's account with insufficient funds account which have not yet been recouped **total \$155,699.80** since the last audit. Since child support must be distributed to the Kids Card debit card within 2 days of receipt, the insufficient funds issue is not discovered until after the funds are released to the custodial parent. This also causes a **decrease in the liability account** when funds are not immediately recouped.

Accordingly, over \$3 million dollars has contributed to the decrease in the liability account since the last audit attributable to the above items alone. So, while we agree that identifying the variance by category is extremely important, it will not prevent the continual decrease in the liability account. The general assembly must appropriate annual funds to compensate for the IRS reversals and other items described, as is done in other states, to maintain a healthy liability account.

Responsible Party: Sharon A. Santilli, Esquire Associate Director DHS-OCSS

Anticipated Completion Date: 6/30/2020

Objective and Scope

The objective of this engagement was to expand upon the child support escrow account limited scope audit dated June 6, 2014. The scope of this intended audit was to review journal entries, reconciliation variance items and transactions from the completion of our prior audit through June 30, 2018. However,

because cash receipt reconciliations have not been prepared since the date of the last limited scope audit, the OIA was unable to perform this follow-up audit.

Methodology

- The OIA met with OCSS management personnel to discuss improvements to controls since the issuance of the prior audit report.
- Reviewed and compiled financial data to analyze unresolved variances in escrow liability and cash accounts