

# oppaga Performance Review



September 2000

Report No. 00-11

## Establishment of the State Disbursement Unit Raises Cost to Process Child Support Payments

### *at a glance*

Florida's State Disbursement Unit appears to be in general compliance with federal requirements. The configuration and organizational location of the unit, while unique in the nation, appears effective in its use of privatization and existing technology.

Total expenditures for processing Title IV-D child support payments have increased by \$11.5 million with the establishment of the unit due primarily to additional federal requirements and an increased caseload.

Responsibility for a major portion of the funding to process Title IV-D child support payments shifted to the state with the creation of the State Disbursement Unit. This has increased state costs by \$3.3 million annually. Although Clerks of the Circuit Court shed responsibility, their expenditures have not yet decreased due to additional costs associated with transitioning to the new system.

Reported performance data indicate that the State Disbursement Unit is processing child support payments in a timely manner.

### Purpose

Section 61.1826(5), *F.S.*, directs OPPAGA to review the child support enforcement State Disbursement Unit (SDU). As directed by law, our study examined

- state and federal requirements and the system's effectiveness in meeting those requirements;
- the costs of developing and operating the SDU; and
- alternatives for improving the efficiency and effectiveness of the SDU, including privatization.

In this report, we address these issues from the context of the State Disbursement Unit as a stand-alone entity, although many of the issues are interrelated with Florida's other child support enforcement activities.<sup>1</sup> For additional information on these activities, please refer to our justification review of the Child Support Enforcement Program, which will be published by December 2000.<sup>2</sup>

<sup>1</sup> This report also serves as our progress report on the *Review of the Collection and Disbursement Processes of the Florida Child Support Enforcement Program*, [Report No. 96-28](#), January 1997, as required by s. 11.45(7)(f), *F.S.*

<sup>2</sup> Section 11.513, *F.S.*, provides that OPPAGA submit to the Legislature a comprehensive program evaluation and justification review of each state agency no later than December of the second year following the year in which an agency begins operating under a performance-based program budget.

## Background

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The child support process is complex and involves many entities. The Department of Revenue is responsible for administering the Florida Child Support Enforcement Program under Title IV-D of the Social Security Act. Department activities include locating parents; establishing paternity; establishing, modifying, and enforcing court orders for support; and collecting and disbursing support payments.

The two basic types of child support cases are Title IV-D and private. Families who receive public assistance or request assistance from the Department of Revenue for child support collections and enforcement are referred to as Title IV-D cases. Those cases that are not represented by the department are referred to as private or non-Title IV-D cases.

States are required by federal law to develop an automated statewide computer system to assist in the administration of their Title IV-D child support program. Florida's automated child support computer system is maintained through the state's social services computer system known as the FLORIDA System. The FLORIDA System is operated by the Department of Children and Families, which provides child support information services to the Department of Revenue.

The Clerks of Circuit Court also assist the department in processing child support payments. Section 61.181(1), *F.S.*, establishes a local depository in each of the state's 67 counties. Each depository is responsible for maintaining the official court record and payment history of all child support cases that were established in that county. The local depositories are also responsible for receipting and disbursing all private child support payments made through their depositories. Currently the offices of 66 Clerks of Circuit Court and the Broward County Support Enforcement Division serve as the local child support depositories.

The Florida Association of Court Clerks and Comptroller is responsible for collecting Title IV-D payment data from each of the 67 local depositories and for transmitting it to the

Department of Revenue.<sup>3</sup> To facilitate the collection of payment information, the clerks' association developed the automated Clerk of Court Child Support Collection (CLERC) System in 1994. The local depositories also use the CLERC System as the database to maintain child support payment histories.

### *State Disbursement Unit*

Congress amended federal child support requirements as part of the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996. For the first time each state was required to establish and operate a State Disbursement Unit.<sup>4</sup> The disbursement unit is to provide one central location for receipt and disbursement of all Title IV-D child support payments and for all private payments associated with support orders initially issued on or after January 1, 1994, with an income deduction order.<sup>5</sup> In 1998, the Florida Legislature directed that the department contract with the clerks' association to operate and maintain the State Disbursement Unit, to allow the state to take advantage of the existing technology connecting the 67 local depositories through the CLERC System.

The clerks' association hired a private provider to assist in developing and operating the SDU. In March 1999, the clerks' association awarded a contract to Lockheed Martin IMS to develop, operate, and maintain the payment, receipt, and disbursement functions of the SDU through August 2006, which may be extended through August 2008.

### *Federal requirements*

The federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires that the State Disbursement Unit be able to process all payments received with complete information in two business days and use

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<sup>3</sup> The Florida Association of Court Clerks and Comptroller is a voluntary, nonprofit, statewide association established to serve the Clerks of Court.

<sup>4</sup> The Florida State Disbursement Unit was required to be operational by October 1, 1999.

<sup>5</sup> An income deduction order is a court order directing an employer to deduct the amount of child support required by the court from the income of a non-custodial parent and to transmit these funds in accordance with the support order.

automated data processing to the greatest extent possible. In addition, the Family Support Act of 1988 requires there be a single statewide automated payment system. Noncompliance with federal law could result in a substantial loss of federal funds for the state's child support enforcement program and the temporary assistance for needy families welfare block grant.<sup>6</sup>

### Child support payment process

The SDU is federally required to process all child support payments resulting from Title IV-D support orders and from private support orders with an income deduction order issued on or after January 1, 1994. Local depositories continue to have responsibility for processing all other private payments, including those with an

<sup>6</sup> States that are not in compliance could incur a penalty equal to the entire amount of federal reimbursement. However, for states making a good faith effort to come into compliance and that have had a "corrective action plan" approved by the Secretary of Health and Human Services, a reduced alternative penalty of 4% of the federal reimbursement amount would be deducted. The penalty amount continues to increase each successive year the state remains out of compliance.

income deduction order issued before January 1, 1994.<sup>7</sup>

As shown in Exhibit 1, processing of child support payments by the SDU involves several entities and several functions: receipt, data processing, and disbursement of payments.

**Receipt.** Payments are sent to Lockheed Martin IMS by the non-custodial parent or employers. Lockheed Martin IMS forwards payment data to the clerks' association.

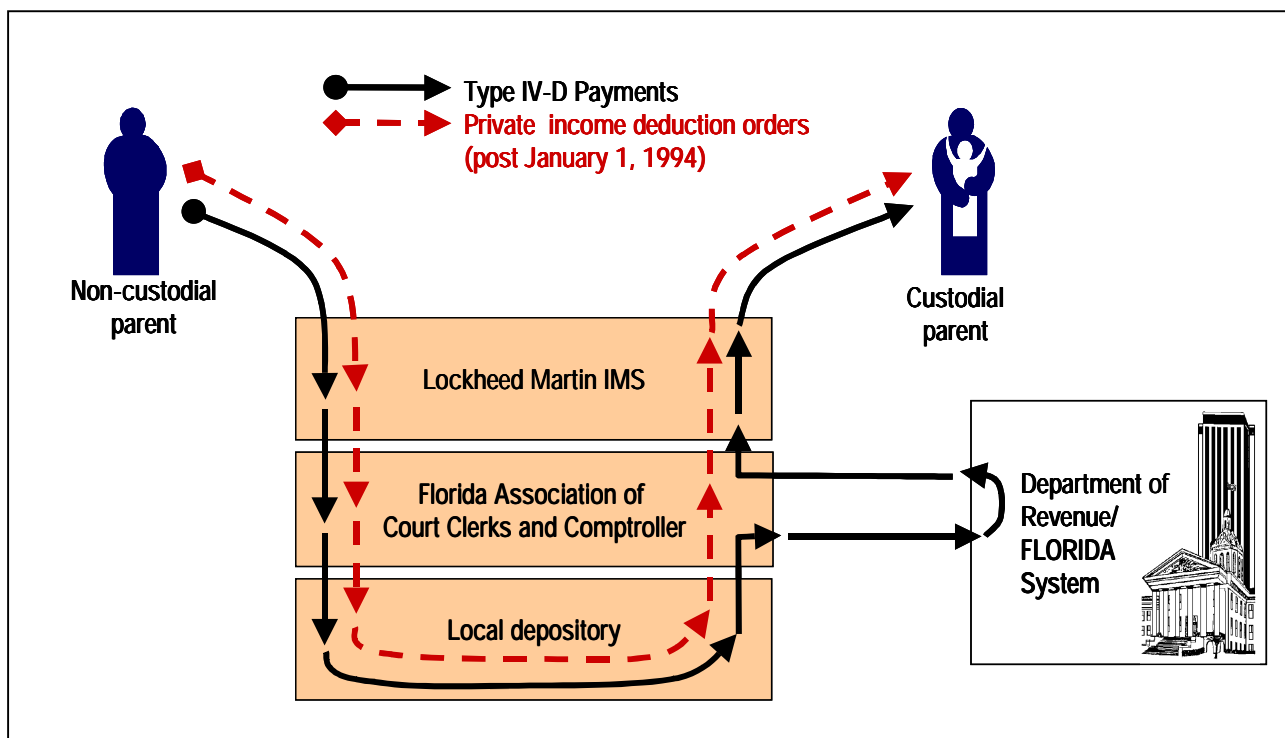
**Processing payment data.** The clerks' association sends the payment data to the appropriate local depository, where the data is verified, the official record updated, and any relevant handling fees identified.<sup>8</sup> The local depositories then send disbursement instructions back to the clerks' association.

<sup>7</sup> Local depositories can choose to contract directly with Lockheed Martin IMS to process private payments that are not required to be made through the SDU.

<sup>8</sup> Pursuant to s. 61.181, F.S., clerks can assess a handling fee of between \$1.25 and \$5.25 for each non-Title IV-D child support payment to cover the costs of recording the payment history and maintaining each case.

### Exhibit 1

#### State Disbursement Unit Child Support Processing Involves Several Entities



Source: Developed by OPPAGA based on analysis of SDU functions.

## Performance Report

The clerks' association then forwards Title IV-D payment data to the FLORIDA System. The FLORIDA System calculates that portion of the payment that goes to the custodial parent and that which goes to the state and federal governments as reimbursement for public assistance. The FLORIDA System then sends disbursement instructions back to the clerks' association.

**Disbursement:** Disbursement instructions are sent to Lockheed Martin IMS by the clerks' association, where the child support checks are printed and disbursed to the custodial parent.

## Findings

*The State Disbursement Unit appears to be in general compliance with federal requirements, but has not yet received final federal certification*

Florida received conditional certification from the United States Department of Health and Human Resources that it meets federal requirements for the State Disbursement Unit under the Personal Responsibility and Work Opportunity Reconciliation Act on April 5, 2000, when it received federal approval of the State Plan Preprint. The United States Department of Health and Human Resources will continue reviewing the SDU for final certification in phases. This review is expected to be completed in spring 2001.<sup>9</sup>

*Configuration of the State Disbursement Unit appears effective in its use of privatization and existing technology*

Florida's decision to contract with the clerks' association as a third party to operate and maintain the SDU is unique in the nation, in that most states either contract directly with a provider to operate and maintain the State

Disbursement Unit or operate it in-house. Florida's configuration appears to be consistent with federal requirements and has allowed the program to use existing technology in the development of the State Disbursement Unit and to make effective use of privatization through the contract with the clerks' association. Moving this function in-house or contracting directly with a provider would require the development of a system with the same functionality of the CLERC System, such as the ability to queue data and process information by batch. A replacement system would also have to be able to separate payment data and send it to the FLORIDA System and each of the 67 local depositories. The CLERC System appears adequate in providing this function.

*The cost to process Title IV-D child support payments has increased with the establishment of the State Disbursement Unit*

Expenditure data for the Department of Revenue, clerks' association, Lockheed Martin IMS, and the 67 local depositories show that the cost of establishing the State Disbursement Unit was approximately \$9.1 million during Fiscal Years 1998-99 and 1999-2000.

The establishment of the SDU had the effect of increasing costs to process child support payments. During Fiscal Year 1999-2000, its first year of operations, \$36.7 million was spent processing Title IV-D child support payments.<sup>10</sup> As shown in Exhibit 2, this represents an \$11.5 million increase in total operational expenditures over the prior year. The per payment cost of processing Title IV-D child support payments increased 33% from \$5.23 in Fiscal Year 1998-99 to \$6.96 in Fiscal Year 1999-2000, or by \$1.73 per payment.<sup>11</sup>

<sup>9</sup> Although not within the scope of this report, the FLORIDA System must also be certified as meeting federal requirements. The FLORIDA System received conditional certification for meeting the Family Support Act of 1988 on July 31, 1998, and is expected to receive final certification October 1, 2000. The FLORIDA System must also be certified as meeting Personal Responsibility and Work Opportunity Reconciliation Act requirements and is expected to receive final certification by spring 2001. The department is working on several projects to bring the system into full compliance under both acts.

<sup>10</sup> Fiscal Year 1999-2000 expenditures reflect only six months (January through June 2000) of participation by all 67 counties in State Disbursement Unit operations. the SDU began operating October 1, 1999, with 23 of the 67 counties on line. The remaining counties were phased in and the State Disbursement Unit was fully implemented by December 1999. Reported cost data includes the operational expenditures of all parties prior to the operation and during the phase-in of the SDU.

<sup>11</sup> Cost per payment data was calculated using the monthly average of third quarter fiscal year operational expenditures.

A portion of this increase can be attributed to an increase in workload during Fiscal Year 1999-2000. Changes in federal law expanded the responsibilities of the entity responsible for disbursing child support payments. For example, in Fiscal Year 1999-2000, the SDU was required to send out monthly billing notices and establish a voice response unit, which were not done in the past. Further, the SDU is required to process private child support payments with income deduction orders dated after January 1, 1994, which were previously considered external to the Title IV-D program and represent 15% of all payments. These changes, combined with an increase in the number of payments resulting from Title IV-D support orders, increased the number of child support payments to be processed by 35% over the prior year.

In addition, operational costs incurred by the local depositories did not decrease proportionate to the shift in workload to the State Disbursement Unit. It was anticipated that local depositories' costs would decrease in an amount approximating the cost of workload that local depositories shed for receipting and disbursing the child support payments now processed by the SDU. This may be explained in part on spending by some depositories to transition to

the new system. For example, several depositories hired additional staff to field questions and complaints about misdirected payments that occurred when the State Disbursement Unit was first established.<sup>12</sup> The Department of Revenue should monitor the costs of the local depositories over the next year to ensure that operational expenditures decrease proportionately over time to the decrease in the depositories' Title IV-D workload.

It should be noted that the cost and performance data presented in this report for Fiscal Year 1999-2000 reflect only the first six months (January through June 2000) of participation by all 67 counties in State Disbursement Unit operations. As such, they provide an interim assessment of the performance of the system, which may be adversely affected by the effects of starting and transitioning to a new system. Our progress report on this subject, which will be released in the spring of 2002, will cover two years of operations and should provide a more accurate representation of the long-term effectiveness of the system.

<sup>12</sup> Misdirected payments are private payments that were mistakenly sent to the State Disbursement Unit.

## Exhibit 2

### Total Expenditures to Process Title IV-D Child Support Payments Increased \$11.5 Million

Expenditures (in millions, prior to federal reimbursement)	State Comptroller	Entities Involved With the State Disbursement Unit				Total
		Department of Revenue	Lockheed Martin IMS	Clerks' Association	Local Depositories	
Operational Expenditures for Fiscal Year 1998-99	\$ 39,302	\$1,510,213	\$ 0	\$1,260,000	\$22,360,346	\$25,169,861
Operational Expenditures for Fiscal Year 1999-2000 <sup>1</sup>	19,651	862,429 <sup>2</sup>	10,361,660	3,303,134	22,130,469	36,677,343
<b>Change in Operational Expenditures</b>	<b>\$(19,651)</b>	<b>\$( 647,784)</b>	<b>\$10,361,660</b>	<b>\$2,043,134</b>	<b>\$ (229,877)</b>	<b>\$11,507,482</b>

<sup>1</sup> Fiscal Year 1999-2000 expenditures reflect only six months (January through June 2000) of participation by all 67 counties in State Disbursement Unit operations. the SDU began operating October 1, 1999, with 23 of the 67 counties on-line. The remaining counties were phased in and the State Disbursement Unit was fully implemented by December 1999. Reported cost data includes the operational expenditures of all parties prior to the operation and during the phase-in of the SDU.

<sup>2</sup> Does not reflect any handling fees received by the State Disbursement Unit to process private income deduction order payments, as data as to the amount collected was unavailable at time of publication.

Source: Department of Revenue, Department of Banking and Finance, and Florida Association of Court Clerks and Comptroller.

***Responsibility for a major portion of the costs to process Title IV-D child support payments has shifted to the state***

Establishing the State Disbursement Unit has required that a larger portion of the program's operating expenditures be paid from state general revenue funds. After federal reimbursement, the state's costs to process Title IV-D child support payments increased from \$1.6 million in Fiscal Year 1998-99 to \$4.9 million in Fiscal Year 1999-2000 (see Exhibit 3). This occurred primarily because a large portion of the responsibility for processing child support payments shifted from the local depositories (who are funded by local governments) to the state through its contract with the clerks' association that operates and maintains the State Disbursement Unit.

Federal funding, which is received by the state and the local depositories as partial reimbursement for their Title IV-D expenses, has also increased significantly. The federal share of Title IV-D operating expenditures associated with payment processing totaled \$24.2 million in Fiscal Year 1999-2000. As shown in Exhibit 3, this represented an increase of \$8.2 million over the prior year. This increase can be attributed to changes in federal law that now disallow the collection of handling fees on Title IV-D payments and allow federal reimbursement for processing private payments made through the SDU, both of which increase the amount of operational expenditures that are eligible for federal reimbursement. The department and

local depositories also requested reimbursement for several additional types of expenditures in Fiscal Year 1999-2000, which they did not believe to be eligible in Fiscal Year 1998-99. For example, as recommended in a prior OPPAGA report, the department is now requesting reimbursement for CLERC System operational expenses.<sup>13</sup>

***The State Disbursement Unit is processing child support payments in a timely manner***

Federal law requires that the State Disbursement Unit process payments with complete information within two business days. Early difficulties implementing the SDU caused concerns that the SDU may not be meeting this requirement.

To monitor the timely processing of child support payments, the department uses a performance measure of the "*percent of identifiable collections disbursed within 2 business days of receipt*." This measure relates to payments that are required to be processed by the SDU. The department's contract with the clerks' association for the operation of SDU's payment processing function specifies that 95% of the payments must be disbursed within two business days of receipt. The department reports that during the first six months of operations the SDU met this performance standard.

<sup>13</sup> *Child Support Enforcement State Case Registry Is Operational, But Several Issues Need to Be Resolved*, OPPAGA [Report No. 99-10](#), September 1999.

**Exhibit 3**  
**Responsibility for a Major Portion of Funding for the Program Has Shifted to the State**

Expenditures (in millions, after federal reimbursement)	Source of Funding			
	State	Local Government	Federal	Total
Operational Expenditures for Fiscal Year 1998-99	\$1,608,671	\$7,602,518	\$15,958,672	\$25,169,861
Operational Expenditures for Fiscal Year 1999-2000 <sup>1</sup>	4,945,937 <sup>2</sup>	7,524,359	24,207,046	36,677,342
<b>Change in Operational Expenditures</b>	<b>\$3,337,266</b>	<b>\$ (78,159)</b>	<b>\$ 8,248,374</b>	<b>\$11,507,481</b>

<sup>1</sup> Fiscal Year 1999-2000 expenditures reflect only the first six months (January through June 2000) of participation by all 67 counties in State Disbursement Unit operations.

<sup>2</sup> Does not reflect any handling fees received by the State Disbursement Unit to process private payments, as data as to the amount collected was unavailable at time of publication.

Source: Department of Revenue and OPPAGA analysis.

The issue of timeliness extends to payments required to be processed by local depositories. Although these payments are not required to be processed by the SDU, concerns arose over the timely processing of those payments that have been misdirected to the SDU or contracted to be processed by Lockheed Martin IMS.

To address these difficulties, CLERC System case data was loaded into the Lockheed Martin IMS computer system, which allows misdirected payments to be identified and forwarded to the appropriate local depository within 48 hours. The clerks' association reports that with these changes, misdirected payments are no longer a problem and it is no longer receiving complaints about delays from local depositories. However, because the State Disbursement Unit is not required to process these misdirected payments, it has not been monitoring how quickly the payments are forwarded.

Local depositories can choose to contract directly with Lockheed Martin IMS to process private payments that are not required to be processed by the SDU. Pursuant to contracts between local depositories and Lockheed Martin IMS, these private payments are to be processed by Lockheed Martin IMS within two business days. The clerks' association reports that during the first six months of operations Lockheed Martin IMS has processed 98% of contracted payments within two business days.

To ensure the implementation of the SDU has not adversely affected the timely delivery of private payments, the clerks' association should continue to monitor the timeliness of Lockheed Martin IMS's processing of contracted payments and begin monitoring the SDU's forwarding of misdirected payments to the local depositories.

## Agency Responses ---

In accordance with the provisions of s. 11.45(7)(d), *F.S.*, a draft of our report was submitted to the Executive Director of the Department of Revenue and to the Executive Director of the Florida Association of Court Clerks and Comptroller for their review and response.

Copies of their responses are included in this report beginning on page 9.







Jim Zingale  
Executive Director

General Tax Administration  
Child Support Enforcement  
Property Tax Administration  
Administrative Services  
Information Services

September 26, 2000

Mr. John W. Turcotte, Director  
Office of Program Policy Analysis  
and Government Accountability  
111 West Madison Street, Room 312  
Claude Pepper Building  
Tallahassee, Florida 32301

Dear Mr. Turcotte:

Pursuant to the provisions of section 11.45(7)(d), Florida Statutes, I am responding to the findings and recommendations presented in the Performance Review, ***Establishment of the State Disbursement Unit Raises Cost to Process Child Support Payments***, dated October 2000. The Department concurs with the findings and recommendations.

I appreciate the professionalism displayed by your staff during this review. If further information is needed, please contact Fred Roche, in the Office of Inspector General, at 488-5319.

Sincerely,

/s/ Bebe Blount for

Jim Zingale

JZ/FR/bs0



**Florida  
Association of  
Court Clerks  
&  
Comptroller**

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September 25, 2000

John W. Turcotte  
Director  
The Florida Legislature  
Office of Program Policy Analysis  
and Government Accountability  
PO Box 1735  
Tallahassee, Florida 32302

Re: October 2000 SDU Performance Review

Dear Mr. Turcotte,

Thank you for this opportunity to respond to your office's performance review of the State Disbursement Unit child support collection. While the Florida Association Court Clerks agrees with the majority of the findings in this report, we wish to provide the following additional information.

The figure of \$36.7 million listed as spent on processing Title IV-D child support payments includes costs for the clerks of circuit court for processing Title IV-D payments and maintaining the Title IV-D cases. As stated in Section 61.1826(1)(f), Florida Statutes:

The clerks court maintain the official payment record of the court for the amounts received, payments credited, arrearages owed, liens attached, and current mailing addresses of all parties including payor, obligor, and payee.

Also, as noted in your report, the clerks' costs decreased by \$229,877 during Fiscal Year 1999-2000. During this period, the clerks completed the transition to the State Disbursement Unit system and began the second year of utilizing federal funding participation as the primary revenue source for Title IV-D functions.

While a portion of the clerks' cashiering duties did switch to the State Disbursement Unit, the clerks experienced an increase in custodial parent, non-custodial parent and employer calls. Also, new duties developed due to the requirement to coordinate case and payment information with the State Disbursement Unit.

It should be noted that the elimination of handling fees on Title IV-D payments, the clerks switched from a primarily user fee based revenue structure to a combination of federal financial participation and local revenues to support the maintenance IV -D cases and process Title IV-D payments.

Mr. John W. Turcotte

09/25/00

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The importance of using federal funds to reduce local expenditures and provide Title IV-D services is stated in Section 61.1826(4)(f), Florida Statutes:

Federal financial participation for eligible Title IV-D expenditures incurred by the Florida Association of Court Clerks and the depositories shall be at the maximum level permitted by federal law . . . (emphasis added).

Finally, we appreciate the comments in the report regarding the effective use of existing technology in the development and operation of the State Disbursement Unit. The Clerks of Circuit Court have made a significant commitment to the success of this system including implementation within the federal timeline of October 1999.

Again, thank you for the opportunity to respond to this report.

Sincerely,

/s/

Roger H. Alderman

Executive Director

RHA/kak

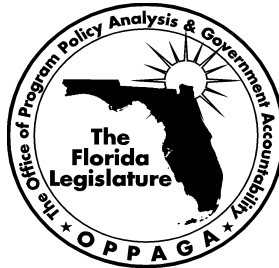
Cc: FACC Executive Committee

FACC Child Support Committee

Fred W. Baggett

# The Florida Legislature

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John W. Turcotte, OPPAGA Director