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INDEPENDENT STATE AUDITOR'S
REPORT ON CERTAIN ACTIVITIES
OF THE
COMMONWEALTH OF MASSACHUSETTS CHILD SUPPORT
ENFORCEMENT PROGRAM

OFFICIAL AUDIT
REPORT
MAY 31, 2000

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In addition to the auditee's response following each audit result in this report, the Commissioner, on May 26, 2000 provided us with additional information detailing significant corrective actions and plans which when completed will resolve the issues disclosed during this audit. The Commissioner's response accompanies our report.

INTRODUCTION

Background

Chapter 119A, Section 1, of the Massachusetts General Laws established the Child Support Enforcement Commission within the Executive Office for Administration and Finance. The Commission consists of six members: the Secretary of the Executive Office for Administration and Finance, who serves as chairman, the Commissioner of Revenue, the Attorney General, the Chief Administrative Justice of the Trial Court, the Commissioner of Public Welfare (the Department of Transitional Assistance), and a district attorney who shall be designated by the governor. The commission monitors the child support enforcement system of the Commonwealth and, advises the IV-D agency and other agencies of the Commonwealth, including the appropriate divisions of the trial court department, in matters regarding the improvement of the child support enforcement system of the Commonwealth.

The Department of Revenue (DOR) is the single state agency within the Commonwealth that is designated the IV-D agency pursuant to Title IV, Part D, of the Social Security Act. The Commissioner of DOR was authorized to establish a Division of Child Support Enforcement (CSE) to implement the provisions of Chapter 119A.

CSE's mission is to (1) identify and locate absent parents, (2) establish and enforce support obligations, and (3) collect and distribute support payments for children receiving public assistance payments under the Transitional Assistance to Families with Dependent Children (TAFDC) Program as well as a portion of court-ordered non-TAFDC payments.

The 45 Code of Federal Regulations (CFR) Part 307, required each state to have in effect by October 1, 1997 an operational computerized support enforcement system that is certified. In November 1997, CSE began using a computerized support enforcement system, the Commonwealth of Massachusetts Enforcement and Tracking System (COMETS), which was designed under contract by Lockheed Martin IMS, and conditionally certified by the Department of Health and Human Services on July 31, 1998.

However, COMETS needs improvements in areas such as reporting before unconditional certification is granted.

Audit Scope, Objectives, and Methodology

Our audit, which covered the period July 1, 1997 to February 28, 1999, was conducted in accordance with applicable generally accepted government auditing standards for performance audits.

The objectives of this performance audit were to evaluate DOR's:

- Controls over the Child Support Trust Fund's cash;
- Federal reimbursement of court costs;
- Policies and procedures for managing child support collections;
- Controls over and the accuracy of input data from court orders;
- Payment records and account balances;
- Payment accounting system;
- Use of intercepts as a collections method; and
- Monitoring of the collection system.

Our audit methodology included reviewing (1) applicable federal and state regulations; (2) DOR's internal audit reports; (3) DOR's review of COMETS cases; (4) past audit results identified in the Single Audit of the Commonwealth of Massachusetts; (5) federal report of certification of the COMETS system; (6) internal controls; (7) bank reconciliations; (8) federal reporting requirements; and (9) accounting for collections, advances, and disbursements. We also interviewed officials from CSE, DOR, the Office of the State Treasurer, and the Office of the Trial Court (OTC).

Except for those issues addressed in the Audit Results section of this report, we detected no reportable conditions within the scope of this audit.

In addition to the auditee's response following each audit result in this report, the Commissioner, on May 26, 2000 provided us with additional information detailing significant corrective actions and plans

which when completed will resolve the issues disclosed during this audit. The Commissioner's response accompanies our report.

AUDIT RESULTS

1. Internal Controls over the Child Support Disbursement Account Need to be Enhanced

CSE needs to enhance its internal controls over the \$221 million Child Support Disbursement Account so that it becomes more diligent in monitoring account activity. Our review revealed that the Office of the State Treasurer's (OST) unauthorized transfer of \$362,267, representing 5,782 items/outstanding checks from CSE's Automated Controlled Disbursement account at Fleet Bank, to the State Treasurer's Unpaid Check Fund went uncorrected for approximately 10 months. This \$362,267 was removed during the 11-month period ended August 1998 by the manager of OST's Unpaid Check Fund, who was subsequently indicted for misappropriating state funds. These 5,782 items represent outstanding checks that were over 13 months old. The OST erroneously and unilaterally swept the account into the Unpaid Check Fund under its general provision for managing the abandoned property. Customarily, the OST has authority under Chapter 29, Section 32, of the General Laws to sweep from state accounts amounts, representing checks, which have been outstanding for more than 13 months. However, this action was contrary to Chapter 119A, Section 5, of the General Laws, which states that these funds are not to be remitted until they have been in the child support trust fund payment account for three years, at which time DOR would remit the funds to the State Treasurer after which these funds can be expended on public awareness about pregnancy, out-of-wedlock births, paternity establishment, child support and domestic violence.

Chapter 119A, Section 5, of the General Laws states, in part:

The IV-D agency shall maintain any undisbursed payments, along with any payments that are unidentifiable as to either the obligee or the obligor, in the child support trust fund payments account for **three years**. If, at the expiration of such time the IV-D agency has been unable to locate the obligee on whose behalf the payments were remitted . . . the IV-D agency shall remit such funds to the State Treasurer. [Emphasis added.]

Effective March 31, 1998 Chapter 119A, Section 5, paragraph (b) was amended, as follows:

The IV-D agency shall maintain any undisbursed payments, along with any payments that are unidentifiable as to either the obligee or the obligor, in the child support trust fund payments account for three years and shall attempt to locate or identify such obligee or obligor. If, at the expiration of such time the IV-D agency has been unable to locate the obligee on whose behalf

the payments were remitted . . . **the IV-D agency may expend such funds on public awareness about teenage pregnancy, out-of-wedlock births, paternity establishment, child support and domestic violence.** [Emphasis added.]

CSE became aware of these outstanding checks being removed when custodial parents reported that they were not able to cash their checks. CSE should have designed and implemented proper reviews of bank reconciliations of the CDA and reconciled the COMET report of outstanding checks to the bank's listing of outstanding checks, so that the risk of child support payments being removed from its own CDA would have been diminished or been identified immediately. For example, the basic comparison of the bank's listing of outstanding checks of one month with the next would have revealed the unauthorized transfer. Additionally, the Fleet reconciliation forwarded monthly to DOR/CSE identifies the swept checks as "Current Non-Posted Issues." Had DOR/CSE questioned these issues, it could have resolved the OST swept checks in a more timely manner.

On September 30, and October 29, 1998 CSE notified OST by letter of its error in removing uncashed child support checks maintained in the DOR's CDA to the Treasurer's Unpaid Check Fund and Abandoned Property Account and requested OST to work with CSE to return these funds to DOR's CDA.

On December 8, 1998 CSE notified Fleet Bank of the error made by OST in removing uncashed child support checks from the Automated Controlled Disbursement account at Fleet Bank and asked for its assistance in restoring these funds to the Automated Controlled Disbursement account.

The Automated Controlled Disbursement account, which disbursed \$221 million in fiscal year 1998, is the primary account used to make payments to custodial parents or obligees. As explained in Audit Result No. 2, this account is a zero-balance account in that funds are transferred from the OST Primary Disbursement account to the Automated Controlled Disbursement account when checks are presented for payment. Fleet Bank performs a weekly reconciliation of the Automated Controlled Disbursement account and forwards to CSE this reconciliation with the bank statement, a listing of outstanding checks, paid items, stop-payments, protested checks, and adjustments. CSE accounts payable unit employees then verify that CSE has the microfiche for all the hard copy reports e.g., (paid items, stop-payments, outstanding check reports) and the film of the cancelled checks. However, they do not check the bank

reconciliation of outstanding checks to their books (COMETS) or perform any review of the bank reconciliation. Moreover, although the COMETS system provides an outstanding check report, it contains many errors and currently cannot be used to compare with the bank's listing of outstanding checks. Because of the deficiencies in the COMETS system of reporting, any comparison of outstanding checks would have to be performed manually. As of January 28, 1999 there was \$5,454,254 in outstanding checks in the Automated Controlled Disbursement account. Of this amount, \$931,148 was greater than 60 days old.

CSE's not reviewing the Fleet Bank's reconciliation of the Automated Controlled Disbursement account and not comparing its listing of outstanding checks to the bank's listing of outstanding checks resulted in the unauthorized removal of \$362,266.59 of outstanding child support checks by OST to go unnoticed by the CSE. Additionally, any errors that the bank makes will also go undetected.

Recommendation: CSE should work with the OST to:

- Require Fleet Bank to notify CSE with detailed information when any funds are removed from its account.
- Request OST to provide CSE with a statement of all advanced funds.
- Correct the COMETS report of outstanding checks so that it can be used to reconcile the bank's listing of outstanding checks.
- Review the bank's monthly reconciliation of the Controlled Disbursement account for any "Current Non-Posted Issues."

Auditee's Response:

DOR/CSE agrees that it would be beneficial to enhance controls over this account.

2. Improvements Needed in the Reconciliation and Management of Zero Balance Advance Bank Accounts

CSE did not have adequate procedures in place and did not receive sufficient information from the Office of the State Treasurer (OST) to reconcile its Child Support Trust Payment Account (CSTPA) to the actual balance at the bank. As a result, during fiscal year 1998, approximately \$3 million was left in an OST bank account unknown to OST or CSE.

The primary purpose of CSTPA is to account for receipts from noncustodial parents and disbursements to custodial parents. Funds that CSE collects from non-custodial parents are deposited with OST, and CSTPA is credited with the amount of the deposit. CSE maintains two Fleet Bank checking accounts to disburse funds to the custodial parent. One account, the automated controlled checking account (ACCA), is used to make routine payments to custodial parents. The other account, the manual account, is used to process refund payments incorrectly deposited into the CSE lockbox, refunds to employers for overpayments or erroneous payments, and requests to issue a check to a custodial parent immediately.

CSE uses the Office of the State Comptroller's (OSC) advance system to draw down funds to pay the custodial parents. Each week CSE prepares a Request for Advance (RA) for \$5,000,000 and monthly prepares Expenditure of Advance (EA) in order to account for disbursement of the advance funds. CSE sends the bank its check register daily for the ACCA, and the bank reconciles this account for CSE. The reconciliation consists of a list of checks that have cleared the bank and a list of checks that have not cleared the bank, stop-payments, protested checks, and adjustments. The account is basically a check clearing account, i.e., the statement is designed to reflect the checks that have cleared the account and the deposits to cover the actual checks cashed. There is no bank balance because of the system that is used by OST.

OST uses a Central Disbursement Account (CDA) or what is commonly known as the Float Fund. OST uses this account to fund state agency payments, including RAs. When CSE requests funds via an RA, OST transfers the funds from the Central Depositing Account into the Float Fund. The Float Fund is used to fund the Primary Disbursement Account (PDA), which is used to fund what is commonly known as "zero-balance accounts", i.e., CSE's zero-balance check clearing account. These accounts are used basically as check clearing accounts (e.g., when a custodial parent check that was issued from the CSE checking account, is presented for payment, funds are transferred from the PDA to the zero-balance account to cover the amount of the check. The bank transfers funds daily to cover checks that have been presented for payment. However, the manual checks are handled (funded) differently. When a check is

presented for payment, funds are not transferred from the PDA as with the checks issued from the ACCA. Instead, funds are transferred directly from the CDA to a manual bank account, which is also a zero-balance account. The amount transferred from the CDA was in addition to the funds to the PDA and was not supported by an RA.

Our review of the above activity determined that because CSE did not have a bank statement from the OST and Fleet Bank regarding the actual bank balance each month, it could not reconcile CSTPA's unexpended book cash balance to the bank balance. CSE and the OST were unaware that the automated checks were handled (funded) differently than the manual checks until we brought it to their attention. The bank should provide source account information for transfers made to cover checks that will allow CSE to reconcile activity. We determined that CSE prepares, processes, and reconciles all RA and EA activity for the CSTPA to the Commonwealth's Massachusetts Management Accounting and Reporting System (MMARS). The EA consists of total checks written from CSE's ACCA and Manual Checking accounts, less adjustments for voided and stop payment checks. Although the CSE was accounting for the \$5 million advance by the disbursements from its ACCA and its manual checking account, our analysis found that the manual account is being funded not by the \$5 million advance but by the CDA of the OST. Moreover, this activity occurred without the knowledge of the OST or the CSE. OST does not provide CSE with any statement of beginning cash balance, advances, debits against these advances, and ending cash advance balances that would be necessary for the CSE to reconcile cash. Without such statements from OST the CSE does not know what its bank cash balance is and would not know that the manual checking account was not being funded by the advance system. Conversely, OST was unaware of the CSE manual account because the CSE receives the bank statement for the manual account, and the CDA that funds the manual account bank statements is received by OST.

OST's funding of the manual account directly from the CDA and outside of the advance system has resulted in \$3 million in manual support payments that had not been properly reconciled by either OST or CSE during our audit and in excess of \$3 million on deposit in the OST's PDA. This \$3 million was

advanced to CSE by transfer from the Float Fund. As a result, over \$3 million remains in the PDA, and OST's CDA has a shortfall of almost \$3 million.

OSC's Internal Control Guide, Chapter 8, Section B, Cash and Revenue Should be Controlled, provides the following guidance to agencies for reconciling cash and revenue:

Monthly reconciliations should be performed with the State Treasurer's records, bank statements, department records and MMARS reports. This should be done at least on a monthly basis.

Ensure that reconciliations are reviewed and approved in writing by the appropriate departmental official. Any discrepancies should be resolved by an authorized departmental official within a reasonable time period after the discrepancies have been noted. Chronic reconciliation problems may prompt a review of record keeping practices, and the methods used to reconcile cash balances to the Treasurer's cash records.

However, contrary to these requirements, the system in place does not permit such reconciliation. While this advance system has been in place potentially millions of dollars have been at the Fleet Bank without OST or CSE being aware of and properly accounting for these funds. Conversely, millions of dollars have been transferred from the Float Fund without OST being aware of it. Because of the advance system used to manage these child support funds, the accounts cannot be reconciled by CSE, the responsible party, without CSE receiving additional information from OST or the bank. The appropriate corrective action plan to resolve these issues requires a collaborative effort between CSE, OST, OSC, and the state agencies using zero balance accounts.

Recommendation: CSE should:

- Work with OST to identify all funds paid out of the manual account for fiscal year 1998 and all prior years that the manual account was being funded directly by OST's Central Disbursement Account.
- Have OST fund the manual account from the PDA as it does for the automated account.
- Obtain a statement from OST of CSE's cash balance, and reconcile the cash balance to the CSTPA.
- Require the bank to provide source account information for transfers made to cover checks cleared.

Auditee's Response: In its response, DOR/CSE indicated that it reconciles all paid checks clearing its checking accounts and claimed that OST was aware of the manual account. In addition, DOR/CSE stated

that it accounts for all disbursements through EAs. DOR/CSE further stated that it was reasonable to assume that OST was performing cash management in accordance with Chapter 29, Section 23, of the Massachusetts General Laws, which directs OST to manage all cash, funds, or investments, and that OST would need to issue reports to DOR on any advance account activity for DOR to reconcile the zero balance accounts.

Auditor's Reply: OST officials indicated that they were not aware of the manual account or its funding source. In addition, our audit disclosed that all disbursements were not recorded on EAs (see Audit Result No. 5). Moreover, although Chapter 29, Section 23, of the General Laws directs OST to manage all funds or investments, OSC and OST memorandums and directives clearly indicate that state agencies are responsible for the specific management and use of funds allocated to them. Moreover, according to Chapter 119A, Section 1, of the General Laws, CSE as the IV-D agency is specifically responsible for managing the child support disbursement account, including its advance account activity.

3. Interest Income Not Reported to the U.S. Department of Health and Human Services

Our audit review revealed that CSE was not reporting interest earned on child support collections in accordance with 45 Code of Federal Regulations (CFR) 304.50, which resulted in the filing of inaccurate Department of Health and Human Services Child Support Enforcement Program Financial Reports (OCSE-396A reports) that overstate the amount of reimbursement due to the state from the federal government. Furthermore, the OST commingles child support collections with other funds and does not report to CSE the amount of interest earned on collections held by the Treasurer, contrary to Chapter 119A, Section 9, of the Massachusetts General Laws, which states, in part:

There is hereby established, separate and apart from all public monies or funds of the commonwealth, a child support trust fund . . . the fund shall consist of all child support payments . . . fees charged and collected . . . all incentive payments . . . and all interest or other earnings from monies in the fund.

This issue was addressed in an audit issued by the United States Department of Health and Human Services (DHHS), which reported:

All child support collections are swept . . . into the State Treasurer's general fund accounts. . . . These funds are invested and income is earned. These earnings are considered Program Income

and should be reported. . . . Currently, the IV-D Agency [DOR] has not reported these earnings as program income as required. . . .

Accordingly, the DHHS audit recommended that the Commonwealth begin reporting the interest as program income and that either CSE or the United States Regional Administrator of the Administration for Children and Families recalculate and make the necessary adjustments for prior quarters income not reported. CSE, in its response, stated that it would work with the OST to identify the interest earned on collections and make retroactive adjustments to reports and federal cash drawdowns.

During our review, we determined that CSE was not receiving from the OST reports of all interest earned on the Child Support Trust Fund. Rather, CSE was receiving from the OST and reporting only the interest earned on incentive payments on the OCSE-396A Report, and therefore continued to file inaccurate data. Further, no adjustments to prior filings have been made.

Recommendation: CSE should continue to work with the OST to obtain accurate interest income information for interest income earned on all child support funds maintained by the OST and make the necessary adjustments for income not reported in prior quarters.

Auditee's Response: In its response, CSE indicated that it concurred and will work with the OST to resolve the issues.

4. CSE Has Not Claimed \$31.8 Million in Federal Reimbursable Court Costs and Other Interdepartmental Costs at a Federal Participation Rate of 66%

CSE enters into annual contracts, called Interdepartmental Service Agreements (ISAs), with various state departments for child-support-related services. For fiscal year 1997 (the most recent year that these reimbursable costs were claimed for federal participation) these costs totaled \$2.9 million and were claimed for federal participation for the quarter ended June 30, 1997, as follows:

Interagency AgreementsAllocation Accounts
Fiscal Year 1997 Expenditure Claims

<u>Department</u>	<u>Quarter Ended</u>				<u>Fringe at 29%</u>	<u>Total Fiscal Year 1997 Expenditures</u>
	<u>09/30/96</u>	<u>12/31/96</u>	<u>03/31/97</u>	<u>06/30/97</u>		
Offices of the Chief Administrative Justice for Administration and Management and of the Probate and Family Court Department	\$500,402	\$453,511	\$473,503	\$569,798	\$490,802	\$2,488,016
Employment and Training	17,356	18,644	33,039	-	-	69,039
Public Health	1,918	7,297	54,723	-	-	63,938
Bristol County District Attorney	6,625	6,678	7,018	11,270	7,830	39,421
Cape and Islands District Attorney	-	1,862	-	2,901	-	4,763
Suffolk County District Attorney	11,386	12,959	11,851	12,609	12,379	61,184
Plymouth County District Attorney	7,202	7,420	7,423	20,574	10,111	52,730
Hampden County District Attorney	10,780	11,216	10,074	9,334	9,269	50,673
Northern County District Attorney	8,613	9,915	-	-	-	18,528
Norfolk County District Attorney	4,001	4,122	8,026	11,229	4,930	32,308
Northwestern District Attorney	-	-	-	29,992	-	29,992
Worcester County District Attorney	-	-	-	4,874	-	4,874
Office of the State Treasurer	-	-	-	1,019	-	1,019
Total	<u>\$568,283</u>	<u>\$533,624</u>	<u>\$605,657</u>	<u>\$673,600</u>	<u>\$535,321</u>	<u>\$2,916,485</u>

However, for the period July 1, 1997 to December 31, 1998, reimbursable costs were not always claimed for federal participation. Costs not claimed for the 18-month period totaled \$4.3 million, of which \$2.8 million was federally reimbursable (\$4.3 million x the reimbursable rate of 66%). CSE officials stated that CSE has consistently claimed and filed all federally reimbursable ISA expenditures on an annual basis. The fiscal year 1997 report was filed on August 1, 1997. Subsequent to our audit, DOR submitted a claim of \$3,118,866 for state fiscal year 1998 (at 66% or \$2,058,452) and another \$1,165,524 through December 31, 1999. The fiscal year 1998 report was dated April 30, 1999. In addition, CSE claimed ISA costs of \$2,991,144 (\$1,974,155 at 66%) for fiscal year 1999 for the quarter ending December 31, 1999 on a report dated January 28, 2000.

The largest ISA contract is with the Office of the Chief Justice of the Probate and Family Court Department and the Office of the Chief Justice for Administration and Management. For fiscal year 1998 this ISA provided approximately \$2 million for the funding of 82 employees of the court who provide direct child support services. In addition to this \$2 million, other costs of the court incurred for child support can be claimed for federal reimbursement. These costs are for court personnel of the Register and

Probation Office within the Trial Court of the Commonwealth who provide child support work and are not funded by the \$2 million ISA with the court. These costs are submitted by the court to CSE monthly on a time and effort activity report, which indicates the hours spent by court personnel on child support business. These costs have amounted to approximately \$10.5 million per year and have not been claimed by DOR since October 1, 1994 for federal participation. These costs are also reimbursable at a rate of 66%, or \$6.9 million per year. Based on approximately \$10.5 million per year, for the 51-month period that these costs have not been claimed, an estimated \$29.4 million (\$44.6 million x 66%) in unreimbursed federal funds have gone unclaimed by the Commonwealth.

CSE had been claiming these additional court costs for federal reimbursement for the period October 1, 1987 to September 30, 1994, as follows:

<u>Federal Fiscal Year</u> <u>Ended September 30</u>	<u>Amount</u>
1988	\$13,170,199
1989	11,063,001
1990	10,266,222
1991	9,399,705
1992	9,473,932
1993	7,715,520
1994	<u>12,118,206</u>
Total	<u>\$73,206,785</u>
	÷ 7 years
Average claim per year	<u>\$10,458,112</u>

As of September 30, 1994, CSE stopped claiming these costs. The 1994 Single Audit Report included information that indicated that CSE was not adequately reviewing the time and effort costs. As a result, CSE requested that DOR's internal auditors begin reviewing the time and effort activity reports. The DOR auditors noted that there was double counting of some salaries and that reasonableness studies performed by CSE had unsatisfactory results.

DOR's internal auditors and CSE were unable to obtain additional supporting detail for the time and effort studies because of the court's system of reporting. Therefore, beginning with the quarter ending December 31, 1994, these time and effort costs were not included in the federal financial reports. Also,

DOR officials stated that the decision to stop claiming these costs was based upon findings by its internal auditors, CSE's own assessment of reasonableness, and as a result of meetings with the Trial Court, which did not result in additional back-up materials to substantiate their child-support-related cost claims.

The Probate and Family Courts are currently submitting time and effort reports on a monthly basis to CSE. For the quarter ended December 31, 1998, these costs including fringe benefits were \$899,325. Subsequent to our audit, a claim for reimbursement of these costs was submitted on April 30, 1999.

During our audit, we met with Trial Court officials to determine why costs incurred by the Trial Court for DOR business had not been claimed for federal participation since fiscal year 1994. Court officials stated that they have been submitting to CSE time and effort reports on a monthly basis. For court personnel who work on child support business, we were told that in the past, they had submitted these time and effort reports on a quarterly basis, but that CSE now required monthly reports. Court officials observed that federal officials had never voiced concerns with the claims for federal participation for court personnel who perform child support work. They stated that they believed the claims submitted, with the exception of double counted costs, fairly represented the work performed by court personnel on child support business. Court officials further stated that they had reviewed the documentation with responsible federal officials who had found it satisfactory and had remarked that the documentation was better than that submitted by other states.

Subsequent to our audit, DOR/CSE indicated that it started claiming probate court time and effort costs again, using a new reporting methodology, beginning with the quarter ended December 31, 1998. DOR/CSE also indicated that the amount of child support activities performed by district court personnel is now minimal (less than \$10.5 million annually) and district court personnel no longer submit time and effort activity reports. DOR/CSE also explained a new process for documenting actual time spent on child support activities and provided information that it has submitted claims through December 31, 1999. The claims amount to \$31.8 million consisting of direct ISA costs of \$4.3 million and indirect costs of \$27.5 million.

Recommendation: CSE should take immediate action to:

- Claim on a quarterly basis for federal participation all court costs that are allowable per federal regulations 45 CFR 304.21, Federal Financial Participation in the Costs of Cooperative Arrangements with Courts and Law Enforcement officials.
- Retroactively claim for federal participation court costs that were not claimed for federal participation for the period October 1, 1994 to December 31, 1998.

Auditee's Response:

CSE is confident in its current time and effort reporting methodology. The new reporting system is representative of good reporting and consistent with federal reporting requirements.

In addition to continuing to submit federal reimbursement claims based upon the current reporting methodology, CSE is submitting claims for reimbursement for the quarters from December, 1994 through September, 1998. To this end, we traveled to Washington D.C., to discuss our claim with the appropriate federal officials on February 6, 2000. At this meeting, they assured us that they will consider our request. The total expenditures associated with these sixteen quarters are \$26,666,145 with 66% FFP calculated to be \$17,599,655.

5. Over \$7.7 Million in Fiscal Year 1998 Expenditures Not Recorded in the Proper Period

Our audit disclosed that DOR's Finance Unit did not correctly and properly report expenditures of advance funds to OSC, resulting in significantly understated expenditures and an overstated unexpended trust fund account balance for fiscal year 1998. Specifically, CSE did not report on MMARS \$7,710,198 in fiscal year 1998 advance payments to custodial parents until fiscal year 1999; reported \$5,817,330 of fiscal year 1997 advance expenditures in fiscal year 1998; did not reconcile the advance account and disbursement records of the Finance Unit with those of the CSE unit during the fiscal year; and adjusted expenses to report expenditures equal to the exact amount of advances requested from the State Treasurer to avoid the need to return unused advance cash or to request additional advances. As a result, as of June 30, 1998 the CSE trust fund account balance was overstated by more than \$7 million and expenditures were understated.

We noted that the unexpended balance of the trust account reported on MMARS was over \$22 million, which was high given that collections from noncustodial parents and corresponding payments to custodial parents averaged \$5 million per week. Since CSE was efficient at collecting and paying funds, it is not reasonable to have a balance representing approximately four weeks of collections. On further

review of the documentation that DOR's Finance Unit submitted with EA forms to OSC, we noted that \$5,817,330 of June 1997 expenditures (fiscal year 1997) was included on an EA for fiscal year 1998. We further determined on comparison of CSE expenditure summaries for fiscal year 1998 with EA documentation that some of the check registers from CSE's automated checking account for the months of December 1997 and June 1998, respectively (fiscal year 1998), were not reported by the Finance Unit to OSC during fiscal year 1998. These check registers totaled \$6,105,959 and \$1,604,239, respectively. The net fiscal year 1998 expenditures not recorded in fiscal year 1998 totaled \$7,710,198. DOR officials explained that at the end of June 1998, this oversight was identified and corrective action was taken. However, the expenditures were recorded in August of the subsequent fiscal year.

More than \$7 million of fiscal year 1998 expenditures were not accounted for due to a lack of control procedures to verify that all expenditures processed by CSE and recorded on check registers were reported on EAs timely. The DOR Finance Unit should have compared expenditures recorded on CSE check registers with expenditures reported on EAs before entry into MMARS, and any differences should have been reconciled and resolved on a timely basis. Also, the DOR-recorded expenditures and balances recorded in the Commonwealth of Massachusetts Enforcement and Tracking System (COMETS) should have been reconciled with the activity and balance reflected on MMARS. Additionally, instead of returning unused advance money at fiscal year-end, the Finance Unit would calculate the amount of expenditures necessary to report expenditures exactly equal to the amount of advance money requested for the fiscal year. The Finance Unit would then split the value of checks written so that the total checks issued and submitted on EA would agree with the amount necessary to "zero" out the advance balance.

DOR/CSE officials stated that, because the CSE trust fund account is not a state appropriation and the balance carries across fiscal years, they believed their practice to roll disbursement activity forward into the new fiscal year was proper when an advance was not sufficient to cover the final disbursements at year end. However, because it is important to the Commonwealth's reporting of fiscal year financial position and results of operations, the Office of the Comptroller provides instructions to state agencies to ensure proper year-end cut off and recording of expenses in the correct fiscal year. OSC has processes in

place to facilitate efficient processing of advances. Mechanisms are in place at OSC to ensure that agency requests for advances are processed timely at year-end so that agencies have sufficient money to meet obligations. Similarly, OSC has a system in place to allow agencies to request advances for the beginning of the fiscal year so that there will not be any lag time and business will continue as usual.

OSC established rules for the use, accounting, reconciliation, and reporting of advance money on MMARS. Specifically, OSC requires:

- Monthly accounting for advance activity on MMARS,
- Accounting for advance money within the fiscal year expended,
- Reconciliations of bank statements and bank activity,
- Return of unused advance money to the State Treasurer,
- Reconciliations of advance activity and balances per the agency's records with activity and balances on MMARS.

OSC MMARS Memorandum No. 61¹ which sets forth guidelines for managing cash advances:

The cash balance of the check register should be proven at the end of each month and compared with the reconciled bank statement.

Requests for Advances are approved for one fiscal year. Any cash advance remaining in the checking account at the end of the fiscal year must be returned on an Advance Refund (AR) Under no circumstances should that cash advance balance be used for services for another fiscal year.

Also, the Comptroller's Closing instructions for fiscal year 1999 requires the following:

The Department must account for all FY Closing advances by June 30th. This accounting is performed through documentation of the expenditure of advance (EA) or cash repayment of any balance remaining by processing an advance refund (AR). ERs must be entered into MMARS by June 30th with accounting period 12.

In order to close the FY advances, the following steps must be taken (See MMARS Memo #227, dated February 2, 1996):

1. The Department deposits a check into its sweep account and prepares a negative CD. (Do not enter the CD decrease into MMARS.)

¹ This memorandum was rescinded on February 11, 1998; therefore, it was in effect for a majority of the fiscal year. Additionally, although rescinded, the memorandum's requirements are necessary steps to ensure that agency advance funds are reconciled.

2. The Department prepares an AR and enters the AR into a PEND 5 status.
3. The Department mails the original AR, along with the negative CD, to TRE.
4. When the moneys appear on the TRE cash sheet, CTR approves the AR. There is no need to send a copy of the AR to the CTR.

However, when DOR's Finance Unit and CSE reported monthly expenditures to OSC on MMARS, it did not:

- Account for the advance money within the fiscal year expended;
- Reconcile advance activity and balances per the DOR's records with activity and balances on MMARS;
- Reconcile bank account activity with CSE check register activity and EAs;
- Return unused advance money to the State Treasurer.

Recommendation: CSE should:

- Account for advance money within the fiscal year expended;
- Contact OSC for instructions for requesting additional advance funds.
- Reconcile advance activity and balances per DOR's records with activity and balances on MMARS;
- Reconcile bank account activity with CSE check register activity and EAs;
- Return unused advance money to the State Treasurer.

Auditee's Response: In its response, DOR/CSE emphasized that all expenditures have been accounted for but acknowledged that they were not recorded in the proper period. DOR/CSE added:

During our system migration to the Commonwealth of Massachusetts Enforcement and Tracking System (COMETS), certain check registers were not transmitted to our Finance Bureau as required resulting in a delay in accounting for these transactions. At the end of June, 1998, during a comprehensive review of FY98 expenditures, this oversight was identified and corrective action was taken.

6. Internal Controls over CSE's Manual Checking Account Need Improvement

Our audit revealed that CSE's accounts payable section did not follow all of the internal controls for cash disbursements contained in its Internal Control Plan Supplement revision of July 28, 1998. Also,

contrary to Chapter 3, Section C, of the Comptroller's Internal Control Guide for Departments, which states, "The person preparing the checks should not be the person signing the checks," CSE did not follow segregation of duty requirements in handling the manual checking account. As a result, the custodial child support fund was exposed to potential loss, theft, or misuse.

CSE's Internal Control Plan states, "CSE Administration and Finance Bureau employs a hierarchy sign-off process for each request to issue a manual check." However, our review of three check signing machine logs of the Revenue Conduit Bureau (RCB), revealed that the accounts payable supervisor had signed the log seven of 25 times as the operator who issued and used the signature plate, resulting in 39 of 157 manual checks being signed and distributed by the accounts payable supervisor without employing a hierarchy sign-off process. Also, although there is a place on the log for a signature and date when reviewed, none of the logs were signed as required. In addition, a review of three manual check issuance forms of the RCB (for checks over \$1,500) revealed that none of the forms were signed as reviewed by a supervisor. Chapter 3, Section D, Internal Control System Should Be Supervised, of the Office of the State Comptroller's Internal Control Guide requires the following:

Managers must establish clear lines of authority and responsibility. The effectiveness of any internal control plan depends directly on management's thoroughness, consistency and timeliness of supervision.

Supervisors should:

- Assign tasks and establish written procedures for completing assignments.
- Systematically review each staff member's work.
- Approve work at critical points to ensure the quality and accuracy of transactions being processed.
- Provide guidance and training when necessary.

Also, Chapter 3, Section C, Duties Should Be Segregated, requires the following:

A primary principle in any internal control system or plan is segregation of duties. In an automated environment the principle of segregation of duties is critical because it ensures the separation of different functions such as data preparation, input, and review, and it defines authority and responsibility over transactions and use of the Commonwealth's resources.

The key is that no individual or small group of individuals should be in a position to control all aspects of a transaction. Incompatible duties are:

- Operational responsibilities and recordkeeping;
- Custody of assets and accounting for those assets;
- Authorization of transactions and custody or disposal of the related assets or records.

We found uncanceled, returned manual checks dating back to 1996 in a safe located in the Accounts Payable Department. A review of these checks showed that these checks were still recorded as outstanding in the Quicken Accounting System used to maintain the account records. These checks represent RPO (Returned from Post Office) checks that should have been voided, payment-stopped, and removed from the Quicken Accounting System's listing of outstanding checks. Among these were 13 checks dating back to 1996 and 61 checks dating back to 1997 with a total value of \$35,780.

The Accounts Payable Department administers the manual account as a separate Fleet Bank account, which disburses funds for:

- Refunds for miscellaneous receipts (e.g., electric bills or other payments incorrectly deposited into the CSE lockbox).
- Refunds to employers for overpayments or erroneous payments.
- Refunds to non-debtor spouses, i.e., half of a tax refund intercept for a joint return.
- Closed cases.
- Immediate payments to custodial parents.
- Checks to be sent with descriptive correspondence.

Whereas manual checks require a manual accounting entry to the COMETS system, and the automated system has built in safeguards and internal controls, and automated checks are run each business day, the need for a manual system is questionable.

In an attempt to reconcile the manual account, we received a listing of all outstanding checks. This listing contained checks from February 11, 1993 through February 28, 1999. The 852 checks listed totaled \$285,605. An aging of the checks and totals follows:

<u>Period</u>	<u>Aging of Checks by Year</u>	<u>Number of Checks</u>	<u>Check Totals</u>
02/11/93 – 12/31/93	6 to 7	57	\$ 19,643
01/01/94 – 12/31/96	3 to 5	334	90,368
01/01/97 – 12/31/98	1 to 2	398	144,048
01/01/99 – 02/28/99	0 to 1	<u>63</u>	<u>31,546</u>
		<u>852</u>	<u>\$285,605</u>

In addition to these checks, a closed US Trust account which preceded the Fleet account is reported to have 111 checks totaling \$151,146. CSE did not have information as to when the account was closed; however, these checks were six to seven years old. Subsequent to our audit, DOR/CSE advised us that the account was a zero-balance account and that its Office of Internal Audit determined that the account was represented by 318 checks (not 111 as CSE originally thought), as follows:

Checks cashed	220	\$101,896
Checks voided/stopped	4	2,272
Checks outstanding/aged	<u>94*</u>	<u>46,978</u>
Totals	<u>318</u>	<u>\$151,146</u>

*Non-negotiable - aged dated

The manual account is set up so that only the funds needed to cover the checks presented for payment are transferred into the account daily. The listing of outstanding checks reviewed was \$285,605 for the manual account. However, a balance reported by CSE using its Quicken Accounting System showed a balance of \$178,261, a difference of \$107,344. This difference could not be reconciled or explained by the Accounts Payable Department. The only reconciliation of the manual account, which is performed by the Accounts Payable Department, is to enter each check cashed into the Quicken System and compare that number to the disbursements shown on the bank statement.

DOR's Internal Control Plan for the Child Support Division does not address many of the issues we found during our review. For instance, the issue of segregation of duties is addressed for computer-generated disbursements, the Accounts Payable Department is not given any such instruction on how to handle the manual account. CSE is currently developing policies and procedures to address these issues.

Recommendation: CSE should take the steps necessary to limit or eliminate the need and use of the manual account for disbursements. If the account is to be retained, it should be changed so that checks

are paid from funds transferred in the same manner that automated checks are generated. All CSE policies and procedures for the processing of RPOs should be used for the checks found in the safe and continued to be followed for the manual account. The RCB should require that all internal controls for distributions are strictly followed, particularly the hierarchy sign-off for checks. Also, once CSE has developed and implemented adequate segregation of duties, policies, and procedures, CSE should monitor these policies and procedures on a periodic basis. Additional internal control policies should be developed and implemented to address the proper segregation of duties.

Auditee's Response: In its response, CSE acknowledged that there were a limited number of instances in which it paid for the legitimate needs of custodial parents with manual checks that were issued without the necessary segregation of duties or sign-off hierarchy. CSE further explained that although its Internal Control Plan clearly states that there should be segregation of duties within the manual check process and that the manual requires segregation, these controls were overridden.

In addition, DOR/CSE further stated:

DOR's Office of Internal Audit conducted a thorough analysis of each manual check issued throughout the audit period, July, 1997 through February, 1999 [which] revealed that CSE issued 7,222 manual checks during this period, 187 of which lacked the necessary segregation [but] that each of the 7,222 manual checks was a legitimate disbursement. [Furthermore] Internal Audit examined . . . researched . . . analyzed . . . and reviewed related [information] in an attempt to detect any indication of fraud or misuse. None was detected.

7. The Commonwealth of Massachusetts Enforcement and Tracking System (COMETS) Does Not Maintain Accurate Arrears Balances

CSE lacks the necessary controls to ensure the accuracy of the amounts due from noncustodial parents displayed in the COMETS system. We reviewed 27 cases (five cases from each of the five regions and two additional cases selected by the metro region) and found that, of the 25 cases tested for accurate arrears balances, 23 were not in agreement with the arrears calculation worksheet. CSE was able to explain five of the variances; however, the remaining 18 cases had differences that could not be explained by CSE.

Our testing involved using the court orders and the arrears calculation worksheet of the CSE to establish arrears balances and then comparing those to the arrears balances displayed in COMETS. The worksheet is a spreadsheet program that calculates the amount of assessments based on data from the court orders, subtracts the support payments recorded in COMETS, and calculates any penalty and interest due. The totals on the worksheets should equal the arrears balance on COMETS as of February 28, 1999. However, only two cases had matching arrears balances.

To assist us in our audit and to take advantage of CSE employees' knowledge of the COMET system, all COMET balances used for comparison and the worksheet calculation were provided by and discussed with CSE employees.

In the five cases where the reason for the difference was known, three reasons were identified. First, the date the computer started assessing support payments was different than the start date on the court order. This was the result of either a clerical error or the fact that the prior computer system, Model II, did not have the capability to backdate start dates. In the latter case, an adjustment to correct the error was never made. Therefore, COMETS understated the amount of arrears owed by the noncustodial parent. Second, during the conversion from Model II to COMETS, COMETS missed the December 1997 assessment of support, again understating the arrears balance owed by noncustodial parents. Lastly, the clerical staff of CSE made some errors when performing adjustments to the case files.

CSE stated that it was required to implement the COMETS system no later than December 1997 in order to meet a federal deadline and avoid significant financial sanctions. Officials believe that the majority of discrepancies on COMETS relate to data entry errors on the old Model II system, or systemic problems during the initial installation and debugging phase of the implementation of the COMETS system. DOR officials indicated that following the implementation of COMETS, CSE identified a number of systemic errors that contributed to discrepancies, including the December 1997 missed assessment.

As stated above, 18 cases we reviewed had differences in arrears balances that could not be explained by CSE. CSE recently completed its own case review and analysis on 51 cases having incorrect arrears

balances. The case review process began with 151 cases with child support orders, of which 51 were found to have incorrect arrears balances. In 23 of the cases, the arrears balances were able to be explained by CSE and were dropped from the initial list of 51. The remaining 28 cases were listed in the report, which put the “apparent system’s issues” into four categories: tax intercept (9 cases), under-accrued (12 cases), over-accrued (9 cases), and transitional checks (2 cases). Four cases were incorrect in more than one category. The case review and analysis was summarized as follows:

- Nine cases had balance discrepancies that were equal to the total of one or more tax intercept allocations, all with a transaction date of June 6, 1998. A tax intercept occurs when DOR redirects a tax refund from a taxpayer to satisfy a child support obligation.
- Twelve cases had a balance that was less than the audited balance. The end-of-the-month balances associated with these accounts reflect several problems with accruals and allocations to obligation amounts that have already been satisfied for the given month. The apparent errors appear in six different months from December 1997 through July 1998.
- Nine cases had a balance that was greater than the audited arrears balance. The problem for eight cases appear to have happened in December 1997 – January 1998 end-of-the-month balances. System fixes used during this period did not correct the account balances on these cases.
- For two accounts the problem appears to be due to transitional checks with a November 26, 1997 transaction date. The arrears discrepancies on each case are equal to the transitional check amounts. Transitional checks were the checks issued between the installation of the COMETS system and the cut off of the previous Model II automated system.

Not maintaining accurate arrears balances can lead to inappropriate collection efforts, overstatement of support payments due from the noncustodial parents, and incorrect financial reporting.

Below is the listing of the 23 cases reviewed where the arrears balances on COMETS were different than the arrears calculation worksheet. These numbers reflect only the difference in the principal arrears balance and do not include either interest or penalties due.

<u>COMETS Balance</u>	<u>Worksheet Balance</u>	<u>Difference</u>
\$20,080.00	\$20,180.00	\$100.00
\$2,217.30	\$2,317.30	\$100.00
\$2,052.92	\$2,047.40	\$5.52
\$1,887.50	\$1,675.00	\$212.50
\$5,724.74	\$9,409.17	\$3,684.43
\$14,393.98	\$14,428.53	\$34.55
\$12,349.88	\$12,388.88	\$39.00
-	\$(189.94)	\$189.94

<u>COMETS Balance</u>	<u>Worksheet Balance</u>	<u>Difference</u>
\$3.88	\$114.25	\$110.37
\$436.71	\$422.05	\$14.66
\$2,112.00	\$3,091.00	\$979.00
\$283.34	\$272.71	\$10.63
\$3,024.40	\$3,087.78	\$63.38
\$2,887.50	\$2,910.60	\$23.10
\$1,120.35	\$1,131.90	\$11.55
\$175.87	\$161.05	\$14.82
\$10,837.50	\$10,912.50	\$75.00
\$6,043.66	\$5,780.41	\$263.25
\$1,606.00	\$1,656.00	\$50.00
\$1,245.66	\$1,293.81	\$48.15
\$2,747.07	\$2,959.57	\$212.50
\$175.00	\$75.00	\$100.00
\$94.00	\$658.00	\$564.00

Subsequent to our audit, CSE indicated that it had completed a financial review of the cases and determined that the variances resulted from one or more of the following: a data entry error, a known systemic problem, and/or a pre-COMETS conversion problem. Although CSE provided an explanation for the variance in each of the 23 cases, variances still result and create problems that need to be addressed.

Recommendation: CSE should review COMETS to verify the accuracy of its financial processing to ensure the validity of the financial information and outstanding balances. The review of cases by the Quality Assurance Unit should include a reconciliation of an arrears balance to ensure the accuracy of this information.

Auditee's Response:

While CSE agrees that there are some residual arrears balance discrepancies on the COMETS system as a result of past processing problems, [it has] confirmed that when given accurate information COMETS calculates correctly. As . . . systemic problems were detected, programming changes were added to the system to prevent recurrence. These systemic processing errors have all been subsequently corrected and the remaining discrepancies are being addressed. CSE is finalizing the implementation of an infrastructure to control the quality of information entered into COMETS and ensure the integrity of existing information on the system [including]

- Establishment of specific units dedicated to creation of accurate cases on COMETS;

- Implementation of automated data integrity checks on COMETS . . . ; and
- Routine manual quality assurance reviews of arrears balances, CSE has established additional safeguards to recognize and correct discrepancies, should they occur, and to ensure that minor discrepancies do not result in inappropriate collection activities. . . .

In March of 1998, COMETS underwent an extensive system certification review by a team of Administration for Children and Families/Office of Child Support Enforcement (ACF/OCSE) system and audit personnel. This included the running of the Federal Certification Test Deck through COMETS financial processing. The Test Deck consisted of over 50 financial scenarios with input and predetermined output specified by ACF/OCSE. All tests were concluded to the reviewer's satisfaction and the federal government [conditionally] certified that the system's financial processing is in compliance with federal laws and regulations.

CSE also provided additional information about notices containing account information issued to noncustodial parents with overdue support explaining CSE enforcement procedures and parental appeal process.

8. Inadequate Controls over Case Assessment Monitoring

CSE does not maintain a case monitoring system sufficient to identify cases that should be closed when the dependent child becomes 18 years old. Two of the 27 cases we reviewed for balance accuracy were found to be open and assessing support even though when all dependents were over 18. In both cases, the facts contained in the folders as well as on COMETS supported the closure of the cases. Federal regulation 45 CFR 303.11 requires that the agency establish a system to close cases. Also, Chapter 119A, Section 5, of the General Laws, states, in part:

Agency shall monitor the child payments . . . and shall notify the obligator, or any employer . . . when the child support obligations of the obligor have been satisfied

In both of these cases, COMETS was still assessing for support and in one case, the employer was still being billed and the payments received. The noncustodial parent had been overcharged \$8,460 as of February 28, 1999 in a case that should have been closed in May 1997. Moreover, records revealed that the noncustodial parent requested closing the case in writing July 16, 1998. The second case contained no notes in either the file or in COMETS that indicated the court order for support was extended.

Not stopping the assessment of support and closing cases indicates a weakness in the case management control system and raises questions as to the accuracy and reliability of the COMETS

database. These cases should have been identified by the automated case management system, and the fact that no action was taken on these cases raises questions about the effectiveness of COMETS and its ability to monitor cases. Additionally, cases not closed could effect the accuracy of reports filed with the federal government.

DOR/CSE explained that it was unable to systemically identify cases ready for closure under its prior case tracking system, Model II, because Model II did not maintain data about the birth dates or ages of dependents. DOR/CSE also explained that COMETS tracks dependents' dates of birth and allows for the installation of automatic case closing functionality. The system was implemented prior to completion of case closing programming to meet federal deadlines and preserve federal funding. However, officials indicated that programming for automatic closure of cases when the youngest child becomes 18 has been part of the COMETS project plan since the initial phases of system development.

Recommendation: CSE should review the case monitoring features of COMETS to determine whether cases involving dependents 18 and over can be properly identified. All cases identified should be reviewed and erroneous information should be corrected. Procedures should be established and followed for the continuous monitoring of cases in COMETS to identify cases that require closure.

Auditee's Response:

- The programming design for the automatic case closing is scheduled to be completed and tested . . . and this functionality will be fully integrated
- With this functionality, COMETS will routinely identify cases in which the youngest child is or will soon be 18 years old, and will initiate the appropriate case closing process for these cases.
- The systemic process will include notification to CP's [custodial parent] and NCP's [noncustodial parents] prior to emancipation and an additional program will examine arrearages and make appropriate adjustments based on the court order and the age of the youngest dependent.
- The new functionality will have both retrospective and prospective effect, both correcting any cases that were inadvertently left open and terminating current support accrual timely in cases in which the youngest child turns 18 in the future.