

State of Arizona
Office
of the
Auditor General

PERFORMANCE AUDIT

**DEPARTMENT
OF
ECONOMIC SECURITY**

**DIVISION
OF
CHILD SUPPORT
ENFORCEMENT**

Report to the Arizona Legislature
By Debra K. Davenport
Acting Auditor General
July 1999
Report No. 99-11



DOUGLAS R. NORTON, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
DEPUTY AUDITOR GENERAL

July 19, 1999,

Members of the Arizona Legislature

The Honorable Jane Dee Hull, Governor

Mr. John Clayton, Director
Arizona Department of Economic Security

Mr. James Spezzano, Chairman
Residential Utility Consumer Board

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Department of Economic Security, Division of Child Support Enforcement. This report is in response to the provisions of Laws 1996, Second Regular Session, Chapter 290. This report is the first of two reports to be issued on the Division.

We found that despite increases in its General Fund appropriation and child support collections, the Division is projecting a revenue shortfall of \$1.4 million in fiscal year 2000, and \$2.6 million in fiscal year 2001. These projected shortfalls signal a need for the Division to examine the program's funding options. To do so, the Division should work with the Child Support Coordinating Council to develop a policy position on whether the program should be cost recovery or service delivery in nature. An emphasis on cost recovery may warrant imposing fees for services, whereas an emphasis on service delivery may warrant further increases in the General Fund appropriation.

The report also contains findings regarding customer service call centers in Maricopa and Pima Counties, the Division's progress in addressing past problems with recording and calculating child support monies owed (debts), and the Division's appeals process provided to individuals wanting to contest child support enforcement actions. The Division needs to improve its customer service at the call center it established (Maricopa County) and work with the Pima County Attorney's Office of Child Support Enforcement to continue to improve its call center as customers calling

July 19, 1999
Page -2-

either center experience busy signals and/or long wait times. The needed improvements included addressing turnover issues at the Maricopa call center, providing additional training for Pima call center staff, and enhancing the Division's efforts to evaluate customer satisfaction.

The Division should also take a few more steps to help solidify the progress it has made in the debt area. These steps include analyzing the data it gathers from debt audits on a county-by-county basis and ensuring that all child support offices conduct supervisory reviews of the debt work performed by staff. Finally, the 1996 Welfare Reform Act provided states with strong new enforcement tools, such as the ability to administratively order an employer to withhold child support payments from a noncustodial parent's take-home pay or place a lien on the noncustodial parent's property. Because of these new enforcement tools, the report recommends that the Division produce regular management reports to ensure that the due process safeguards (the administrative appeal process) mandated by state law and Division policy are working.

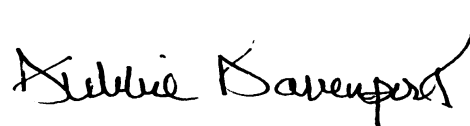
The report also provides information regarding the child support enforcement functions and activities the Division has privatized.

As outlined in its response, the Department agrees with all of the findings and recommendations. Further, the Department reports that it is already in the process of implementing many of the report's recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on July 20, 1999.

Sincerely,

A handwritten signature in black ink that reads "Debbie Davenport". The signature is written in a cursive style with a large, sweeping flourish at the end.

Debbie Davenport
Acting Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (Department), Division of Child Support Enforcement (Division). This audit was completed pursuant to the provisions of Laws 1996, Second Regular Session, Chapter 290, which defined the scope of this performance audit to include five areas: the Division's effectiveness, customer service operations, debt calculations, privatization efforts, and the statewide automated case management system (ATLAS). While audit work was conducted in all areas, this report focuses on the Division's customer service operations, debt calculations, and privatization efforts. This report also includes information about program funding and the Division's appeal process. A second report due July 31, 2000, will focus on the remaining two areas: ATLAS operations and overall effectiveness.

The Division administers the federally mandated child support enforcement program. The Division's mission is to help families become or remain self-sufficient by ensuring that families receive court-ordered child support payments from the noncustodial parent. In Arizona, anyone needing program services can receive them at no cost. These services include locating noncustodial parents, establishing paternity, and placing withholding orders on noncustodial parents' paychecks to ensure that child support is paid. For families who receive public assistance, the State retains the right to the child support payment up to the amount of public assistance the family received.

The program collected nearly \$160 million in child support payments in fiscal year 1998, and as of February 1999, it had a caseload of approximately 277,000. The program costs about \$60 million a year to administer. The federal government generally pays 66 percent of the program's costs and the State pays the remaining 34 percent. The Division provides program services in 7 of Arizona's 15 counties, county attorneys provide services in 6, and a private contractor provides services in 2.

Possible Revenue Shortfalls Signal Need for Division to Assess Funding Options (See pages 11 through 17)

The Division is projecting a revenue shortfall of about \$1.2 million or more for the program during fiscal year 1999 and in each of the next two fiscal years. These shortfalls are projected to occur even though the Legislature approved an increase in the Division's General Fund appropriations of nearly \$2 million in fiscal years 2000 and 2001. Several factors contribute to this anticipated shortfall, including likely decreases in several of the funding sources the State has traditionally used to provide its share of operating costs, and increased costs

brought on by such things as welfare reform and salary adjustments. The shortfalls could become even greater if the federal government follows through with possible reductions in its share of funding for the program.

Deciding how to address these projected shortfalls may also involve making other fundamental decisions about the program. For example, if recovering costs is considered a fundamental purpose of the program, one option is to charge fees for the services provided, which is an approach some states take. On the other hand, if the paramount purpose is to help any participating family become or remain self-sufficient, general tax revenues may be the more appropriate program revenue source. As a starting point in studying the various funding options, the Division should work with the Child Support Coordinating Council, a body established by statute as a forum for developing and coordinating policies regarding the program.

Customer Service Operations in Maricopa County and the Pima County Attorney's Office Need Improvement (See pages 19 through 25)

Call centers established to improve the quality of child support enforcement customer service in Maricopa County and the Pima County Attorney's Office are not doing an effective job. Customers trying to call either center encounter busy signals, often wait on hold for many minutes once they do connect, and often hang up before the wait is over. For example, auditors called the Maricopa center 222 times during a test period and received busy signals on 176 of these attempts. When they got past the busy signals, they usually waited on hold for 10 minutes or more (the center's goal is to put callers on hold for no more than 5 minutes). Auditors had similar experiences when they made test calls to the Pima County Attorney's Office call center.

Although the problems are similar at both call centers, the reasons for these problems are different. In Maricopa County, many positions are vacant. For example, the center had at least 10 of its 54 positions unfilled on at least one-third of the days it was operating in 1998. It appears that high turnover and the required staff qualifications impact the Maricopa center's ability to hire and retain call center representatives. The Pima County Attorney's Office call center was more fully staffed, but its employees must perform other duties, such as sorting the mail and handling walk-in customers, and until recently did not appear to be receiving enough training to answer inquiries efficiently.

Additional Steps Would Help Solidify the Division's Progress in Recording and Calculating Child Support Debts (See pages 27 through 30)

Although the Division has made substantial progress in addressing past problems with recording and calculating child support monies owed (debts), some refinements are still needed in its processes for managing this debt information. Accurate debt information is important for ensuring that the custodial parent receives the proper child support payments and the State takes appropriate enforcement actions when payments are not received. Improvements the Division has already made include better training for the employees who record and calculate debts, more reviews of their work by supervisors, and periodic audits of a sample of cases. The refinements the Division needs to make include analyzing the data it collects on a county-by-county basis, and ensuring that all child support offices conduct supervisory reviews of the debt work performed by staff.

The Division Needs to Better Monitor Its Appeals Process (See pages 31 through 35)

The Division needs to improve its oversight of the administrative appeals process provided to individuals wanting to contest enforcement actions. The 1996 Welfare Reform Act provided states with strong new enforcement tools, such as the ability to administratively order employers to withhold child support payments from a noncustodial parent's take-home pay without obtaining a court order. These stronger powers heighten the need to ensure that enforcement actions follow due process safeguards mandated in state law and Division policies. While both Arizona law and Division policy provide for an appeals process (known as an administrative review) to help protect individuals' due process rights, the Division currently lacks important centralized management information that would help it ensure that reviews are conducted in an appropriate and timely manner.

Other Pertinent Information (See pages 37 through 41)

To respond to the Legislature's statutory charge for this audit, auditors also analyzed the Division's privatization efforts. The Division contracts with several private vendors who provide a variety of child support enforcement services including centralized payment processing, collection services, and genetic testing. During fiscal year 1999, the Division estimates the total contracting costs will be about \$6.5 million. Although Arizona's privatization efforts are in line with other states' efforts, Auditor General staff identified two services privatized in other states that are not privatized in Arizona: customer service call centers and legal services.

Table of Contents

	<u>Page</u>
Introduction and Background	1
Finding I: Possible Revenue Shortfalls	
Signal Need for Division to	
Assess Funding Options	11
Division Forecasts Revenue	
Shortfalls for Program.....	11
Several Factors Contribute	
to Potential Shortfall	12
Examining Funding Options Involves	
Assessing Program’s Purpose and	
Option Costs and Benefits	15
Recommendations	17
Finding II: Customer Service Operations	
in Maricopa County and the Pima	
County Attorney’s Office	
Need Improvement.....	19
Customer Service	
Includes Call Centers	
Serving Two Counties.....	19
Customer Service at Both	
Centers Is Marked by Delays.....	20
Division Should Improve	
Call Center Operations.....	23
Recommendations	25

Table of Contents (cont'd)

	<u>Page</u>
Finding III: Additional Steps Would Help Solidify the Division's Progress in Recording and Calculating Child Support Debts	27
Accurate Debt Information Is Important for All Participants	27
Division Has Made Improvements in the Debt Area.....	28
Division Should Take Some Additional Steps to Further Enhance Debt Accuracy	29
Recommendations	30
Finding IV: Division Needs to Better Monitor Its Appeals Process	31
Welfare Reform Provides Powerful Enforcement Tools	31
New Powers Heighten Need to Ensure Due Process Safeguards Are Working.....	33
Division Lacks Important Centralized Management Information to Properly Manage Appeals Process.....	34
Recommendations	35
Other Pertinent Information.....	37
Private Vendors Provide Many Child Support Enforcement Services	37
Division Employs Various Monitoring Mechanisms.....	40

Table of Contents (concl'd)

		<u>Page</u>
Figures		
Figure 1	Arizona Department of Economic Security Child Support Enforcement Program Child Support Collections and Caseloads Years Ended June 30, 1994 through 1998 (Unaudited)	2
Figure 2	Arizona Department of Economic Security Child Support Enforcement Program County Operating Entity and Caseload As of February 28, 1999	5
Figure 3	Arizona Department of Economic Security Child Support Enforcement Program Source of Program Funding (in millions) Year Ended June 30, 1998 (Unaudited)	7
Tables		
Table 1	Arizona Department of Economic Security Child Support Enforcement Program Statement of Revenues and Expenditures Years Ended June 30, 1997, 1998, and 1999 (Unaudited)	6
Table 2	Arizona Department of Economic Security Child Support Enforcement Program Summary of Some of the Program's Enforcement Options	32
Table 3	Arizona Department of Economic Security Child Support Enforcement Program Privatized Services and Estimated Total Contract Amounts Year Ended June 30, 1999 (Unaudited)	39

INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (Department), Division of Child Support Enforcement (Division). This audit was completed pursuant to the provisions of Laws 1996, Second Regular Session, Chapter 290, which required the Office of the Auditor General to review the Division's customer service operations, privatization efforts, debt calculations, statewide automated case management system, and overall effectiveness. This report is the first in a two-part series.¹

The Division administers the federally mandated child support enforcement program. The Division's mission is to help custodial parents become or remain self-sufficient, in part by ensuring that noncustodial parents meet their child support responsibilities. This program, outlined in Title IV-D of the Social Security Act (1975) and known as the IV-D program, was initially designed to primarily serve custodial parents receiving public assistance monies. As part of receiving public assistance monies, the custodial parent assigns his or her right to child support collections to the State. Then, when the State's Child Support Enforcement Program collects child support payments on that case, it uses that money to help offset its program costs. By establishing child support orders and collecting on those orders, the program also works to eliminate families' need for public assistance monies. In 1984, the federal government expanded the IV-D program to provide services to individuals not receiving public assistance. In Arizona, individuals can apply and receive all the State's IV-D child support services at no cost.

Program Services

Arizona's IV-D Child Support Enforcement Program (program) provides a variety of services for its approximately 277,000 cases as of February 1999. The program's cases include families who currently receive public assistance, received public assistance in the past, or have never received public assistance but have applied to receive the State's IV-D services. Services offered include:

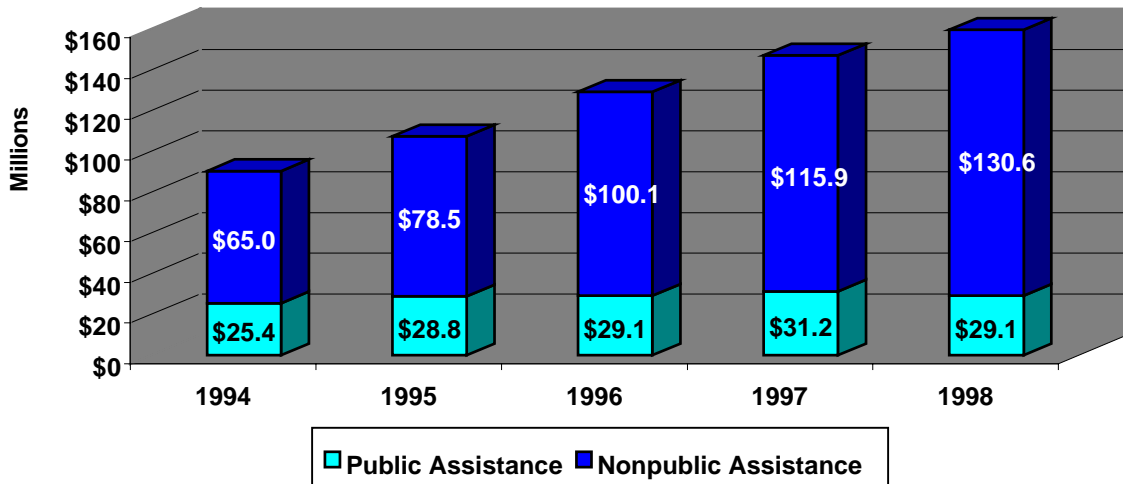
- Locating noncustodial parents when their whereabouts are unknown, which involves searching and using information from a variety of resources, including the U.S. Postal Service, the Arizona Motor Vehicle Division, the Arizona Department of Corrections, and the U.S. Office of Child Support Enforcement.

¹ To provide more complete information about the statewide case management system and the Division's overall effectiveness, a separate report on these topics will be issued by July 31, 2000.

- Establishing paternity through administrative and judicial processes such as voluntary paternity acknowledgement and court orders.
- Helping establish legal child support obligations through administrative and judicial processes according to the State's child support guidelines. These guidelines base the support amount on the custodial and noncustodial parents' gross income. The guidelines also require one of the parents to provide medical insurance for his or her child(ren) if coverage is available at a reasonable cost.
- Collecting and enforcing child support obligations through wage assignments, state and federal tax intercepts, and other administrative and judicial means. In fiscal year 1998, the program collected nearly \$160 million in child support payments. Figure 1 illustrates child support payments the program has collected from both public assistance cases and nonpublic assistance cases over the past five years.

Figure 1

**Arizona Department of Economic Security
Child Support Enforcement Program
Child Support Collections and Caseloads
Years Ended June 30, 1994 through 1998
(Unaudited)**



	1994	1995	1996	1997	1998
Total collections	\$90,471,300	\$107,300,200	\$129,244,300	\$147,062,100	\$159,697,000
Caseload size	303,253	265,534	271,758	304,503	290,447

Source: The Arizona Department of Economic Security's *Comprehensive Annual Financial Report* for the year ended June 30, 1998, and caseload data provided by the Division of Child Support Enforcement.

- Distributing all monies collected in accordance with federal and state regulations. Specifically, these regulations indicate that for current public assistance cases, the State has the right to retain any child support monies collected (up to the cumulative public assistance grant amount). Similarly, the State can sometimes retain the child support payments collected on former public assistance cases. However, in cases where the family has never received public assistance monies, the entire amount collected goes directly to the family.

Significant Accomplishments

The Division was last reviewed by the Auditor General's Office in 1995, and since that time, it has implemented some notable changes. According to Division officials, some of its more significant accomplishments over the past few years are as follows:

- **Use of strategic planning**—The Division indicated that it has embraced the principles of effective strategic planning to increase its performance. Specifically, for the program's primary functions (paternity establishment, support order establishment, and collections) the Division sets numerical goals for each office, unit, and employee. Then, on a monthly basis, it analyzes projected versus actual productivity and re-deploys resources in accordance with year-to-date performance. Additionally, individual employee evaluations are based upon the accomplishment of these goals. As a result of this productivity focus, the Division is reporting increased performance in its key functional areas. For example, according to federal data, Arizona ranked in the top five states nationally for increased collections each year between 1995 and 1997, even though its caseload size has remained relatively stable.¹
- **Implementation of welfare reform changes**—The Division proceeded in a timely manner to implement the program changes required by the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (welfare reform). The Division was successful in seeking conforming Arizona legislation (Laws 1997, Chapter 219), which contained over 50 significant changes to the Child Support Enforcement Program. Since welfare reform, the Division has implemented some major program changes, including a centralized process for the receipt and posting of all Arizona child support payments; a new-hire reporting system for use in locating noncustodial parents and their assets; an automated process for preparing income withholding orders that reduces the time families must wait to begin receiving support payments; and a financial institu-

¹ Data reported in the 21st Annual Report to Congress (1998) and Child Support Enforcement FY 1997 Preliminary Data Report (1998) prepared by the Office of Child Support Enforcement, Administration for Children and Families, U.S. Department of Health and Human Services.

tion data-matching process that identifies accounts held by delinquent noncustodial parents so that levies can be issued on those accounts.¹

Organization and Staffing

Although the Division administers Arizona's child support enforcement program, a number of different entities perform local program operations, as illustrated in Figure 2 (see page 5).² Specifically, in Arizona, counties have the first right to provide program services. Six counties have exercised that right and their county attorney offices provide child support enforcement services. In seven counties, the Division, in conjunction with the Attorney General's Office, operates the program. In the remaining two counties, the Division has contracted with a private contractor to provide program services.

As of September 30, 1998, 967 employees statewide provided the various child support enforcement program services. This number includes 540 Division employees, such as the Assistant and Deputy Assistant Director; regional managers, supervisors, caseworkers, policy and procedure staff, program evaluation staff, and systems and automation personnel; 102 Attorney General staff, 252 county employees, 25 private contractor personnel, and 48 other temporary employees (clerical, accounting, programming, and business analyst staff).

Program Expenses and Income

As illustrated in Table 1 (see page 6), providing child support enforcement services statewide now costs over \$61 million. Generally, the federal government reimburses 66 percent of the program's costs, and the operating entities (the Division and county attorneys) are responsible for paying for the remaining costs. Operating entities use a variety of sources such as incentive dollars and General Fund appropriations to help cover their share. Figure 3 (see page 7) illustrates the percentage and dollar amount each funding source, including federal reimbursement, contributed to the program's fiscal year 1998 expenditures. These funding sources are more fully described in the following paragraphs.

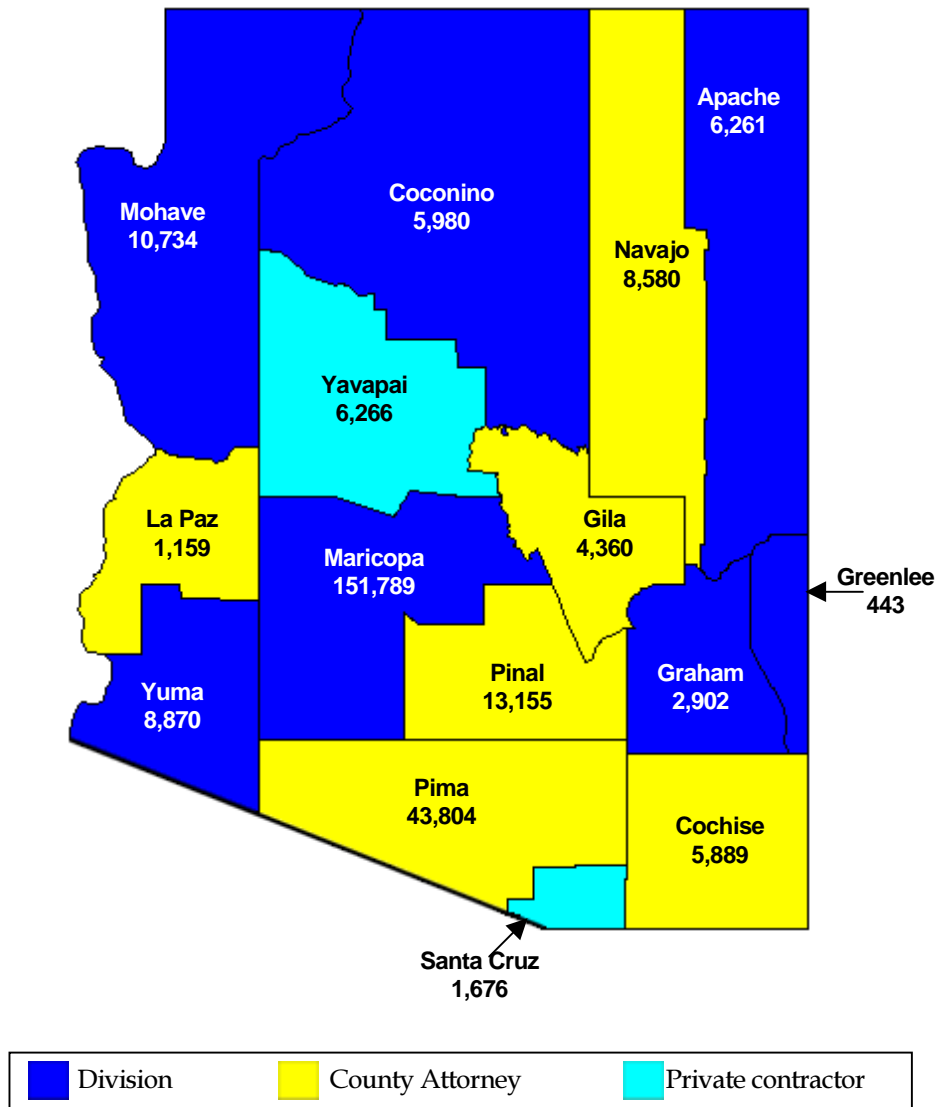
- **Federal monies** – Two categories of federal monies contributed approximately 74 percent of the total program revenue during fiscal year 1998. First, the federal cost-sharing dollars reimburse 66 percent of the program's administrative expenditures, including

¹ Federal law mandates that within 20 days of the hiring date, employers must report the new employee's name, address, and social security number and their own federal employer identification number to the state's child support enforcement program.

² Federal regulations require that each state name one entity responsible for administering that state's IV-D child support enforcement program.

Figure 2

Arizona Department of Economic Security
Child Support Enforcement Program
County Operating Entity and Caseload ¹
As of February 28, 1999



¹ An additional 5,201 tribal cases are handled by the Navajo Nation in several different counties.

Source: Auditor General staff analysis of caseload data by county, provided by the Division of Child Support Enforcement.

Table 1**Arizona Department of Economic Security
Child Support Enforcement Program
Statement of Revenues and Expenditures
Years Ended June 30, 1997, 1998, and 1999
(Unaudited)**

	1997 (Actual)	1998 (Actual)	1999 (Estimated)
Revenues:			
Federal cost-sharing grant	\$ 32,542,425	\$ 35,222,705	\$ 39,826,989
Federal incentives	4,097,364	3,615,621	3,671,041
State's share of retained earnings	6,034,811	7,019,359	7,043,798
State General Fund appropriations			
Operating	2,256,900	1,293,600	1,549,200
Special line items	914,500	1,778,000	1,333,600
Division's share of overhead costs ¹	1,492,552	1,179,070	1,298,000
County support	2,414,030	2,800,308	3,201,972
Other	<u>25,535</u>	<u>19,147</u>	<u>412,200</u>
Total revenues	<u>49,778,117</u>	<u>52,927,810</u>	<u>58,336,800</u>
Expenditures:			
Personal services	17,981,111	19,672,740	22,055,142
Employee related	4,298,108	4,654,492	5,268,992
Professional and outside services	7,515,124	7,857,867	9,210,975
County expenditures	11,319,611	11,302,609	11,880,610
Central payment processing		850,346	2,086,200
Equipment acquisitions	1,420,695	2,354,629	2,979,672
Lease/rental payments	2,289,941	2,303,556	2,582,248
Other operating	<u>4,171,816</u>	<u>4,628,441</u>	<u>5,007,850</u>
Total expenditures	<u>48,996,406</u>	<u>53,624,680</u>	<u>61,071,689</u>
Excess of revenues over (under) expenditures ²	<u>\$ 781,711</u>	<u>\$ (696,870)</u>	<u>\$ (2,734,889)³</u>

¹ The Department allocates overhead costs to its various Divisions. The Department's overhead costs are funded by the Department's State General Fund appropriation for general administrative activities, and the Division's portion is considered revenue to it.

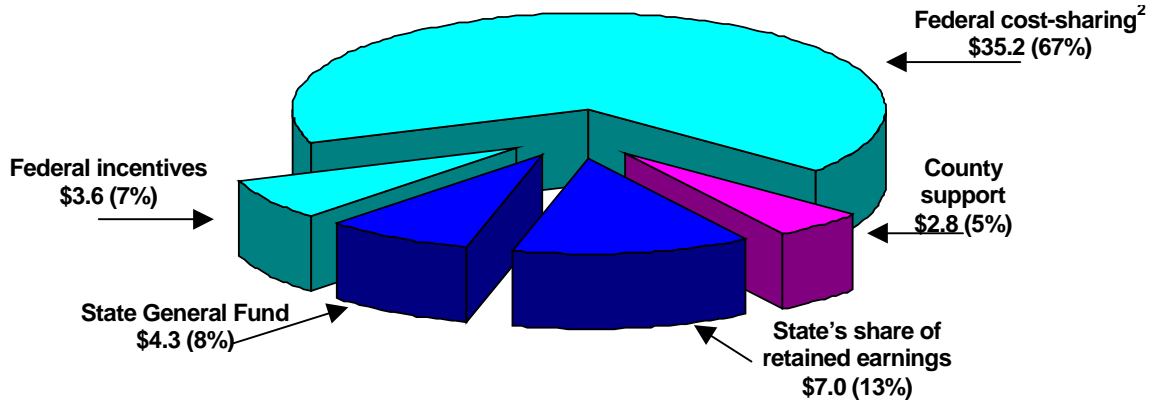
² Does not include reversions to the State General Fund, since lapsing appropriations are closed out two years after the end of the fiscal year. The Division estimates that reversions to the State General Fund for 1997 and 1998 will be \$161,000 and \$146,000, respectively.

³ The excess of expenditures over revenues is offset by the Division's projected balance of \$1,503,752 from prior year revenue sources, including nonlapsing appropriations. The Division is seeking additional State General Fund appropriations to fund the remaining \$1,231,137 deficit (see Finding I, pages 11 through 17). Information on any excess of expenditures over revenues for program operations administered by county attorneys or other county entities is not collected by the Division and, therefore, is not reported.

Source: Various reports of the Department's Financial Management Control System and the *State of Arizona Appropriations Report* for the years ended June 30, 1997 and 1998; and Division estimates as of May 31, 1999, of financial activity for the year ended June 30, 1999 (actual amounts not available at the time of this report). County support and expenditures were obtained from the Division's records for the years ended June 30, 1997 and 1998.

Figure 3

**Arizona Department of Economic Security
Child Support Enforcement Program
Source of Program Funding
Year Ended June 30, 1998¹
(in millions)
(Unaudited)**



¹ The program also collects a minimal amount of fee revenue, which primarily consists of monthly assessments for child support payment processing and laboratory costs. Fee revenue represented less than that percent of total program funding in fiscal year 1998.

² While federal cost-sharing dollars reimburse 66 percent of most of the program's administrative expenditures, some costs are reimbursed at a higher rate. For example, genetic test fees to establish paternity are reimbursed at a rate of 90 percent.

Source: Auditor General staff analysis of Division-reported funding for the year ended June 30, 1998.

personnel costs and professional and outside services. Additionally, some other costs, such as genetic test fees to establish paternity, are reimbursed at a rate of 90 percent. During fiscal year 1998, the Division received \$35.2 million in federal cost-sharing monies.

In addition to cost-sharing, the federal government distributes incentive payments to states to encourage and reward cost-effective programs. Based on Arizona's collections-to-cost ratio, the Division received \$3.6 million in federal incentive payments in fiscal year 1998.

- **State monies**—State monies, which comprised approximately 21 percent of total program revenue during fiscal year 1998, also contributed to the program through two sources. First, the program receives the state’s share of retained earnings when a custodial parent applies for public assistance and assigns his or her rights to child support payments to the State. Then, as long as the family is currently receiving public assistance, the Child Support Enforcement Program can retain the child support payments collected on the family’s behalf up to the cumulative amount of the public assistance grant. In addition, the state can sometimes retain child support payments collected on former public assistance cases. However, because the federal and state government share in the cost of public assistance programs, the Child Support Enforcement Program sends a portion of these collections back to the federal government.¹ During fiscal year 1998, the program retained approximately \$7 million from Arizona current and former public assistance cases and remitted approximately \$15 million to the federal government.²

In addition to the state’s share of retained earnings, State General Fund monies also provide income for the Child Support Enforcement Program. The Division received approximately \$4.3 million in General Fund monies during fiscal year 1998.

- **County monies**—County monies contributed approximately 5 percent of the program revenue during fiscal year 1998. Six counties providing child support enforcement services under the administration of their county attorney (Cochise, Gila, La Paz, Navajo, Pima, and Pinal) contribute local monies to help pay for their nonfederal share of expenditures. Additionally, the Maricopa and Pinal Clerks of the Superior Court, and the Superior Courts in Gila, Maricopa, Navajo, Pima, Pinal and Yavapai Counties also contributed county monies to the program.³ During state fiscal year 1998, these county entities contributed a total of \$2.8 million.

Audit Scope and Methodology

Laws 1996, Second Regular Session, Chapter 290, defined the scope of this performance audit of the Division to include five areas: customer service operations, debt calculation errors, privatization efforts, Arizona Tracking Location Automated System (ATLAS) opera-

¹ The states’ share of retained earnings is determined by the Federal Medical Assistance Percentage, commonly referred to as the FMAP rate. Specifically, the state’s portion of retained earnings is the inverse of its FMAP rate. FMAP rates are based on a state’s per capita income and Arizona’s FMAP rate is approximately 65 percent.

² In fiscal year 1998, another \$7 million was collected from current and former public assistance cases for other states.

³ These entities contributed \$764,683 in fiscal year 1998.

tions, and overall effectiveness. While audit work was conducted in all areas, this initial report focuses on the Division's customer service operations, debt calculation, and privatization efforts. This report also includes information about the Division's program funding and appeals process. A second report, due July 31, 2000, will focus on the remaining two areas: ATLAS operations and overall effectiveness.

Various methods were used to learn about and assess the Division's general program operations. For example, to learn about the expected and actual operations of Arizona's child support enforcement program, auditors reviewed Arizona statutes, federal regulations, Division policies and procedures, and program strategic plans. Auditors also conducted on-site visits to child support enforcement offices in 5 of the 15 counties. In addition, auditors interviewed Division officials, child support enforcement staff, county program staff, contract program staff, Arizona Attorney General personnel, and budget analysts from the Department, the Governor's Office of Strategic Planning and Budgeting, and the Joint Legislative Budget Committee. A written survey instrument soliciting information about program operations was also administered to staff at all the child support enforcement offices. Finally, the auditors attended training on the operation and use of the Division's automated information system to help assess its impact on case processing.

Auditors used other methods to address specific topics beyond general program operations. For example, to obtain information on the performance of Maricopa and Pima Counties' customer service call centers, auditors interviewed 31 program clients and attempted to place 294 calls to these two centers during February and March 1999. Auditors also contacted other states, other Arizona state agencies, and a private contractor operating large call centers to obtain information about their performance standards.¹ Similarly, to determine current program funding issues and strategies for increasing program income, staff from child support enforcement programs in 9 states and the U.S. Department of Health and Human Services, Office of Child Support Enforcement were contacted.²

This report presents findings and recommendations in four areas:

- The Division's forecasted funding shortfalls over the next three fiscal years suggests a need to examine the program's purpose and funding options aligned with that focus.

¹ Auditors contacted the states of Colorado and Montana because they privatized their customer service call center operations. In addition, the Arizona Department of Revenue, Arizona Unemployment Compensation Fund, and Discover Card Corporation were contacted to obtain information about performance standards.

² Auditors contacted Louisiana, Michigan, Mississippi, Montana, Nebraska, New Jersey, North Carolina, Ohio, and Pennsylvania because they have implemented program cost recovery mechanisms.

- The need for the Division to improve customer call center operations in Maricopa County and the Pima County Attorney's Office.
- The Division's improved oversight processes in the debt calculation area and the additional steps needed to solidify its progress.
- The need for the Division to improve the oversight of the appeals process by which custodial or noncustodial parents contest enforcement actions.

The report also presents information about the Division's privatization efforts (see Other Pertinent Information, pages 37 through 41).

The audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Director, Deputy Director and staff of the Arizona Department of Economic Security; the Assistant Director, Deputy Assistant Director and staff of the Division of Child Support Enforcement; and the child support enforcement staff from the offices of the Attorney General, county attorneys, and private contractor for their cooperation and assistance during the audit.

FINDING I

POSSIBLE REVENUE SHORTFALLS SIGNAL NEED FOR DIVISION TO ASSESS FUNDING OPTIONS

The Division is projecting a revenue shortfall of \$1.2 million or more for fiscal year 1999 and each of the next two fiscal years despite projected increases in collections. Although increasing costs are a factor, an even larger concern is the possibility that the program's current funding sources will be decreased. These shortfalls will occur, according to Division projections, even though the Legislature increased the Division's General Fund appropriations for the upcoming years. While seeking additional General Fund money may be one alternative for making up this potential shortfall, the Division may have other options, such as charging fees for its services or increasing the number of clients served. As part of its efforts to assess program funding options, the Division, together with a state council established to coordinate child support efforts, should examine whether the purpose of Arizona's child support program should be cost recovery or service delivery. The Division should then conduct a cost-and-benefit analysis of the funding options aligned with that focus.

Division Forecasts Revenue Shortfalls for Program

Arizona's Child Support Enforcement Program will likely experience revenue shortfalls over the next several fiscal years, according to Division and county projections. For fiscal year 1999, the Division sought an additional \$1.2 million in State General Fund monies despite an expected increase in child support collections of 19 percent over fiscal year 1998 collections.¹ The state budget offices and the Arizona Department of Economic Security (Department), have agreed to cover the 1999 need by transferring General Fund monies from other Department programs. In addition, for fiscal years 2000 and 2001, the budget offices recommended that the Legislature increase the Division's General Fund appropriation by approximately \$1.7 million annually. Although these increases were approved, Division officials still anticipate a \$1.4 million shortfall in fiscal year 2000 and a \$2.6 million shortfall in fiscal year 2001.²

¹ Although fiscal year 1999 child support collections are substantially more than those in fiscal year 1998, the amount eligible for retention by the program (i.e., State's share of retained earnings) has not increased. Therefore, the additional child support monies collected by the program in fiscal year 1999 are being passed on to the families.

² The Division shortfalls projected for fiscal years 1999 through 2001 were forecasted as of May 31, 1999.

In addition to the shortfalls being projected by the Division, two contracting counties have recently notified Division management that they are also forecasting revenue shortfalls. Specifically, Pima County indicated that as of April 1999, its Child Support Enforcement Office will be operating at a deficit of approximately \$66,000 per month despite dramatic improvements in productivity and child support collections. Meanwhile, Cochise County indicated that its child support enforcement fund is currently generating a deficit of approximately \$22,000 per quarter, which will deplete the current fund balance in approximately two years (assuming expenditures and revenues remain constant). As a result of these projected shortfalls, these two counties have placed the State on notice that they may terminate their contracts to provide local child support enforcement services.

Several Factors Contribute to Potential Shortfall

Likely decreases in traditional program funding sources are the main factor contributing to the Division's forecasted shortfalls. As the Introduction and Background section of the report pointed out (see pages 1 through 10), the federal government pays 66 percent of the program's administrative costs, and the operating entities pay the remaining 34 percent from a variety of sources. However, two of the sources that help cover the nonfederal share of costs (state's share of retained earnings and federal incentives) are in jeopardy. Additionally, although the forecasted shortfalls assume that the cost-share rate will remain the same, some federal officials have suggested that the current 66 percent rate should be reduced, meaning the Division would have to bear an even higher share of program costs. Finally, increased costs, brought on by such things as implementing welfare reform and higher personnel expenses, are contributing to the Division's anticipated shortfalls.

Retained earnings used to pay State's share are decreasing—While a family is receiving public assistance benefits, the State has the right to retain any child support collected (up to the cumulative public assistance grant amount) on that case. The Division has used those earnings, which provided about \$7 million in income for fiscal year 1998, to help pay the nonfederal portion of the program's operating costs. For several reasons, however, the Division is projecting a decrease in these earnings:

- **Reduction in current assistance cases**—In the past, current assistance cases accounted for over 50 percent of the program's total caseload. However, at the end of fiscal year 1998, current assistance cases comprised only about 23 percent of the caseload. The decrease in current assistance cases significantly reduces the potential to generate revenue from the retained child support collections.
- **New distribution laws**—New distribution laws, put in place through federal welfare reform (to be completely phased in by October 2000), are reducing the amount of retained earnings available to apply to program costs. Distribution laws determine which parties (custodial parent, state, or federal government) have the right to receive the

money collected through the child support program. In prior years, when the state collected past-due child support on former public assistance cases, the money would first go to the state and the federal government to reimburse public assistance monies they expended.¹ Under the new distribution laws, when the program collects past-due child support on former public assistance cases, families first receive all past-due support owed to them while they were not on assistance before the state or federal government can be reimbursed for their expenses.

- **Elimination of the “hold harmless” clause**—Retained earnings may undergo more reduction than currently estimated as a result of further possible actions by the federal government. The federal government is contemplating eliminating the “hold harmless” clause, which stipulates that states will not receive less in their state’s share of retained earnings than they did in 1995.² Because of anticipated reductions in the amount of retained earnings, the Division plans to evoke the hold harmless clause in fiscal year 2001. However, if this provision is eliminated, the Division projects it will lose an additional \$177,912 in fiscal year 2001 because the state’s share of retained earnings will not reach the 1995 amount.

New incentive program makes federal incentive revenue uncertain—Future revenues from federal incentive payments, which provided about \$3.6 million in income for fiscal year 1998, are uncertain. During federal fiscal years 2000 and 2001, the federal government will phase in a new incentive program that eliminates the states’ guaranteed minimum incentive payments of 6 percent of collections.³ The new program evaluates states’ performance in five areas and requires states to perform at the required minimum level in at least one of these areas to qualify for any incentive money (see Item 1). In addition, the federal government placed a cap on the total amount of incentive monies available in any year, which will require states to compete with each other for the funding. Therefore, it is difficult to determine how Arizona will fare under the new incentive program.

Item 1:	New Federal Incentive Program Performance Measures
◆	Percentage of caseload with paternities established
◆	Percentage of caseload with support orders established
◆	Percentage of current support owed that is collected
◆	Percentage of cases with a collection on past-due amounts
◆	Collections-to-cost ratio

¹ Current support is the monthly amount due stipulated in the support order. If the noncustodial parent fails to make the current monthly support payment, an arrears balance starts to accrue.

² Arizona earned \$6,390,542 in the state’s share of retained earnings in 1995.

³ The new incentive program will be phased in beginning in federal fiscal year 2000. During the first year, one-third of a state’s incentive payments will be based on the new program and two-thirds on the old program. During the second year, two-thirds of a state’s incentive payments will be based on the new program and one-third on the old program. By federal fiscal year 2002, all of a state’s incentive payments will be based on the new program.

Potential reduction in federal cost-share rate would increase State's costs—The State's costs could rise even further if the federal government should decide to reduce its cost-sharing rate. There is discussion at the national level about reducing the federal cost-share rate, and any reduction will result in the State having to bear a greater percentage of program costs. According to a report prepared for the House Ways and Means Committee, the federal government has lost money on the child support program every year since 1979, with losses in 1996 amounting to \$1.15 billion.¹ In contrast, the report notes that most states have profited from the program over the years, with 1996 profits totaling \$407 million.² This trend has prompted some in Congress to suggest that the reimbursement rate be reduced to something lower than 66 percent. The U.S. Department of Health and Human Services, Administration for Children and Families is working on proposals to address these concerns. If Congress should decide to reduce the cost-share rate, Arizona's program funding could be significantly affected as it currently receives approximately \$35 million annually from this funding source. Every percentage point reduction in the federal cost-share rate equates to a \$350,000 increase in program funding the Division would have to provide.

Program costs are increasing—Increasing program costs are also contributing to the program's funding difficulties. During fiscal year 1999, program costs are expected to increase by more than \$7.5 million from fiscal year 1998.³ The Division indicates that the 1999 increases resulted primarily from welfare reform implementation costs, such as centralized payment processing; increases in certain contracting costs resulting from greater productivity; and market increases, such as leased space costs and personnel costs due to classification maintenance reviews and merit raises. Although the federal cost-share rate will pay for 66 percent of these increased costs, the State will still need to pay the remaining 34 percent.

Although the Legislature did appropriate some additional monies to help cover the nonfederal share of these increased costs, the Division indicates that the increase was not enough to cover all its needs. For example, the Division indicated that the personnel-related increases were not covered. In addition, the program entered into an agreement with the Navajo Nation to reimburse it for providing child support enforcement services to its tribal cases, but there were no additional General Fund monies appropriated to cover this cost.

¹ 1998 Green Book, prepared by the House Ways and Means Committee staff for the Committee's use, May 19, 1998, pgs. 598-600.

² In the committee's report, the term "profit" indicates that a state's program revenues (i.e., federal cost-share monies, the state's share of retained earnings, and federal incentive monies) exceeded the program's administrative expenditures. However, the "profit" concept has been disputed by various groups including the American Public Human Services Association because (among other things) a principal component of the "profit" is just the state's recovery of spending on behalf of welfare families.

³ Although there was a significant increase in program expenditures during fiscal year 1999, Division officials estimate that program costs will rise a modest 3 percent in each of fiscal years 2000 and 2001.

Examining Funding Options Involves Assessing Program's Purpose and Option Costs and Benefits

Addressing this shortfall, if it should materialize, may involve more than just finding a funding source. Nationally, there is much debate regarding the Child Support Program's mission, which may ultimately determine how the program is viewed and funded. For example, some groups are aligned with the program's original purpose of cost recovery and argue that participants should be charged fees for the services provided through the program. On the other hand, others argue that the program's purpose is to help families become or remain self-sufficient and therefore general tax revenues should support the program. Because there is no clear answer, the Division should work with the Arizona Child Support Coordinating Council to review the purpose of the State's Child Support Enforcement Program and study the costs and benefits of those funding strategies best aligned with that purpose.

Program costs could be supported through fees—If policymakers determine that Arizona's Child Support Program should include a cost recovery component, fees may provide one option for increasing program income. Federal regulations allow states to charge various fees to families who have never been or are no longer eligible for public assistance. Allowable fees include a program application fee up to \$25 and fees for child support services, such as establishing paternity or enforcing support orders. Several states already use a variety of fees to generate program revenue, and other states such as Texas are studying this approach. For example,

- Alabama and North Carolina charge application fees to the custodial parent ranging from \$5 to \$25.
- Ohio retains 2 percent of the custodial parent's monthly collections.
- Idaho developed a schedule of legal fees that it recommends judges include in their child support orders. Examples of fees include \$275 for obtaining a child support order, and \$395 to establish paternity through a court trial.

Assessing fees presents various benefits and drawbacks. On the positive side, fees assessed by state child support enforcement programs are generally less than the fees a private attorney or a collection agency would charge. For example, a private collection agency may retain 25 percent or more of the amount collected. Additionally, fees allow the State to recover some of its program costs from those individuals receiving the services. Nevertheless, some opponents argue that assessing fees to generate program revenue may prevent low-income families from applying for services or may reduce the monies provided to the children. In addition, because the federal government provides 66 percent of the program funding, the State can retain only 34 percent of every fee dollar collected. Also, the costs associated with establishing and collecting fees may outweigh any benefits. Historically, Arizona has made

limited use of charging fees to generate program revenues. For example, in fiscal year 1998, fee revenue, which consists primarily of monthly assessments for child support payment processing and genetic testing laboratory costs, represented less than 1 percent of total program funding.

General fund appropriation could be increased to cover costs—Despite the program’s original cost recovery purpose, some argue that the program has a much broader social purpose and support the use of general tax revenues for the program. For example, the American Public Human Services Association sees the program as a long-term investment similar to education, job training, and other policies that help families support their children. It is also argued that the program has a strong cost avoidance component because it helps the federal government realize savings in other major programs, such as Medicaid and Food Stamps, by keeping families self-sufficient.

Currently, most states’ child support programs receive some general or special state revenue to help support operating costs. In fact, a 1998 study by the Lewin Group indicated that only Illinois, Kentucky, Oklahoma, and Texas reported they did not receive any general or special state monies. Even these states reported that they will be requesting general fund appropriations starting in 1999 and beyond. Because state General Fund monies provide a guaranteed minimum funding level, these monies generally provide greater financial stability for the program. However, opponents might argue that taxpayers not directly receiving services are required to help cover program costs.

Other options might also be examined—Other options for increasing program revenue could also be examined. For example, the Division might consider encouraging families not in the program to participate. Currently, the Division is aware of about 53,000 court-ordered child support cases that are handled directly by parents, private attorneys, or county Clerks of the Court. Although the child support payments for most of these cases (known as non-IV-D cases) are processed centrally through the Division’s contracted statewide centralized payment processing center, the Division provides no other services to these families. Increasing participation could provide additional federal incentive dollars through improved performance. Specifically, the child support cases not in the State’s program may have higher monthly support amounts, which could improve its collections performance. For example, the average monthly payment for the nonprogram cases in Arizona during the five-month period of December 1998 through April 1999 was \$234, compared to the average \$142 payment for program cases. However, because the federal government has established a cap on incentive payments, the Division’s ability to generate additional incentive money in this way is limited, and the potential for increased program costs resulting from the additional services would also have to be considered.

Division’s study should include coordination with State Council and a cost-and-benefit analysis—As a starting point in studying the various funding options for the State’s child support enforcement program, the Division needs to work with the Arizona Child Support Coordinating Council to examine whether the program’s purpose should be cost recovery

or service delivery. The Council was established by statute in 1994 to serve as a forum for stakeholders to develop and coordinate policies and strategies to improve child support enforcement in Arizona. The Council consists of legislators, parents, Governor and Attorney General representatives, Department officials, county attorneys, and court officials. Because the Council's membership is broad-based, it is a suitable body for discussing potential funding options for Arizona's child support program.

As part of its assessment of the various options, the Division also needs to conduct a cost-and-benefit analysis of the options that appear best aligned with the program's mission. Division staff may be able to evaluate these options' potential for increasing program revenue by reviewing existing studies completed in other states and using similar techniques with Arizona's data. However, if the Division does not have staff available to conduct such a review and analysis, it may want to hire a contractor. Either way, the Division should present a report of its findings to the Legislature by September 30, 2000, so the report can be used in preparing the Child Support Enforcement Program's budget.

Recommendations

1. To help determine the most appropriate approach for providing program funding, the Division should work with the Arizona Child Support Coordinating Council to develop a recommended policy position that defines whether the program should be cost recovery or service delivery in nature.
2. The Division should study the costs and benefits of those funding approaches that appear aligned with the program's purpose by:
 - a. Reviewing existing studies conducted in other states and using the information to conduct an in-house analysis; or
 - b. Hiring a contractor to study the costs and benefits of the various options.
3. The Division should prepare a report on its findings and recommendations for the Legislature by September 30, 2000.

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FINDING II

CUSTOMER SERVICE OPERATIONS IN MARICOPA COUNTY AND THE PIMA COUNTY ATTORNEY'S OFFICE NEED IMPROVEMENT

Customer service call centers established to improve the quality of child support enforcement customer service in Maricopa and Pima Counties are not doing an effective job. In both counties, callers are frequently faced with busy signals and long wait times. Problems at the Maricopa County call center stem mainly from unfilled positions and high staff turnover, while problems at the Pima County call center are mainly because call center staff are required to perform other duties, such as sorting mail, in addition to handling incoming calls. In addressing these problems, the Division should take steps to improve call center customer service including conducting employee exit interviews, staging more frequent job fairs, and improving its methods for soliciting customer input. In addition, the Division should consider other options for enhancing customer service such as expanding its integrated voice response system or privatizing its customer service operations.

Customer Service Includes Call Centers Serving Two Counties

Call centers in Maricopa County and the Pima County Attorney's Office are part of the Child Support Enforcement Program's systems for providing information by telephone. The program uses a county-by-county approach for handling inquiries personally and a state-wide system that provides automated assistance. The main components of these systems are as follows:

- **Customer call centers for Maricopa and Pima Counties**—The Division-operated Maricopa County call center was established in 1994. It is staffed with child support enforcement officers¹ and received 108,264 calls during the first three months of 1999. The call center for Pima County was established by its County Attorney's Office in April

¹ To qualify as a Child Support Enforcement Officer I, an individual must either have two years of work experience as a Child Support Technician II in Arizona state service; or the equivalent in another jurisdiction; or an Associate's degree in legal assisting or an Associate's degree in any area and a paralegal certificate through an institutionally accredited program; or two years work experience as a paralegal.

1998. It is staffed by employees who generally have relatively little training in child support enforcement and received 38,686 calls during the same three-month period.

- **Calls handled by local offices in other counties**—In counties other than Maricopa and Pima, the local Division, county attorney, or private contractor managed office handles the calls, with a caseworker and/or receptionist primarily responsible for handling the inquiries. Typically, the receptionist will answer routine customer questions, such as payment information, and refer the more complex questions to a caseworker. Although not all local offices document the number of calls received, the Kingman office reports receiving approximately 24,000 telephone calls a year, while the La Paz office reports that it receives between 5,000 and 7,200 calls per year.
- **Integrated Voice Response System at the state level**—Statewide, customers can also receive information through the Division-operated integrated voice response system (IVR). The IVR, which is available 24 hours a day, 7 days a week, can automatically provide updated payment and/or program information if the customer enters his or her case number. The IVR received 172,730 system-only calls (i.e., the customer used only the IVR and did not transfer to a customer service representative) during the first three months of 1999.

Customer Service at Both Centers Is Marked by Delays

Customer service at both call centers is marked by busy signals and long waits on hold. Although the problems are similar at both call centers, the reasons for these problems are different. At the Maricopa center, the problem is insufficient staff; at the Pima center, it is multiple staff duties.

At Maricopa, delays are widespread—Chronic vacancies and high turnover among call center representatives result in customers encountering busy signals, experiencing long wait times when they do connect to the call center, or abandoning their calls because they can wait no longer.

- **Busy signals**—Customers have difficulty even getting through to the call center. Although the Division cannot document busy signals with its current telephone system, auditors who placed 222 calls during February 1999 encountered 176 busy signals, and on one occasion, an auditor experienced 17 straight busy signals before connecting with the system.
- **Long wait times**—Customers who do connect with the call center wait on hold for long periods before speaking with a customer service representative. In 1998, the average wait time (which included abandoned calls) was nearly 7 minutes. During their tests of the system in February 1999, auditors connected with the system 46 times, and nearly half of

those calls (22) had wait times of ten minutes or more. Therefore, the Division is often unable to meet its goal of answering calls within five minutes. Further, this five-minute wait-time goal is higher than the standards set by other public and private call centers. For instance, the Arizona Compensation Fund call center has a wait time goal of 50 seconds, while the Phoenix Discover Card call center has a goal of answering calls within 20 seconds. Similarly, two privatized child support enforcement customer service call centers contacted during the audit (Denver County, Colorado, and Montana) had wait time goals of 3.5 minutes and 1 minute, respectively.

Although it did not specifically address wait time goals, the Division recently conducted a survey of child support customer service operations in other states. The Division found that of the 24 states responding to the survey, 16 had central or regional customer service units, or call centers. Further, 12 of the 16 customer service call centers provided data regarding wait times, and while wait times ranged from 30 seconds to 14 minutes, the majority of these centers (8) reported wait times of 5 minutes or less.

- **Abandoned calls**—Perhaps because of the long wait times, many customers abandon their calls to the call center. In 1998, more than 120,000 customer calls (or 30 percent of the total annual calls placed on hold) were abandoned before the caller connected with a customer service representative. This call abandonment rate is significantly higher than the abandonment rate in private industry, which is 3 percent.¹

Maricopa lacks sufficient staff to provide more timely service—While the Division established a centralized call center for Maricopa County to both improve its customer service operations and increase caseworker productivity, these goals have not been fully realized because the Division has never been able to consistently fill the 54 positions allocated to the call center. The call center was short at least 10 positions nearly a third of its operating days during 1998 (80 of 251 days). This staffing shortage rose to as high as 16 vacant positions for 8 days in December 1998. Moreover, during 1998, the call center experienced 49 percent staff turnover.

The Division's ability to hire and retain Child Support Enforcement Officers for the Maricopa call center appears to be partially impacted by its required staff qualifications. Specifically, if the call center candidate is not already a Division employee, he or she must have an associate degree in legal assisting, a paralegal certificate, or 2 years work experience as a paralegal to qualify for the Division's call center positions. While the Division does not hold exit interviews with departing representatives to document why they are leaving, it contends that it is difficult to retain the call center's paralegal staff because their education, combined with a good local job market, allows them to secure higher-paying legal positions elsewhere. In addition, the Division contends that it loses other call center paralegals to its local offices because casework is more relevant to their legal training. In fact, a call center

¹ Anton, John. *Call Center Management By the Numbers*. Purdue University Press, 1997.

employee stated that some paralegals take a call center job so they have a better chance of getting caseworker positions when they become available.¹

Additionally, although the Division's job fairs have been successful in hiring call center representatives, it does not appear that the Division has conducted a sufficient number of them to keep pace with its turnover problems. Since June 1997 the Division has held four direct-hire job fairs where it has had success in hiring call center representatives.² However, even though the Division hired 12 call center representatives from its February 1998 job fair and 9 representatives from its June 1998 job fair, the average 1998 call center vacancy rate was still 7.6 representative positions (14 percent).

Pima County call center experiences similar problems, but for different reasons— Although only recently established by the Pima County Attorney's Office, the Pima County call center experiences some of the same problems as the Maricopa County call center. Pima County customers are also confronted with busy signals when they telephone the call center. For instance, auditors attempted to telephone the call center 72 times in February and March 1999, and encountered 62 busy signals. Also similar to Maricopa County, Pima customers experience heavy delays. During the first three months of 1999, Pima County customers experienced an average wait time of 9 minutes before a representative answered their call. Moreover, on three occasions in February and March 1999, auditors who telephoned the call center experienced wait times of over 40 minutes. Furthermore, these long wait times result in many Pima County customers abandoning their calls. In the first three months of 1999, 46 percent, or 17,789 of the 38,686 callers who were put on hold by the Pima County call center, hung up before a representative was able to answer their call.

Although both call centers experience similar problems, the reasons are different. Pima County call center staff (who are not paralegal staff) must perform other duties, such as sorting mail and helping walk-in customers. In addition, the Pima call center representatives receive little or no training in child support enforcement casework function areas before beginning to answer customer calls.³ This can result in caseworkers having to spend more time on the phone with the customer because they need additional time to figure out the answer to the customer's question. However, at the close of the audit, the Pima County Attorney's Office provided information indicating that it has begun to address the training

¹ However, due to the nature of the customer service job, a high amount of turnover is generally expected. For example, yearly turnover in private sector customer service call centers averages 25 percent, and the Department of Revenue's call center experiences approximately a 25 percent staff turnover rate per year.

² Direct-hire job fairs allow the Division to hire individuals directly, without going through the Department of Administration or the Department of Economic Security's personnel process.

³ Starting in 1996, the Pima County Attorney's Office began providing their own training rather than using the Division's training.

issue, and now requires new representatives to receive 2 to 3 weeks of functional area training before being assigned to the call center.

Division Should Improve Call Center Operations

The Division should take the necessary steps to improve the operations of the Maricopa and Pima county call centers. First, the Division should take steps to retain and hire staff for the Maricopa County call center, and work with the Pima County Attorney's Office to limit its call center representatives' other duties and improve their training. Second, the Division should expand its efforts in soliciting customer input on how to improve call center operations. Third, the Division should look at some longer-term options for enhancing its customer service operations, including expanding its voice response system or privatizing its call centers.

Division should improve call center operations—The Division needs to improve its customer service operations at the Maricopa County call center by addressing the following staff retention and hiring issues:

- **Exit Interviews**—The Division should conduct exit interviews with all departing call center representatives to pinpoint why they leave and use that information to develop corrective actions to help prevent further turnover.
- **Staff Qualifications**—In addition to exit interviews, the Division may want to revise the call center staff qualifications, if it can do so without compromising the quality of service. The Division is currently taking two steps to help it make this determination. First, the Division is filling three representative positions on a pilot basis with nonparalegal staff to see if they can provide satisfactory service. In addition, it is surveying other states to determine if they use call centers and if so, to determine the qualifications of other states' call center staff.
- **Job Fairs**—The Division should also increase its hiring efforts by holding more frequent job fairs. Since June 1997, the Division has held 4 direct-hire job fairs. However, other public and private call centers confront their high representative turnover by organizing more frequent job fairs. For example, the Department of Revenue holds 3 or 4 job fairs a year, while Discover Card's Phoenix call center stages up to 16 job fairs each year.

In conjunction with improving call center operations in Maricopa County, the Division should also work with the Pima County Attorney's Office of Child Support Enforcement to continue to improve its call center operations. Specifically, consideration should be given to limiting call center staff's other duties and providing them with enhanced training on child support enforcement functions so they are better prepared to answer customers' questions.

Division should enhance its efforts to solicit customer input—To help determine how to improve the call center operations, the Division should improve its methods for soliciting customer input. The 1997 Federal Benchmarking Consortium’s report entitled “Best Practices in One-Stop Customer Service” indicates that, in general, customers expect accessible, accurate, timely, and responsive service, and top organizations continually measure their progress in these areas. Although the Division has used an annual customer survey in the past, these surveys do not specifically assess customer satisfaction with the Division’s call center operations. Consequently, the Division should either incorporate into its current survey instrument or a separate survey specific questions that focus on the accessibility, accuracy, timeliness, and responsiveness of the Maricopa and Pima call center operations.

In addition to revising its annual surveys, the Division and Pima County may want to incorporate some other measurement techniques. For example, these entities could consider using call-back surveys to obtain specific immediate customer feedback, or surveying every twentieth customer to assess such factors as customer wait times, and/or the accuracy and quality of information that call center staff provides to customers. Similarly, the Division and Pima County should consider obtaining customer input on the types of customer services they would like to see in the future. This type of input could be obtained through focus groups, surveys, or the Internet.

Division should determine best approach for providing customer service—With the help of its surveys and other forms of customer input, the Division should seek additional methods to enhance customer service. For example, it should explore whether the IVR’s capacity could be expanded at a reasonable cost. While the Division has recently upgraded its automated voice response system to operate 24 hours a day, 7 days a week, this system does not provide “one-stop” access for all customers. For instance, customers statewide have access to the IVR, but only Maricopa County customers can seamlessly connect with a local customer service representative. Customers outside of Maricopa County wishing to speak with a customer service representative from their county must hang up and call another number for their local office. Therefore, the Division should consider the feasibility of adding mechanisms to the IVR that will allow all customers to be directly transferred to a customer service representative in their county.

Finally, the Division should review its Maricopa County customer service operations for privatization. Auditors’ review of other states found that at least two child support enforcement call centers have been privatized: call centers serving Montana, and Denver County, Colorado. One federal report noted that Montana and Denver County have experienced favorable results from privatizing their customer service operations, including increased caseworker productivity and positive customer feedback.¹ However, the cost of privatizing this function needs to be considered. For example, Montana, with a caseload of

¹ Department of Health and Human Services, Administration for Children and Families, Office of Child Support Enforcement, *Compendium of State Best Practices in Child Support Enforcement*, Fourth Edition, 1998.

40,000, reports spending approximately \$500,000 per year on its centralized call center while Denver County, with a caseload of 45,000 to 50,000, spends approximately \$396,000 per year. In fiscal year 1998, it cost approximately \$2.3 million to operate Arizona's Maricopa County call center. This center handles about 152,000 Maricopa County cases, provides ten 1-800 lines to serve the other 125,000 statewide customers, and provides the IVR system 24 hours a day, 7 days a week.

Recommendations

1. The Division should take the necessary steps to hire and retain staff for the Maricopa call center including:
 - a. Holding exit interviews with departing call center representatives to determine why they are leaving.
 - b. Revising the position qualifications if it determines that quality service can still be provided with less-stringent qualifications; and;
 - c. Holding more frequent job fairs.
2. The Division should work with the Pima County Attorney's Child Support Enforcement Office to continue to improve its call center operations by reducing staff's extra duties and increasing training.
3. The Division should enhance its evaluations of customer satisfaction by:
 - a. Adding additional questions to its annual survey that focus on the accessibility, accuracy, timeliness, and responsiveness of the Maricopa and Pima call center operations; and/or
 - b. Incorporating some additional techniques to obtain customer input such as call-back surveys, surveying every twentieth customer, or conducting focus groups.
4. The Division should consider the feasibility of other options for enhancing customer service operations, including:
 - a. Expanding the IVR to provide seamless connections for all customers regardless of which county they are calling from; and
 - b. Privatizing customer service operations in Maricopa County.

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FINDING III

ADDITIONAL STEPS WOULD HELP SOLIDIFY THE DIVISION'S PROGRESS IN RECORDING AND CALCULATING CHILD SUPPORT DEBTS

Although the Division has made substantial progress in addressing past problems with recording and calculating child support monies owed (debts), some refinements are still needed in its processes for managing this debt information. Accurate information about child support debts is important for ensuring that noncustodial parents pay the proper amount of support and that the program takes appropriate enforcement actions. Improvements already made include better training for those who make these calculations, more reviews of their work by supervisors, and periodic audits of case samples. These improvements would be further enhanced by such actions as making greater use of audit results and extending supervisory reviews to more offices.

Accurate Debt Information Is Important for All Participants

Debts generally refer to monies owed by noncustodial parents to custodial parents for child support. The Division establishes debts in each child support case based on court-ordered amounts for items such as current child support, spousal support, payment processing fees, past-due child support, and interest on past due support. In addition, for cases where the custodial parent receives public assistance monies, debts also reflect the public assistance amounts paid to the custodial parent.

Correctly calculating the amount of support owed by the noncustodial parent is critical to the process. If the debt calculation is wrong, the custodial parent or the State may not receive the proper payment. Accurate calculations are also important to the noncustodial parents. For example, when a noncustodial parent's debt balance reaches a certain amount (typically equal to two months' past due) the Division takes enforcement actions such as placing a lien on his or her property or intercepting state or federal tax returns. Therefore, inaccurate debt balances could result in the Division initiating inappropriate enforcement actions against the noncustodial parent.

Division Has Made Improvements in the Debt Area

In response to previous audit findings about debt procedures, the Division has taken several steps to ensure that it correctly records and calculates debts. These findings were part of the Auditor General's previous report in 1995. Since that time, the Division has made several improvements in the debt area, including enhancing its training and oversight.

Previous Auditor General review identified debt problems— A 1995 Auditor General report (Report No. 95-2) noted several problems that could contribute to inaccurate debt information. One was that the Division needed to increase the minimum qualifications of the debt staff to include accounting experience and/or math skills because debt staff perform and record complicated financial computations. The second was training: staff felt that the amount of training (five days) was insufficient and the quality of training needed improvement. Third, systematic monitoring and review were needed because supervisors were either not checking or were not detecting errors, and because the Division had not determined the overall accuracy of its debts.

Division has taken steps to address the previous audit's concerns— The Division has made improvements in the debt area since our 1995 audit. Specifically, the Division has made changes in the following areas:

- **Minimum qualifications**— The Division has increased its minimum qualifications for staff who calculate and record debts and has established a career path for them. In September 1995, the Division increased the qualifications of its Child Support Enforcement Debt Technician II position to include accounting experience or accounting coursework, qualifications it had not previously required. In September 1998, the Division also added an additional step in its debt worker classification series. Now, Debt Technician II workers with one year of work experience are eligible for promotion to a Child Support Enforcement Debt Technician III. The Division indicated that this position was created to establish a career path for debt workers. Before the Division added this position, Debt Technician II workers often had to transfer out of the debt area to receive a promotion.
- **Training**— In response to concerns regarding its debt training, the Division has increased the number of training courses designed to instruct debt workers about the debt process. In 1997, the Division offered 6 distinct training courses for workers, and in 1998, it increased this number to 12. In addition to these formal training classes, the Division has also added informal monthly and quarterly training sessions for debt workers and debt worker supervisors. These sessions discuss changes or issues affecting the debt area.
- **Supervisory review process**— The Division has also added a supervisory review process to ensure that its debt workers receive a minimum level of supervision. Debt supervisors at each of the Division-managed offices are required to review five debt cases per worker, per month. To guide this supervisory review, the Division developed a debt re-

view checklist. This monthly review evaluates issues such as whether the worker used the correct court orders and child support amounts to set up and calculate the debt. The Division also incorporates the review's results into the individual debt worker's performance evaluation.

- **Statewide audit process**—In 1998, the Division began conducting audits to review the accuracy of debts statewide. It has conducted three audits so far, and has refined its process along the way. Now, the Division plans to review a statistically valid sample of about 120 cases from each county annually. Using a Division-developed audit questionnaire, a team of reviewers assesses the sampled cases on such items as whether the caseworker entered all the required information and entered the correct court-ordered child support amounts. When the Division identifies incorrect information, a debt worker must correct the case. Moreover, at the end of the audit, the Division reviews all the results and develops a statewide corrective action plan. The corrective action plan summarizes the problems identified and the changes the Division will take to prevent similar problems in the future, such as additional training or procedural changes. The Division needs to complete one more audit to finish its first cycle of annual audits.

Although not in direct response to the previous Auditor General audit, the Division has also developed an on-line debt calculation tool. This tool helps determine the arrears amount (past due amount), if any, for the Division's cases. At the time the Division developed this tool, only one other state (Minnesota) had a similar tool. The Division developed the tool to improve the timeliness and accuracy of its debt calculations. Because the tool reads information directly from the Division's automated case management system, the Division indicates that the tool helps reduce errors by limiting the amount of manual input required by the debt worker. The Division also indicates that workers can calculate debts more quickly with the tool. The Division also recently started using this tool to recalculate the debts in each case reviewed as a part of its statewide debt accuracy audit.

Division Should Take Some Additional Steps to Further Enhance Debt Accuracy

Although the Division's actions represent a substantial attempt to address past problems, a few refinements are needed to allow these improvements to be as effective as possible. The needed improvements identified during this review relate to using audit results more fully, extending supervisory review to additional offices, and making small adjustments to training.

Audit data can be used more extensively for management purposes—The data generated from its debt reviews is an excellent source of information for the Division to monitor and manage debt accuracy. Thus far, the Division has focused on identifying statewide problems rather than determining if any individual county problems exist. However, because the Di-

vision selects a large enough sample from each county, it can also conduct analyses at the county level. For example, the Division might discover that one county has trouble with properly organizing its files and another county has problems determining when interest should accrue. Because each county could benefit from receiving specific information on its performance as well as the corrective actions needed to address its specific problems, the Division should also conduct county-level analyses. The Division should also use the county data to help determine if it needs to increase its sample size for each county in future audits. The Division's current sample size is valid only if the population has a 5 percent error rate. If the Division discovers through its analysis that a county has an error rate higher than 5 percent, it will need to increase the sample size for that county if it believes the error is critical to the debt process, and the Division wants to continue using a statistically valid sample size.

Supervisory review processes should be extended to additional offices—The Division can also improve its supervisory review process by having additional offices implement its supervisory procedure. Although the Division has added a process whereby supervisors must review five cases per month per debt worker, the Division has only implemented this process in the offices it manages. Auditors' review found that the amount of supervisory review at the county attorney and private contractor-managed offices varies from none to reviewing almost all debt cases. Because a supervisory review is an important step for identifying and correcting debt accuracy problems, the Division should standardize this process to ensure that every office reviews at least five cases per month per worker. To assist the county attorney and private contractor-managed offices in this supervisory review procedure, the Division could also share the debt review checklist it developed.

Some remaining concerns about training need to be addressed—Interviews with debt workers statewide identified only a few concerns with training that can be addressed with relative ease. Workers thought more hands-on training was needed, especially with the new online debt calculation tool. In addition, follow-up training, perhaps six months after the initial training, would be helpful.

Recommendations

1. The Division should continue to enhance its debt audit process by analyzing the debt review data on a county-by-county basis to identify and develop corrective action plans for any county-specific problems, or to help determine if it needs to increase its sample size in future audits.
2. The Division should require the county attorneys and private contractor-managed offices to implement a supervisory review process. The Division should also share its debt review checklist with these offices.
3. The Division should continue to enhance its debt education training by increasing the hands-on training, and perhaps adding follow-up courses.

FINDING IV

DIVISION NEEDS TO BETTER MONITOR ITS APPEALS PROCESS

The Division needs to improve its oversight of the appeals process provided to individuals wanting to contest enforcement actions. The 1996 Welfare Reform Act provided states with strong new enforcement tools, such as the ability to administratively order employers to withhold child support payments from a noncustodial parent's take-home pay without obtaining an additional court order. These stronger powers heighten the need to ensure that enforcement actions follow due-process safeguards mandated in state law and Division policies. However, the Division currently does not have centralized management information that would help it assess whether such safeguards are being followed. The Division can improve its oversight of the appeals process by synthesizing available information into management reports. Until these reports are developed, the Division can use a standardized log to track the process and document supervisory oversight.

Welfare Reform Provides Powerful Enforcement Tools

In 1996, Congress passed welfare reform legislation that mandated sweeping changes to the nation's welfare system, including the child support enforcement program. Congress enacted these changes to help ensure that noncustodial parents make regular support payments. In the process, welfare reform gave states substantial additional authority to directly enforce child support orders through such mechanisms as administrative wage withholdings, liens, and levies (see Table 2, page 32). Previously, the Division would have had to secure an additional court order to pursue most enforcement remedies.¹ The added power given to the state is evident in the following descriptions of three of the new remedies:

- **Administrative Income Withholding**—The Division now has the authority to issue and process income withholding orders, which direct an employer to take the child support payment out of the noncustodial parent's earnings and send it to the State's child support processing center. Income withholding orders represent the most effective way of obtaining support payments, in that approximately 61 percent of the support payments received

¹ For child support cases that are in the enforcement function, there is always an underlying court order. These new tools can generally be used based on the court's original order and do not require the state to obtain a subsequent order for enforcement purposes.

Table 2**Arizona Department of Economic Security
Child Support Enforcement Program
Summary of Some of the Program's Enforcement Options**

Enforcement Option and Statutory Authority	Description	Timing of Option
Administrative levy (Asset seizure) §25-521	A property levy allows the Division to obtain payment of a child support debt through a levy (seizure and/or sale) of the noncustodial parent's property, including assets held in financial institutions.	The noncustodial parent has a court ordered judgment for past-due child support; or, the noncustodial parent has a past due balance equal to 12 months of support.
Administrative lien §25-516	The Division places a property lien on the noncustodial parent's property to provide notice to creditors of the Division's interest in the property.	The noncustodial parent owes at least two months of support.
Consumer credit reporting §25-512	The Division reports all the names of child support debtors and the amounts owed to the consumer reporting agencies.	All active child support obligations are reported monthly.
Income withholding §25.505.01	The employer automatically withholds the child support payment from the noncustodial parent's paycheck and sends it to the State's child support payment processing center.	The noncustodial parent is employed. This action does not require a past-due amount.
License suspension §§25-517, 25-518	The noncustodial parent's driver, professional, occupational, or recreational license can be suspended or denied until he or she complies with the child support order, a child support subpoena, or a child support arrest warrant.	The noncustodial parent owes at least two months of support or has not complied with a subpoena or arrest warrant. However, a court order is required, so the Division will make a court referral when the noncustodial parent fails to respond to its intent to suspend notice.
Lottery intercept §5-525	The Division uses lottery intercepts to help satisfy child support debts.	The noncustodial parent owes at least \$100 in overdue support and the noncustodial parent's lottery winnings are \$600 or more.
Tax offset (federal) 42 U.S.C. §664	The Division annually submits child support debts to the Secretary of the Treasury and uses federal tax refunds to help satisfy child support debts.	The noncustodial parent owes at least \$150 on a public assistance case or \$500 on a nonpublic assistance case.
Tax offset (state) §42-133	The Division annually submits child support debts to the Arizona Department of Revenue and uses state tax refunds to help satisfy child support debts.	The noncustodial parent owes at least \$50.
Unemployment compensation offset §§23-783, 23-789	The Division submits child support cases to the unemployment compensation program to intercept child support payments from the noncustodial parent's unemployment compensation benefits.	The noncustodial parent is receiving unemployment compensation benefits. This action does not require a past-due amount.

Source: Auditor General staff analysis of Arizona and federal statutes cited above.

during fiscal year 1998 were from withholding orders. To facilitate this remedy, all employers must provide the Division with new employee information within 20 days of an employee's hire.

- **Administrative Lien Placement**—The Division has the direct authority to place an administrative lien on the noncustodial parent's property. The lien provides notice to creditors of the Division's interest in the property. In order for the Division to pursue this remedy, the noncustodial parent must owe at least two months of support.
- **Administrative Levy (Asset Seizure)**—In certain circumstances the Division has the authority to secure child support payments by placing an administrative levy on a noncustodial parent's personal or real property. This levy allows for the payment of child support through the forced seizure and sale of the noncustodial parent's property, including monies held in financial institutions. The Division can use this remedy only if the noncustodial parent has a court-ordered judgment for past-due child support, or a past-due balance equal to 12 months of support.

New Powers Heighten Need to Ensure Due Process Safeguards Are Working

Because these new tools can generally now be used without obtaining an additional court order, it is important for the Division to adequately oversee due process safeguards. To help ensure that the Child Support Program properly employs these enforcement tools, both Arizona statute and Division policy provide an appeals process. This appeals process, known as an "administrative review," allows an interested party to contest such issues as whether the State correctly determined the amount of past-due child support, or whether the State appropriately took an enforcement action.¹ Important protections for an individual's right to due process in these reviews include adhering to the Division's procedures and finishing the reviews within time frames specified by law. Under state statute, administrative reviews must be completed within the following periods:

- **Mistake in identity reviews**—If a person contends that he or she is not the noncustodial parent, the Division has two business days after receiving the request to complete its review and make a decision.

¹ Furthermore, if an individual disagrees with the Division's determination, Arizona law provides that the determination is subject to judicial review.

- **Reviews of administrative levies, income withholding orders, or withholding from unemployment insurance or workers' compensation**—If a person requests a review of any of these decisions, the Division has ten business days after receiving the request to make a decision.
- **All other reviews**—On most of the remaining requests, the Division has 45 business days after receiving the request to complete its review and make a decision.¹

Division Lacks Important Centralized Management Information to Properly Manage Appeals Process

The Division currently has very few tools for ensuring that its administrative review process is being carried out in accordance with due process requirements. Although statutes require reviews to be conducted within specified time frames, the Division does not have adequate means to ensure that it conducts reviews in an appropriate and timely manner. Moreover, certain administrative procedures that could produce better oversight of the review process, such as management reports showing the type of reviews requested and how long they are taking, are currently not in place. Therefore, the Division should develop management reports that summarize the status of administrative reviews statewide.

Division lacks management information—The Division keeps data that would be useful for oversight purposes but does not synthesize it into management reports. All offices use the statewide automated case management system (ATLAS) to record important information regarding administrative review requests such as date received, type of request, and supervisory approval. However, the Division has not developed a statewide management report to track the submitted requests. As a result, it cannot readily track such information as the number or type of appeals it has received statewide. Such information could be used to help ensure that all offices adhere to the statutory time frames and procedures, and to provide critical management information about the types of enforcement actions contested and the appropriateness of those actions.

In addition, without these management reports, the Division cannot determine whether its administrative reviews receive regular supervisory oversight. Regular supervisory oversight ensures that staff conduct reviews in an appropriate and timely manner.

¹ If the Division needs additional information from the requesting individual, the Division may have 10 additional business days to complete its review and make a decision.

Division should take steps to ensure adequate oversight—Development of effective management reports will take some time. In the meantime, the Division can strengthen another administrative procedure, use of the standardized log, to provide greater assurance that it is following the proper due process protections.

- **For the longer term, develop management reports**—The Division should begin regularly producing a management report from ATLAS that summarizes the status of administrative review requests statewide. These reports would provide the Division with important information such as the number of administrative review requests received, the number of processing days per request, and the type of enforcement actions that generate the most review requests. The Division should develop these reports as soon as possible so that it can monitor the appropriateness and timeliness of its processing. In addition, these reports will also help the Division determine how many administrative review staff it needs or whether any of its procedures for implementing certain enforcement actions need to be revised.
- **For the short term, improve and use the standardized log**—Until the management reports can be produced, the Division should ensure that all child support enforcement offices use a standardized log to track administrative reviews. In March 1999, the Division developed an administrative tracking log for the Division-managed offices. Until the management reports are developed, the Division should share this tracking log with the County Attorney and private contractor-managed offices and provide directions on how to use this log. The Division should also revise the standardized tracking log to include a supervisor review category. Once the management reports are developed, they should reflect whether supervisory review has been conducted, because ATLAS requires supervisory approval to complete an administrative review request.

Recommendations

1. To help ensure the timely and appropriate processing of administrative review requests, the Division should produce regular management reports from ATLAS that capture information such as the number and types of requests, the number of processing days per request, and whether the request received supervisory approval.
2. Until the Division develops the management reports, it should require all child support offices, including those managed by county attorneys and the private contractor, to use a standardized administrative review tracking form. The Division should ensure that the form includes evidence of supervisory review.

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OTHER PERTINENT INFORMATION

The Legislature directed that this audit include a review of the Division's privatization efforts. Presented below is information regarding the functions and activities the Division has privatized.

Private Vendors Provide Many Child Support Enforcement Services

In response to legislative direction, the Division has privatized several aspects of its operations. Private vendors provide a variety of child support services, including centralized child support payment processing, collection services, and genetic testing. Total costs for the privatized contracts are estimated to be approximately \$6.5 million for fiscal year 1999. These privatized services are comparable to services privatized in other states.

Variety of services privatized—The Legislature has regularly directed the Division to privatize its functions, and for several years, the Division has used private sector contracts. For example, Laws 1994, Chapter 374, called for testing the effectiveness of private sector involvement in the provision of child support enforcement services. Similarly, Laws 1996, Chapter 188, called for centralizing and privatizing the posting and receipting of child support payments. In addition, Laws 1997, Chapter 300, appropriated \$200,000 from the General Fund to “implement programs that are designed to expand and enhance paternity establishment efforts through private sector involvement.”¹ In response to these legislative requirements, the Division has established several contracts, including:

- **A full-service contract**—Beginning in March 1994, the Division contracted with a private vendor (Policy Studies, Inc.) to provide all child support services in Santa Cruz and Yavapai Counties. The full-service contractor provides all the necessary services including locating noncustodial parents, establishing paternities and support obligations, and enforcing child support obligations. Annually, the Division compares Policy Studies' performance to statewide performance. For example, during fiscal year 1998, Policy Studies collected an average of \$557 per case whereas the statewide dollar amount collected was \$550 per case. The Division pays Policy Studies based on a percentage of its distributed collections, and this percentage has declined by 2 to 4 percent with each

¹ These monies were allocated to three programs: Hospital Paternity Program Improvements, “Just in Time” Service of Process, and Private Paralegal Paternity Staff.

annual renewal.¹ During fiscal year 1998 (the fourth year of its contract), the State paid Policy Studies, Inc. \$1,166,099 (or 24 percent of its nearly \$5 million in distributed collections). The federal portion of this payment was about \$770,000; the State's portion, about \$396,000. However, the net cost to the State was actually about \$137,000, because Policy Studies' collections generated about \$259,000 for the State in retained earnings and federal incentives.

- **A centralized payment receipting and posting contract**—The Division established a contract with Lockheed Martin, IMS to provide centralized payment processing beginning July 1, 1997. This contractor's services include receipting and posting child support payments to the Division's case management system, daily depositing payments into the Division's bank account, and providing the Division with regular reports. The Division pays the contractor on a fixed price per-transaction basis that declines with each optional yearly renewal. For example, during state fiscal year 1998, the contractor was paid \$0.909 per transaction, and during fiscal year 1999 it was paid \$0.863 per transaction. The Division estimates that this contract has resulted in reducing the payment processing cost per transaction by nearly 50 cents. In addition, the contract requires certain performance standards. For example, the contract requires Lockheed Martin to process 100 percent of all payments it receives the same day (except Mondays and after a holiday weekend, when 80 percent must be processed). The Division reported in January 1999 that through June 1998, Lockheed Martin had met these standards.

In addition to state laws that direct the Division to establish private sector contracts, the Division has used the Office for Excellence in Government's *Competitive Government Handbook* to help determine additional functions that it can privatize. For example, the Division recently determined it would be more cost-effective for the State to privatize the new-hire reporting program. Effective October 1, 1998, the federal government required all states to operate a mandatory New Hire Reporting Program. Under this program, all employers must submit to the Division information on all new employees within 20 days of hiring. The Division must input this data into its statewide automated system within five days. The Division estimated it would cost the State approximately \$1.5 million annually to provide this service in-house but was able to contract it out for an estimated \$500,000.

Cost of privatized contracts estimated to total about \$6.5 million in fiscal year 1999—Total costs for privatized contracts are estimated to be about \$6.5 million for fiscal year 1999 (see Table 3 on page 39). As noted in the Introduction and Background section of this report (see pages 1 through 10), the federal government typically pays about 66 percent of all child support enforcement costs, and the State pays the remaining 34 percent.

¹ Distributed collections refer to collection monies that have been allocated to the appropriate accounts and disbursed, and are generally less than the total collected.

Table 3

Arizona Department of Economic Security
Child Support Enforcement Program
Privatized Services and Estimated Total Contract Amounts ¹
Year Ended June 30, 1999
(Unaudited)

Service	Estimated Contract Amounts
Credit report information	\$ 36,900
Outreach for and evaluation of the Hospital Paternity Program	182,375
Genetic paternity tests	330,000
New-hire data entry	503,000
Processing, messenger, and court filing	562,300
Full-service contract for Yavapai and Santa Cruz Counties	1,346,400
Centralized payment processing	1,705,500
Collection agency	<u>1,851,912</u>
Total	<u>\$6,518,387²</u>

¹ This table excludes some professional and outside services that are not considered privatized services, such as temporary staff.

² The Division uses federal cost-sharing revenues for about 66 percent of these costs except for genetic paternity tests, which the federal government reimburses at 90 percent. The Division pays the remaining portion.

Source: The Division of Child Support Enforcement summary report of privatized services and estimated contract amounts, prepared March 12, 1999.

Comparability with other states' services—Arizona's move to privatize child support services is comparable to other states' efforts. In 1995, the United States General Accounting Office reviewed states' privatization initiatives and found that most states had privatized at least one type of child support service.¹ The report also noted that Arizona, along with 11 other states, had full-service contracts.² Since that time, Arizona and other states have continued to seek opportunities for privatization.

¹ *Child Support Enforcement States and Localities Move to Privatized Service*. United States General Accounting Office, November 1995.

² The 11 other states were Arkansas, Colorado, Georgia, Iowa, Maryland, Mississippi, Nebraska, Oklahoma, Tennessee, Virginia, and Wyoming.

Auditor General staff identified two services privatized in other states that are not privatized in Arizona: customer service call centers and legal services. According to *A Compendium of State Best Practices in Child Support Enforcement*, Idaho uses private attorneys to help establish and enforce child support orders.¹ The Idaho Bureau of Child Support Services pays the attorneys on a flat-fee schedule based on the complexity and time involved in the required legal actions. The Compendium notes that private attorneys have helped reduce the overwhelming caseloads faced by local county prosecuting attorneys. Regarding customer service, this report notes that Colorado and Montana contracted with private vendors to establish customer service call centers to handle all incoming telephone calls. The Compendium notes that these states have experienced favorable results, including increased caseworker productivity and positive customer feedback. However, follow-up interviews with the states indicate that the cost for this service may be prohibitive. (For information on two Arizona child support call centers, see Finding II, pages 19 through 25.)

Division Employs Various Monitoring Mechanisms

The Division monitors its private sector contracts to ensure contractors provide services appropriately. A review of the Division's contracts found that they contain standard and special terms that allow it to conduct audits or evaluations and require the contractors to provide management reports. For example, several of the Division's contracts contain a provision for evaluations, stating "*The Department will be entitled to evaluate contract services. The evaluation may include an assessment of the quality and impact of services and the progress and/or success in achieving the goals, objectives and deliverables set forth in the contract.*" Additionally, the Division conducts an annual compliance audit of the full-service contract. This annual review ensures that the contractor complies with the terms of the contract and any federally mandated requirements. Finally, the Division also employs other monitoring techniques such as regular management reports, on-site inspections, and regular meetings with contractors.

Regular monitoring helps the Division assess performance and determine when corrective actions are needed. The Division indicates its contractors have generally met the required performance standards. Occasionally, however, the Division has had to require a contractor to develop a corrective action plan. For example, the Division's 1998 federal compliance audit found that Policy Studies, Inc.'s Yavapai County office was not meeting the required federal performance standards in four of eight areas, including paternity establishment. Its Santa Cruz County office was out of compliance in one area. Therefore, Policy Studies developed a corrective action plan to bring itself into compliance with the required

¹ Department of Health and Human Services, *Administration for Children and Families*, Office of Child Support Enforcement, Fourth Edition, 1998.

performance standards. Monitoring also helps the Division to determine when to discontinue privatized services. For example, the Division recently discontinued a pilot project with a messenger service company because its performance was far below the Division's.

The Division also reports annually to the Governor and Legislature on private sector involvement in child support services. The Division's reports provide information on such items as the type of services provided, the cost of those services, and the contractor's performance. In a November 1998 report, the Division noted that "privatization efforts improve our efficiency and effectiveness, and enable additional production." The Division also indicated in the report that it plans to continue using private contracts, is committed to working with the private sector to improve the Child Support Enforcement program, and continues to review its activities for additional privatization opportunities.

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Agency Response



ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 WEST JEFFERSON STREET/P.O. BOX 6123/PHOENIX, ARIZONA 85005

Jane Dee Hull
Governor

John L. Clayton
Director

July 14, 1999

Ms. Debra K. Davenport, Acting Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The Department of Economic Security is pleased to provide the attached response to the performance audit of the Division of Child Support Enforcement which was conducted in accordance with the provisions of Laws 1996, Second Regular Session, Chapter 290.

The Division of Child Support Enforcement has received national recognition in recent years for its innovations and improvements. Specifically, as you have noted in the report, the Division has been ranked in the top 5 states nationally for collections increases each of the last three federal fiscal years. In state fiscal year 1999 alone, the Division increased collections by nearly \$30 million over state fiscal year 1998. The Division was also the first child support enforcement program in the nation to complete automation of many welfare reform requirements, including the centralization of payment processing and the automated issuance of income withholding orders.

The audit identifies significant funding issues for the future of the child support program. Additionally, the audit identifies areas in which the Division can strengthen its program to provide better service to the public. We welcome these constructive recommendations.

Sincerely,

John L. Clayton

Attachment

**Department of Economic Security
Division of Child Support Enforcement
Response to Auditor General Findings and Recommendations
July 14, 1999**

Finding I, Recommendations

1. *To help determine the most appropriate approach for providing program funding, the Division should work with the Arizona Child support Coordinating Council to develop a recommended policy position to determine whether the focus of the program should be cost recovery or service delivery.*
2. *The Division should study the costs and benefits of those funding approaches that appear aligned with the program's purpose by:*
 - a. *Reviewing existing studies conducted in other states and using the information to conduct an in-house analysis; or*
 - b. *Hiring a contractor to study the costs and benefits of the various options.*
3. *The Division should prepare a report on its findings and recommendations for the Legislature by September 30, 2000.*

Response

Finding I, Recommendations

The finding of the Auditor General is agreed to and the audit recommendations will be implemented.

The Division agrees with the finding that Arizona's Child Support Enforcement Program will likely experience revenue shortfalls over the next several years, despite the fact that collections in State Fiscal Year 1999 increased by a record \$30 million. These shortfalls are occurring due to federal changes in the distribution of child support collections and the reductions in the public assistance caseload as a result of welfare reform. The shortfalls are magnified when it is considered that revenues are matched by the federal government at 66%. Therefore, a \$1 million shortfall in revenue results in a \$3 million shortfall in the Division's operating budget.

The Division agrees to work with the Arizona Child Support Coordinating Council to identify an approach to the funding shortfall that would be consistent with the Council's recommendation regarding whether the IV-D program should have as its primary focus cost recovery or service delivery.

Within its limited resources, the Division agrees to produce a study of the costs and benefits of funding approaches which are aligned with the Council's recommended policy. A report of the study's findings and recommendations will be provided to the Legislature by September 30, 2000.

Finding II, Recommendations

1. *The Division should take the necessary steps to hire and retain staff for the Maricopa call center including:*
 - a. *Holding exit interviews with departing call center representatives to determine why they are leaving.*
 - b. *Revising the position qualifications if it determines that quality service can still be provided with less-stringent qualifications; and;*
 - c. *Holding more frequent job fairs.*
2. *The Division should work with the Pima County Attorney's Child Support Enforcement Office to improve its call center operations by reducing staff's extra duties and increasing training.*
3. *The Division should enhance its evaluations of customer satisfaction by:*
 - a. *Adding additional questions to its annual survey that focus on the accessibility, accuracy, timeliness and responsiveness of the Maricopa and Pima call center operations; and/or*
 - b. *Incorporating some additional techniques to obtain customer input such as same-day call-back surveys, surveying every twentieth customer, or conducting focus groups.*
4. *The Division should consider the feasibility of other options for enhancing customer service operations, including:*
 - a. *Expanding the IVR to provide seamless connections for all customers regardless of which county they are calling from; and*
 - b. *Privatizing customer service operations.*

Response

Finding II, Recommendations

The finding of the Auditor General is agreed to and the audit recommendations will be implemented.

The Division has adopted an exit interview protocol and commenced conducting exit interviews on July 2, 1999.

The Division agrees to consider revisions to the required qualifications for customer service positions to determine whether less stringent standards can be adopted without sacrificing quality. The Division is concerned that a reduction in the qualifications of customer service staff could result in a decrease in responsiveness to customers if call center staff are unable to handle complex matters. Furthermore, such calls may need to be referred to caseworkers, thereby reducing productivity in paternity establishment, order establishment and enforcement.

The Division has now scheduled job fairs for each quarter, commencing in September, 1999, to attempt to maintain a fully-staffed customer service center. Additionally, the Division is working with several temporary staffing agencies which employ paralegals and which have assisted the Division with candidates for call center vacancies.

The Division has consulted with the Pima County Attorney's Office regarding the duties and training of their call center staff. The Pima County Attorney's Office has informed the Division that such changes have been made. The response of the Pima County Attorney's Office to the audit is attached as an addendum to this response.

The Division has adopted a protocol for conducting call-back surveys with customers. Beginning August 1, 1999, the Division will conduct call-back surveys one day per week and will select a random sample of 20 calls from that day. The results of the call-back surveys will be used to identify needed improvements to the call center operation.

The Division will determine the cost and feasibility of expanding the IVR to provide direct forwarding of calls to local offices outside of Maricopa County.

The Division will investigate the option of privatizing the Maricopa County customer service call center.

Finding III, Recommendations

- 1. The Division should continue to enhance its debt audit process by analyzing the debt review data on a county-by-county basis to identify and develop corrective action plans for any county-specific problems, or to help determine if it needs to increase its sample size in future audits.*
- 2. The Division should require the county attorneys and private contractor-managed offices to implement a supervisory review process. The Division should also share its debt review checklist with these offices.*
- 3. The Division should continue to enhance its debt education training by increasing the hands-on training, and perhaps adding follow-up courses.*

Response

Finding III, Recommendations

The finding of the Auditor General is agreed to and the audit recommendations will be implemented

The Division has already provided data from the most recent debt audit to counties on a county-by-county basis. Each county's data has been separately analyzed, and a corrective action plan for each county has been developed where warranted.

Contracting county attorney offices and the private contractor have been notified that use of the supervisory review process will be included in their contract as part of the next renewal amendment. They have been requested to implement the supervisory review process effective August 1, 1999. The Division has shared the debt review checklist with all contracting county attorney offices and the private contractor.

The Division is conducting a review, including input from all debt workers and supervisors, to determine how debt education can be enhanced. The Division is exploring the potential for adding follow-up courses.

Finding IV, Recommendations

- 1. To help ensure the timely and appropriate processing of administrative review requests, the Division should produce regular management reports from ATLAS.*
- 2. Until the Division develops the management reports, it should require all child support offices, including those managed by county attorneys and the private contractor, to use a standardized administrative review tracking form. The Division should ensure that the form includes evidence of supervisory review.*

Response

Finding IV, Recommendations

The finding of the Auditor General is agreed to and the audit recommendations will be implemented.

The Division has already provided a standardized administrative review tracking form and software to each of the county attorney offices and the private contractor. The form includes evidence of supervisory review. Contracting county attorney offices and the private contractor have been notified that use of the administrative review tracking form will be included in their contract as part of the next renewal amendment. They have been requested to implement the tracking system effective August 1, 1999.

Regular management reports from ATLAS are under development and are expected to replace the provisional tracking system within six months.



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Barbara LaWall
PIMA COUNTY ATTORNEY

June 16, 1999

Ms. Nancy Mendoza
P.O. Box 40458
Phoenix, Arizona 85067

Re: Auditor General Findings

Dear *Nancy* Ms. Mendoza:

Thank you for the giving us the opportunity to provide DCSE with a response to the auditor generals draft report. We have attached our comments and responses to the major findings. We hope that the Department responds to the use of Discover card call center as a comparison with child support call centers. I am sure that you would agree that this is not an appropriate comparison and is inaccurate. We look forward to working with the department on the development and implementation of any corrective action plan. Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Bianca Varelas".

Bianca Varelas
Operations Administrator

Finding III - Customer Service Operations in Maricopa and Pima County Need Improvement

The Pima County Attorney's Office has only recently created a call center environment and is experiencing the various demands involved in this type of operation. The unit's creation was welcomed by all staff, especially case managers, since this service eliminated most of the calls formerly directed to them, or left on their voice mails. On a daily basis, case managers reported messages upwards of seventy (70) calls per day - this left little time to perform the work necessary to move cases forward. The call center has eliminated these direct calls to case managers, and is learning how to cope with the large volume of calls, equipment limitations, and experiencing the challenges which seem to be inherent in this type of operation. When first contacted by the Auditor General's staff in November, 1998, Pima County had only been operating the call center for six (6) months, and had only had the automatic call distribution system for four (4) months. The entire unit was still very much in training mode and learning to use the newly installed system. We learned there is much to running a successful call center and continue to focus on ways to improve service, respond quickly and efficiently to callers, provide continuous training for staff, and support the work of the entire organization.

Reassignment/Elimination of Additional Duties

The Auditor General's report indicates that other tasks assigned to the telephone staff may be hampering their ability to respond to incoming calls in a timely manner. Pima County does recognize that its Customer Service composition may be insufficient to handle all the tasks originally assigned to it. Several duties assigned to this unit such as completing the data entry on TANF packets or the narration of incoming mail, have been returned to the individual units since it is necessary to use as many representatives on telephones as possible. Some Customer Service staff remain permanently assigned to specific tasks such as front desk and mail, however the number is limited, accounting for only 16% of the unit's staff. The remaining workers are handling incoming telephones exclusively. In order to ensure sufficient numbers on telephones, it has been necessary to rotate other Litigation Support personnel from functional areas to the Customer Service unit to assist with calls. This has aided in dealing with the call volumes, although there is still room for improvement. Of course, this shift in resources creates backlogs in those areas.

Training Needs

As was also identified in the Auditor General's report, training for the Customer Service staff needs to be improved. Our original composition consisted of experienced support staff who brought extensive knowledge with them when reassigned to the unit. However, the departures of these staff members left a significant void. The need to get new hires phone ready as quickly as possible, while at the same time wanting to provide sufficient training, may have lead to some under-trained customer service call center staff. Due to turnovers (discussed later in this report), this constant influx of new staff remains a challenge for the office and for the unit. Currently new hires are receiving ATLAS training, followed by two (2) to three (3) weeks of training in the various functional areas before arriving in the unit. Once in the Customer Service Unit, employing our mentoring approach with the new representative listening to calls being handled by an experienced staffer, then reversing these rolls after a two to three week period, is not without its shortcomings. Explaining to the new representative why a question was answered a particular way

or why it was necessary to access a certain screen to respond, greatly decreases the number of calls the experienced representative can process. This situation, experienced by two (2) to four (4) telephone representatives at any given time, reduces the volume of calls the unit is able to accommodate.

The approach of immersing the new hire in the different units and then utilizing the switch-off method on calls seems to be working well. Two recent additions to the unit are functioning very well following this first attempt at the program. Three (3) additional new hires begin their training regimen this week. Pima County also recognizes that on-going training to improve staff skills is crucial. Efforts are underway to carry out regular, periodic training sessions to improve telephone skills including how to manage the call in order to obtain the information necessary to respond to the callers quickly and thoroughly, techniques to use with angry callers, and of course, training to quickly access the appropriate ATLAS screens and gather the information necessary to respond to the caller. These will sharpen the representatives' skills and allow them to handle calls efficiently.

Improvements Since Original Collection of Data

The Pima County call center has been able to significantly reduce its abandonment rate since the beginning of 1999. We were averaging a forty (40) to forty-eight (48) percent abandonment rate at the beginning of the year. Focusing our efforts to consistently maintain at least twelve (12) representatives on phones throughout the day, has resulted in a thirteen (13) percent drop in this figure. In May, 1999, Pima County's abandonment rate was thirty-three (33) percent. While we acknowledge there is a great deal of improvement left to accomplish, by shifting our limited resources, we are on the right track in addressing this problem.

Additional Factors Involving Call Center Performance

The report indicates that on several occasions in February and March, 1999, attempts to access the Pima County call center were unsuccessful and resulted in busy signals. The existing telephone system only has sixteen (16) incoming trunks, meaning that at any given time, only sixteen (16) calls can successfully make it into the queue. Subsequent callers will experience busy signals and will only be successful in queueing when a trunk opens. This undoubtedly accounts for a great deal of the frustration experienced by not only the Auditor General's staff but also our customers in the community. Upgrades to the existing lines must be considered if the call center is to operate effectively and efficiently.

Two factors not identified by the Auditor General's report on Pima County's call center situation also involved staff turnover and vacancy rates. As was mentioned, Pima County's development of its call center was new, having only been organized in Spring, 1998. Its creation was not without challenges. Originally staffed with Litigation Support personnel who had worked along side case managers within the various functional areas, the switch in assignments to a customer service call center was not universally embraced. A number of staff elected to leave the office right away, while others remained for a short time, and eventually chose to seek employment elsewhere. Of the original twenty-four persons assigned to Customer Service in April, 1998, only seven (7) of this group remain; this translates to a seventy-one (71) percent turnover. As was highlighted in the report, turnover rates for private sector call centers averages twenty-five (25) percent, this figure

was significantly less than Pima County experienced over the past year.

In the Intergovernment Agreement for SFY 1998/1999, a total of fourteen (14) new Litigation Support personnel positions were requested and approved. These positions could have been used to increase the personnel compliment in the Customer Service unit to better service the needs of both the external and internal customers, however the Pima County Board of Supervisors unwillingness to adequately fund the county's share of the program costs prevented these additional staff positions from being filled. These additional personnel were to be used to supplement existing Service and Operations units; some would have been assigned to the call center.

Finding III - Recording and Calculating Child Support Debts

The report's recommendation that analysis on a county level could prove to be very meaningful to our office. Specific information on in-house practices or needed improvements unique to our operation would be welcome. In addition, the utilization of supervisory review processes could identify problems early on, along with highlighting potential training needs.