

*Health and Human Services Issues*  
**Child Support Enforcement**

**KPMG Peat Marwick**  
Government Services Management Consulting  
for  
North Carolina General Assembly  
Government Performance Audit Committee  
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## **Issue Statement**

The child support system in North Carolina is a combination of two systems. One system is administered by the Department of Human Resources (DHR) and the other by the State court system. This dual system is fragmented, duplicative, costly, and, not in the best interest of the clients it serves. The following analysis explores options for improving the State's child support enforcement program.

## **Background**

Child support enforcement, as its name implies, is the effort by States to make absent parents provide support payments for the benefit of their children. A single parent or guardian is usually the recipient of such payments, which can be paid voluntarily by the absent parent or garnished from wages, tax refunds, or other sources of income.

For the 12 month period beginning October 1, 1991 through September 30, 1992 total child support collections for the State resulting from court orders amounted to \$319.0 million. The State's efforts in this area are carried out by two agencies - DHR and the Administrative Office of the Courts (AOC) with the assistance of staff from the Clerks of Superior Courts around the State. Their respective collections were as follows:

- \$150 million - Administrative Office of the Courts (non AFDC<sup>1</sup> recipients)
- \$100 million - Department of Human Resources (non AFDC recipients)
- \$69 million - Department of Human Resources (AFDC recipients)

The sources of collections are illustrated in Exhibit 1. The role of these two agencies in child support enforcement is explained below.

### **Federally mandated program - Department of Human Resources**

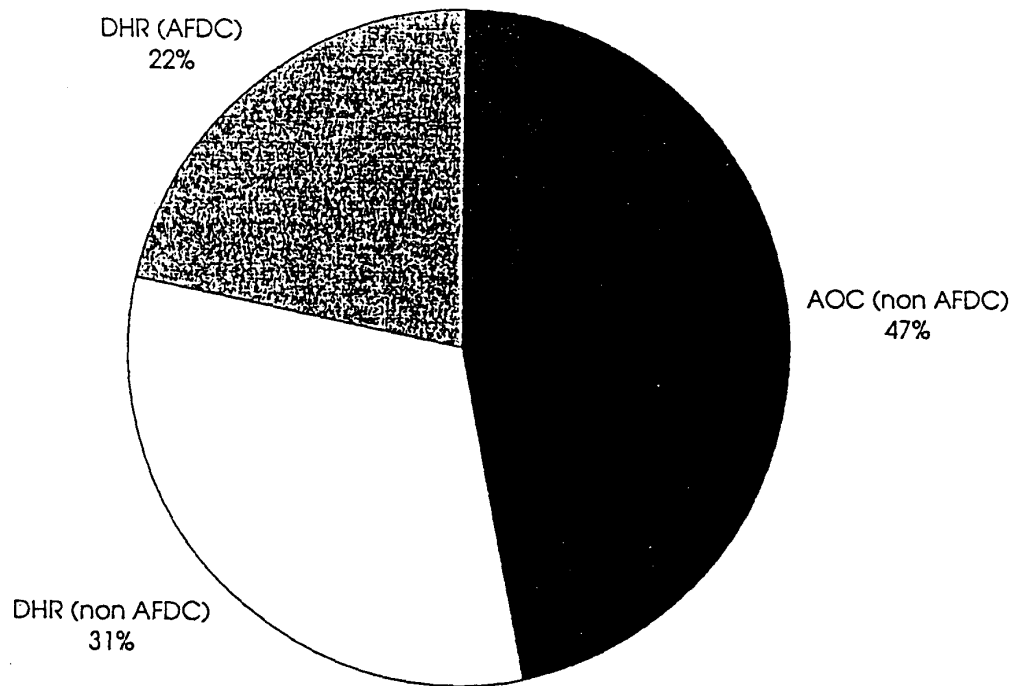
The State administers the federally mandated child support enforcement program through the Division of Social Services (DSS) in the Department of Human Resources. A federal law passed in 1974 created the "IV-D" child support enforcement program to serve AFDC (Aid to Families with Dependent Children) recipients. In 1984, Congress expanded the program to include non-AFDC clients as well. Among other things, the 1984 congressional action ensures that non-welfare clients are eligible for mandatory enforcement services and federal income tax offsets against non-paying parties. The federal government participates in the funding of the IV-D program. The North Carolina program is reimbursed 66 percent of its costs by the federal government.

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<sup>1</sup> AFDC refers to the federal Aid to Families with Dependent Children program.

EXHIBIT 1

Sources of child support enforcement collections



Source: North Carolina State Auditor's Office

Statewide, the total number of child support enforcement cases supervised by DSS is 250,000. This number includes 110,000 cases under court order for support and another 140,000 cases for which no payments are being collected yet, but that require parent locator services, paternity verification, or establishment of an order for initial support<sup>2</sup>.

Services offered by the IV-D program include:

- Establishment of case file
- Intake counseling
- Location of absent parents
- Paternity establishment
- Order Establishment-legal representation by IV-D attorney
- Service of process through local Sheriff departments
- Support enforcement-includes wage withholding and contempt proceedings
- Payment distribution

For the fiscal year 1991-1992 the DSS IV-D Child Support Enforcement program operated by DSS had a budget of \$22.6 million of which \$11.9 million represents reimbursement to the Administrative Office of the Courts for handling the collection and distribution of IV-D child support payments. Staffing included 160 positions at the state operated local offices and 100 at the central office. (See Exhibit 2.)

**EXHIBIT 2**  
**Staff and budget for North Carolina**  
**child support enforcement programs**

(\$ in millions)

	Budget	Staffing
DHR/Division of Social Services	\$10.7	260
Administrative Office of the Courts	\$18.3*	360

\*11.9 million of this amount is a reimbursement from DHR for collection and distribution services for IV-D clients.

Sources: 1991 - 1993 North Carolina State Budget  
A Study of Child Support Services in North Carolina, Policy Studies Inc.

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<sup>2</sup> Once paternity is established, and the absent parent is located, the Clerks of Superior Court offices serve as collection centers for court ordered child support payments (IV-D and non IV-D).

## **State supported program - Administrative Office of the Courts**

The State supervises the State sponsored program through the AOC. In 1983, prior to the passage of the federal Child Support Enforcement Amendments, the General Assembly of North Carolina expanded its State sponsored child support program to include the State's general population. The General Assembly authorized the courts to direct the payment of child support through the Clerks of Superior Court. Unlike the IV-D program, the Clerk's program receives no federal funds for its non-IV-D clients.

Services offered by the court system include:

- Establish files for all non IV-D cases
- Receive and distribute payments for all child support cases (IV-D and non IV-D)
- Monitor payments on accounts
- Send delinquency and show cause notices

When these services are insufficient, some AOC clients are referred to the DHR program.

Statewide, AOC supervises about 110,000 cases. With the expansion of the State sponsored program in 1983 and the expansion of the federal program in 1984, North Carolina has had two programs available to the same client to carry out child support enforcement.

Estimates indicate that approximately 20 percent of the Clerks' staff resources are allocated to child support related duties. Statewide this translates into approximately 360 positions and \$18.3 million annually. In an effort to defray some of its cost, the Administrative Office of the Courts has recently begun charging a fee to the IV-D program for providing collection services for IV-D clients. This has resulted in approximately \$7.4 million in reimbursement from the federal government.

## **Child Support Study Committee**

During its 1989 session, the North Carolina General Assembly directed the DHR and AOC to perform a study of North Carolina's child support enforcement services. Pursuant to this directive the agencies created the Child Support Study Committee. The Committee evaluated child support services across the State and made the following recommendations:

- Transfer all enforcement responsibility to the DHR
- Remove enforcement responsibilities from AOC
- Eliminate District Attorney's role in interstate case processing

- Continue to collect and distribute all payments through AOC (Clerk of Superior Court staff) and charge a collection fee to the IV-D program

Under these recommendations, when the court enters a support order, the recipient would elect to have payments made through the court or directly to the recipient. By electing to receive payments through the court, the recipient's application for participation in the IV-D program would be automatic.

Eventually, collection and distribution activities of the court would be assumed by a central clearinghouse which would serve as a central repository and distribution point for all child support collections. This system would speed up distribution of funds collected, and result in better services to employers who are remitting wage withholding. In addition, a quasi-judicial process using hearing officers to adjudicate support matters would be established in the court system.

### Findings

*Finding 1: The State continues to operate a dual child support enforcement system. The General Assembly's decision not to approve child support program legislation in the 1991 Session has postponed changes in the child support enforcement program.*

The General Assembly failed to pass legislation in its 1991 session to coordinate and improve the State's child support enforcement programs consistent with the recommendations of the Child Support Enforcement Committee. Consequently, little activity has occurred in regard to restructuring the State's child support enforcement system. The delay in resolving overlap between the two systems has cost the State forgone federal reimbursements. Additionally, the State's citizens have not benefitted from services an improved system would have provided.

*Finding 2: There is a significant disparity between the services offered clients by the Clerks of Court versus the IV-D program.*

The Clerks of Court child support enforcement function consist mainly of receiving/receipting child support payments and attempting to enforce collections through notifying delinquent obligors of possible court action. However, the court system's non IV-D clients are not eligible for a variety of services that their IV-D counterparts receive. These services include counseling and mediation, legal representation, enforcement options such as wage withholding, and federal and state income tax interceptions. (See Exhibit 2.)

**EXHIBIT 3**  
**Comparison of North Carolina**  
**Child Support Enforcement Programs**

	Department of Human Services	Administrative Office of the Courts
Establish Case file	Yes	Yes
Counsel clients	Yes	No
Locate absent parents	Yes	No
Establish paternity	Yes	No
Establish Order	Yes	No
Serve process	Yes	No
Enforce orders*	Yes	Yes
Tax intercept	Yes	No
Collect and distribute payments	No	Yes
Payment monitoring	No	Yes

\* This function would be moved entirely to DHR under the proposal offered by the Child Support Study Committee.

Source: A Study of Child Support Services in North Carolina, Policy Studies Inc.

The IV-D program also has access to valuable state and local databases through the State and Federal Parent Locator Services. The IV-D program uses this access to help establish or enforce an order of support.

***Finding 3: The dual child support enforcement system is confusing for both IV-D and non IV-D clients.***

Clients are sometimes unclear which agency is in possession of their case file and whom to contact with questions. Parents that owe child support assume that because they make payments to the Clerk of Court that the Clerk should be able to answer their program related questions. This is frustrating for clients and is a burden on staff who must help clarify the situation and direct clients to the proper channels.

Clients that are part of the AOC system are sometimes referred to the IV-D program when services not provided by the AOC are needed. For example, the AOC system does not have a parent locator service.

The limited services offered by AOC to clients is inherent to the situation which exists and not a reflection on the efforts of the court system. Notwithstanding that fact, as illustrated in Finding 2, clients whose cases are handled by AOC are not eligible to receive important services such as counseling and parent locator services which are available to clients whose cases are handled by DSS.

The most feasible way to correct this disparity is to restructure the State's program so that all clients are served by DSS under the auspices of the IV-D program. This situation again exemplifies the need for program integration such as proposed by the Child Support Enforcement Committee.

***Finding 4: Under the current system the State does not achieve maximum reimbursement from the Federal government.***

The court system duplicates work performed by the IV-D program but unlike the IV-D program, the court system is not eligible for federal reimbursement.

The IV-D program is reimbursed by the federal government at the rate of 66 percent for most administrative expenditures (some administrative expenses are reimbursed at 90 percent), with the balance coming from either the State or the counties. The AOC program is not eligible for federal reimbursement for its costs. The cost incurred by AOC in maintaining the more than 110,000 non-IV-D support cases it handles is approximately \$6.4 million annually. If these cases were maintained by the IV-D program, an additional \$4.2 million annually in federal revenue could be claimed. Exhibit 4 illustrates the comparative State cost associated with the two programs.

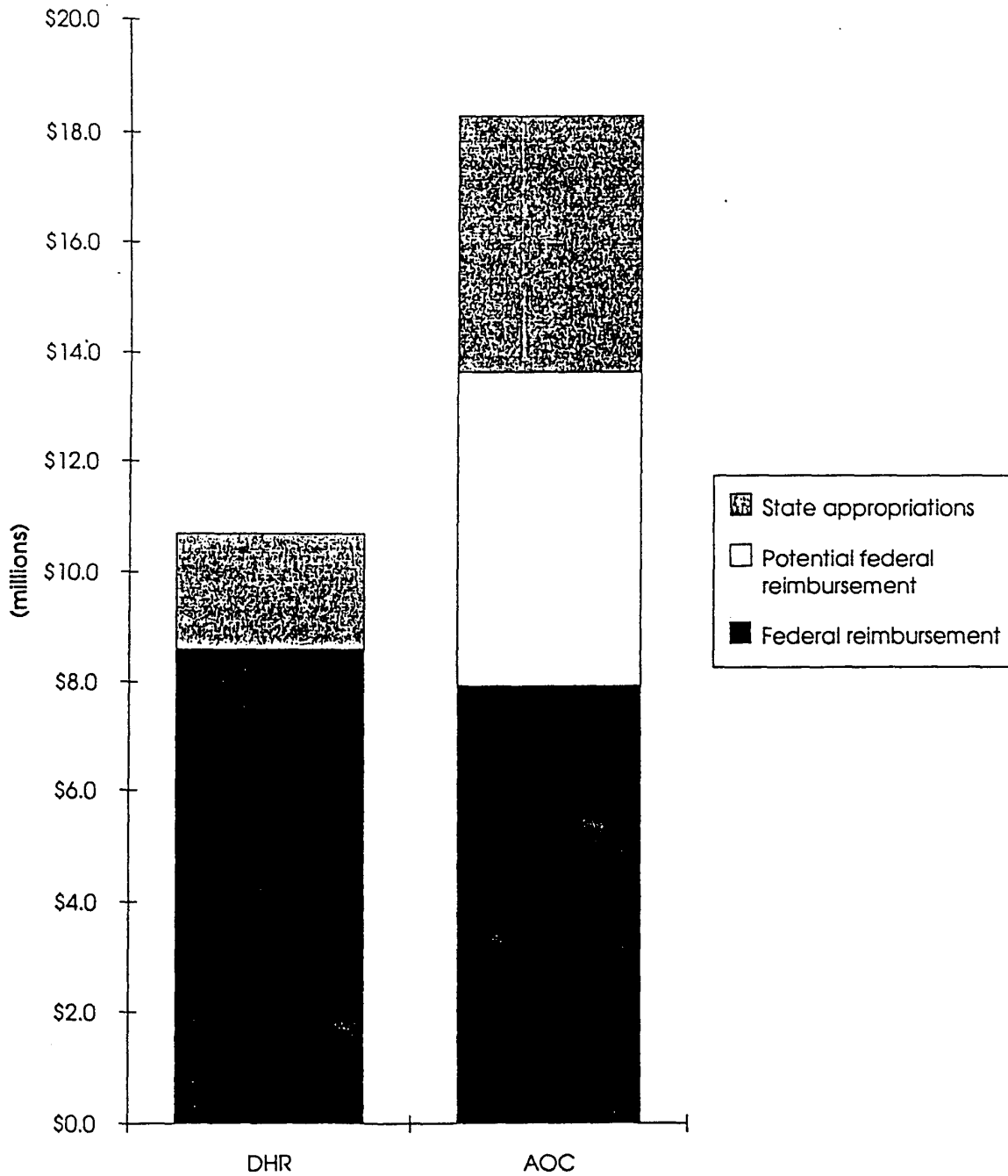
***Finding 5: Not all costs of providing IV-D services are being captured and submitted to the federal government for reimbursement.***

District Attorney costs for handling interstate cases and criminal non-support representation, blood tests, AOC systems costs, and other court costs are not being captured for reimbursement. These AOC costs are estimated at \$2.1 million and this represents \$1.5 million in unclaimed federal reimbursement.



# EXHIBIT 4

## Comparison of costs for DHR and AOC child support enforcement programs



Sources: 1991 - 1993 North Carolina State Budget and A Study of Child Support Services In North Carolina.

## Recommendations

### ***Recommendation 1: The General Assembly should enact legislation to restructure the child support enforcement program.***

This legislation should move all functions except collections from the Clerks of Court (AOC) and place these functions with DHR. Legislation is needed to:

- Place authority and responsibility for child support enforcement program with DSS in DHR
- Require the development and enforcement of program standards at the State and local level
- Establish a child support enforcement and oversight commission to oversee the transition to a restructured service delivery system

**Financial Implications.** By moving to a restructured child support enforcement program located in DSS and by maximizing federal reimbursements, North Carolina can realize a net savings over the next nine years of \$66.8 million. These savings, which are based on the estimates found in the 1990 study of the State's child support enforcement programs - *A Study of Child Support Services in North Carolina*. They include:

- \$37.8 million through increased reimbursement from the federal government for administrative expenses associated with the non IV-D cases now maintained by AOC. Maintaining these cases costs about \$6.4 million each year. If these cases were maintained by the IV-D program, an additional \$4.2 million annually in federal revenue could be claimed.
- \$5.2 million from the transfer of legal functions from AOC and the District Attorney's office to DHR. DHR could contract for these services. The services would be lower cost and would receive federal reimbursement.
- \$0.5 million from the transfer of blood testing from AOC to DHR. In DHR, this function would be 90 percent reimbursable by the federal government.
- \$7.4 million from allocation of automated systems costs in AOC that would be chargeable to DHR under the proposed system. Once these costs are chargeable to DHR (the State's IV-D designated agency), the State can receive federal reimbursement for them.
- \$6.8 million in additional interest earnings and non-AFDC IV-D fees collected.

- \$15.3 million in avoided costs associated with fewer families needing to turn to public assistance programs for income maintenance.

There will be some expenditures associated with the transition to a restructured system with a clearing house function in AOC including a one time cost of approximately \$100,000 for automation. DHR may experience an annual increase in annual administrative expenses of approximately \$700,000 (or \$6.3 million over nine years). Otherwise, the transition costs would be minimal. The savings and investments for improving the child support enforcement are summarized in Exhibit 5.

## Implementation

When the issue of consolidating the child support enforcement function was brought before the General Assembly during its 1991 Session the measure was approved by the House of Representatives (House Bill 542). Owing to its late arrival in the Senate, the bill was not passed in that chamber (Senate Bill 464). The legislation ran into several obstacles some of which may still impede its passage. These issues need to be addressed before further legislation is brought before the legislature. Issues included:

- Duties performed by the Clerk of Court and District Attorneys would, under the consolidated plan, be taken on by the counties. County officials expressed concern that they would be acquiring new responsibilities with only the promise of additional funding.
- Hearing officers would be used to adjudicate support matters, rather than judges, with appeal rights to District Court Judges. Under the current system the cost of Hearing Officers is eligible for Federal reimbursement while cost for judges is not. This concept was seen by some groups as de-emphasizing the importance of child support enforcement and adding another layer to the enforcement process.
- Repeal of the criminal non-support statutes became a topic of discussion which was not resolved. Some argued that repealing the criminal statutes would send the message that not supporting one's children is not a crime. Others maintain that collecting child support is more feasible under civil sanctions than criminal sanctions.

## EXHIBIT 5

### Estimated annual savings from reorganizing child support enforcement programs

	Fiscal Year ending June 30 (\$ in millions)								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Operating costs	\$29.0	\$29.0	\$29.0	\$29.0	\$29.0	\$29.0	\$29.0	\$29.0	\$29.0
Savings	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1
Investments	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)
Net savings	\$7.4	\$7.4	\$7.4	\$7.4	\$7.4	\$7.4	\$7.4	\$7.4	\$7.4
Cumulative savings	\$7.4	\$14.8	\$22.2	\$29.7	\$37.1	\$44.5	\$51.9	\$59.3	\$66.7

Source: 1991 - 1993 North Carolina State Budget