



State of Rhode Island and Providence Plantations

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June 6, 2014

Ms. Sandra Powell
Director
Department of Human Services
Louis Pasteur Building
55 Howard Avenue
Cranston, RI 02920


Dear Director Powell:

The Bureau of Audits (Bureau) has completed its limited scope audit of the child support escrow liability account administered by the Office of Child Support Services (OCSS) for the period January 1, 2008, through October 31, 2013. Our audit was conducted in accordance with Rhode Island General Laws (RIGL) §35-7-3. The findings and recommendations included herein have been discussed with the program management, and we have considered all comments in the preparation of our report.

RIGL §35-7-3(b), entitled "Audits performed by the bureau of audits," states that, "Within twenty (20) days following the date of the issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report..." Accordingly, management submitted its response to the audit findings and recommendations on May 28, 2014, and such response is included in this report. Pursuant to this statute, the Bureau may follow up on recommendations included in our reports within one year following the date of the issuance of the report.

We would like to express our sincere appreciation to the staff at the Office of Child Support Services, Office of Accounts and Control, Budget Office, and the Office of the General Treasurer for the cooperation and courtesy extended to the members of our team during the course of this audit.

Sincerely,



Dorothy Z. Pascale, CPA
Chief

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Kenneth Kirsch, Deputy Director, Department of Administration
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Janice Cataldo, Chief Financial Officer, Department of Human Services



Audit Executive Summary

Why the Bureau did this Review

The Bureau conducted a limited scope audit of the Office of Child Support Services (OCSS) escrow liability account. The purpose of this audit was to identify the source of the variance between the Child Support Escrow Liability account in the state accounting system (RIFANS) and in the OCSS case management system (InRHODES); to develop a more efficient process to reconcile the RIFANS and InRHODES systems; and to provide recommendations for improvement.

Background Information

In 1975, Title IV-D of the Social Security Act was passed by Congress which requires every state to establish and administer a Child Support Enforcement program. The Office of Child Support is a primarily federally funded agency within the Rhode Island Department of Human Services (DHS). The office collects and distributes child support payments and tracks and reimburses aid to governmental agencies. Parents receiving RIWORKS or Rite Care for their children are required to pursue child support services through OCSS--42 U.S.C. § 655 mandates a federal reimbursement rate of 66% for all program expenses; 34% of state general revenues are deployed for the remaining balance. OCSS manages in excess of 57,000 child support cases. Total daily child support receipts are estimated to be between \$400,000 and \$800,000.

To Improve Controls, the Bureau Recommends:

- Coordinate with Division of Information Technology (DoIT) and the UHIP project team to perform a cost/benefit analysis and determine the feasibility of inclusion.
- Maintain financial information in accordance with Generally Accepted Accounting Principles.
- Comply and enforce RIGL §33-21.1-13, "Property Held by Courts and Public Agencies."
- Record activities consistently in both RIFANS and InRHODES.
- Improve controls over cash by reconciling cash collection activity daily. The daily reconciliation should be documented and approved by department management.
- Segregate escrow cash from general revenue (state) revenue and expenses.
- Maintain complete and accurate records of all child support receivables and write-offs.

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Scope

As a result of the Bureau's enterprise risk rating, the Department of Human Services (DHS) was judged an agency requiring an audit during the 2014 fiscal year. The Bureau conducted discussions with the DHS Director, DHS Deputy Director, DHS Chief Financial Officer, and representatives from the Office of Accounts and Control (Accounts and Control) to determine the program(s) and scope of an audit that would best assist the agency. As a result of those discussions, the Bureau of Audits (Bureau) conducted a limited scope audit of the child support escrow liability account administered by the Office of Child Support Services (OCSS) for the period January 1, 2008, through October 31, 2013.

Objectives

The purpose of this limited scope audit was to:

- (1) Reconcile the escrow liability account variance between the general ledger (RIFANS) and the program sub-ledger (InRHODES).
- (2) Develop an efficient reconciliation process.
- (3) Resolve the single audit finding which has persisted since 1992.

Governing Statutes and Regulations

The child support escrow liability account is governed by the following statutes:

- Title IV-D of the Social Security Act of 1975
- RIGL TITLE 15 - *Domestic Relations*
- 45 CFR Chapter III - *Office of Child Support Enforcement*

Methodology

As part of our audit work, the Bureau reviewed the procedures used by OCSS to administer the child support escrow liability account and the procedures used by Accounts and Control to reconcile the account. To address our audit objective, we performed the following:

- Gained an understanding of all pertinent laws, rules, and regulations.
- Gained an understanding of OCSS operations, including system functionality.
- Reviewed vendor, general ledger, and sub-ledger daily activity and reports.
- Reviewed bank records and supporting documentation.
- Reviewed undistributed child support collections escheated to the Rhode Island Division of Unclaimed Property.
- Interviewed OCSS staff, and Accounts and Control's Associate Controller and Financial Management Officer.
- Interviewed the Department of the Treasury's Chief Fiscal Manager, Associate Director of Finance, and Principal Auditor.

Background

History of Child Support Services

In 1975, Title IV-D of the Social Security Act was passed by Congress¹ which requires every state to establish and administer a child support enforcement (CSE) program that establishes and enforces statewide child support laws. The CSE program must provide procedures to establish paternity, obtain court orders for child support, collect and distribute child support payments, and enforce child support orders when payments are in arrears. RIGL § 15-26-1, *State Disbursement Unit for the Collection and Distribution of Child Support*, established the State's centralized child support collection and disbursement unit now known as the Office of Child Support Services (OCSS).

RI OCSS Operations

The Office of Child Support is a federally funded agency within the Rhode Island Department of Human Services (DHS). The office collects and distributes child support payments and tracks and reimburses aid to governmental agencies. Parents receiving RIWORKS or Rite Care for their children are required to pursue child support services through OCSS--42 U.S.C. § 655 mandates a federal reimbursement rate of 66% for all program expenses; 34% of state general revenues are deployed for the remaining need. Of the total amount of child support collections reflected in the federal fiscal year, approximately 85% is remitted directly to families, and the remaining 15% is retained by the federal and state government as recoupment for the child support and public assistance benefits programs. OCSS manages in excess of 57,000 child support cases.

Child support collections are administered via a bank escrow account. All child support activity is entered into the sub-ledger system (InRHODES) which stores the detailed case information. Each child support case is assigned an individual account in the sub-ledger; financial data is entered in aggregate into the general ledger (RIFANS). In a collaborative effort to leverage process improvements, the State of Rhode Island partnered with the State of Connecticut and their vendor, Systems and Methods Inc. (SMI), during 2010 for the collection and processing of child support.

Case Categories

Child support cases are classified into two case categories.

- (1) **IV-D:** A child support enforcement case in which the custodial parent has either assigned his or her rights to receive support payments to the state as a condition of receiving assistance (either as a current or former recipient of such assistance), or has filed an application for services available under Title IV-D.²
- (2) Enforcement services³ include but are not limited to:
 - Federal Tax Refund Offset Program

¹ Title IV- Grants to States for Aid and Services to Needy Families with Children and for Child-Welfare Services; Part D- Child Support and Establishment of Paternity.

² This definition was taken directly from the federal Form 34A *Child Support Enforcement Program Collection Report* instructions.

³ For more information about these enforcement actions, see [the Child Support Enforcement website](#).

- Bank Account Liens
- Insurance Proceeds Intercept
- Lottery Intercept
- Driver's License Suspension

(3) Non IV-D: A child support enforcement case in which the custodial parent has neither assigned his or her rights to the State to receive support, nor has filed an application for services available under Title IV-D.

Improve Financial Controls and Oversight over Escrow Liability Activity

Program accounting office employees understand their roles and responsibilities as they relate to the collection and disbursement of child support; however, they do not always appear to understand how their duties and/or action or inaction affect other agency operations. As a result, a lack of accountability and control over the general ledger (RIFANS) child support escrow liability account, the child support escrow bank account, and the corresponding sub-ledger (InRHODES) detail was noted during this limited scope audit.

While conducting our preliminary research, the Bureau found repetitive findings and management comments regarding lack of escrow liability reconciliations from the Office of the Auditor General.⁴ Additionally, cash available to make child support payments has historically been greater than the recorded liability. The agency response to the 2008 Auditor General Single Audit finding,⁵ that addresses this issue, states in pertinent part:

“... However, several things may occur affecting the account as follows:

- *Checks returned for Insufficient Funds causing an overall shortfall.*
- *Mispostings which cause the re-issuance of a second payment causing a shortfall.*
- *Payments posted incorrectly for foreign currency posted in US dollars and later corrected causing a shortfall.*
- *Federal offsets returned as a result of an injured spouse claim or otherwise. In many cases, the payment has already been remitted to the custodial parent.*
- *Unidentified payments.*
- *Collections are higher at certain times of the year because of the offsets, economic stimulus intercepts, [and] the requirement to hold offsets for 120 days before distributing.*

Other than the foregoing reasons, we cannot explain or account for the significant variance, quarterly in the accounts.”

⁴ Office of the Auditor General Single Audit Report Findings: 2003-44, 2003-45; 2004-60, 2004-61; 2008-73; and Office of the Auditor General Management Comments: 2010-6; 2011-5; 2012-3.

⁵ 2008 was the last year this program was deemed a “major program” and included in the Auditor General Single Audit.

The failure to resolve longstanding financial discrepancies has resulted in missed opportunities for improving controls and processes. Specifically, the Bureau noted the following areas where controls over the processes may be improved. These improvements are discussed in detail in the report:

- Control over cash collections and disbursements should be strengthened.
- Generally Accepted Accounting Principles should be followed.
- Accounting records for the escrow liability should be improved.
- Rhode Island escheatment and depository laws should be enforced.

Recommendations for Improved Controls and Management Responses

The following sections of this report identify areas for improved controls existing in the administration of the child support escrow liability account for the period under audit and recommend corrective action. The recommendations include suggested improvements to the agency's internal controls and financial reporting procedures.

Rhode Island General Law § 35-14-2 states:

Each state agency must maintain effective systems of internal accounting and administrative control as an integral part of its management practices.

This law acknowledges that a strong internal control environment reduces the risk of fraud, provides a basis for public accountability, safeguards state assets, and helps ensure that reliable financial information is produced.

Effective management oversight and timely reconciliations of accounts are key components of a sound internal control system. Without this fundamental structure, the remainder of the internal control environment is undermined. The Bureau identified the following internal control weaknesses related to management oversight and basic financial reconciliations at OCSS which have contributed to the internal control deficiencies over the escrow liability activity and continued inaccuracy of the child support liability ledgers.

Inclusion in UHIP may Reduce Financial and Operational Risks

The Affordable Care Act (ACA) requires all states to implement a Health Benefits Exchange. Rhode Island's Unified Health Infrastructure Project (UHIP) will allow the State to meet the requirements of the Exchange mandate. The UHIP request for proposal (RFP) was issued on behalf of various Executive Office of Health and Human Services (EOHHS) and DHS agencies, including the Office of Child Support Services. However, the Administration for Children and Families (ACF) would not allow OCSS to be included in the enhanced federal funding for the UHIP project as the CSS system does not perform an eligibility function, a needed criteria for federal support of the project.

The Bureau noted several issues with the InRHODES system and the integrity of the data contained therein. Presently all EOHHS and DHS agencies utilize the InRHODES case management system to share client data. OCSS can view "live" data from other agencies, specifically, Medicaid and Title IV-A cases. However, once the other agencies move to the new UHIP system, OCSS will no longer be able to

access this data. Since OCSS must reimburse public assistance when it collects from the noncustodial parent, this information is crucial to OCSS operations. By failing to be included in UHIP at the same time as the other Rhode Island agencies, there is an increased risk to OCSS of further control breakdown, operational inefficiencies, and reduced data integrity. Currently, OCSS is working with the UHIP vendor to create a "bridge" between UHIP and InRHODES.

Recommendation:

1. Coordinate with Division of Information Technology (DoIT) and the UHIP project team to perform a cost/benefit analysis to determine the feasibility of OCSS joining the UHIP system.

Management's Response:

1. DHS/OCSS has coordinated with DoIT and the UHIP project team and is in the process of finalizing an RFP for a Feasibility Study for a new Child Support Computer System. The Federal Office of Child Support Enforcement requires a Feasibility Study to be conducted in accordance with specific federal regulations prior to authorizing federal funding. The feasibility study must contain the cost benefit analysis to analyze the feasibility of joining the UHIP system among other options. The recommendations are then provided to the federal office and the General Assembly to determine federal and state funding.

Anticipated Completion Date: 1. 12 months

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Comply with RIGL §33-21.1-13 – Property held by courts and public agencies

State law requires all undistributed funds (including those from other governments) held for more than twelve months to be escheated to Unclaimed Property unless there is a legal reason to hold the funds. Specifically the statute states:

Intangible property⁶ held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority which remains unclaimed by the owner for more than one year after becoming payable or distributable is presumed abandoned.

The Bureau's cursory review of undistributed funds revealed monies that were being held in excess of one year; some of the funds dated as far back as 1992. As a result of this cursory finding, the Bureau performed an analysis of system data and noted \$323,241 of undistributed child support funds, which were older than one year as of June 30, 2013; these funds remain in the custody of OCSS. The Bureau provided OCSS with its analysis.

⁶ According to RIGL Intangible Property includes: Money, checks, drafts, deposits, interest, dividends, income, and bonds.

Recommendations:

2. Determine if there is a legal basis for holding funds longer than twelve months and remit remaining unclaimed funds to Unclaimed Property in compliance with RIGL §33-21.1-13.
3. Review all processes and system generated reports to ensure compliance with RIGL §33-21.1-13.

Management's Responses:

2. In many instances in which funds are held for over one year, there exists legal bases for not escheating those funds. The provisions of R.I. Gen. Law § 33-21.1-3 have significant legal implications with regard to the propriety of escheating certain funds to the State Treasury. Precisely, that law provides in relevant part, that money should be escheated after one year elapses and, also, only "after [those funds] becom[e] payable and distributable." This latter requirement effectively renders much of the funds in the Agency's possession unavailable for escheatment. Specifically, in matters in which the court has ordered child support collections be held in escrow pending resolution of an underlying issue between or among the parties to the case, those funds are not then "payable or distributable" as required by § 33-21.1-3.

Similarly, to the extent collections are held in accordance with a lien or court ordered restraining order, those funds, likewise, are not eligible for escheatment regardless of the time they are held, since they also are not collections that are "payable or distributable." As a result, these types of collections only become "payable or distributable" once the underlying issue that precipitated the imposition of the lien or restraining order is resolved.

Likewise, if OCSS has exercised its authority under R.I. Gen. Law § 15-26-3(b) and is holding collections from distribution or disbursement because of a dispute surrounding the existence (or not) of any child support arrears that might arise, for example, as a result of information or belief that the child has changed physical custody or has attained the appropriate age of emancipation in accordance with the law, then these funds are not "payable or distributable" in accordance with the escheatment law.

In addition, when collections are received in a case in which the child support matter has come to OCSS in accordance with an interstate case (particularly when no child support order is reflected as being in effect on the OCSS' computer system), OCSS will usually not be able to determine if the funds are "payable or distributable" to any party until certain information is received from the initiating or responding State or other jurisdiction.

There certainly exist cases with funds that have been within OCSS' possession for more than one year and might, otherwise, be eligible for escheatment since they are "payable or distributable" to a party. These collections are usually undistributed because the Agency is unable to locate the party entitled to receive such collections. However, it is crucial to understand that Federal law (which supersedes any state law to the extent any inconsistency exists between the two), as reflected in the instructions to the mandatory Federal Reporting Form ---OCSE 34A---specifically instructs that before any escheatment of child support funds may occur the Child Support Agency shall have first engaged in "numerous attempts" to locate or otherwise properly disburse any such funds. Consequently, it is an incomplete analysis for

any party to conclude that the aforementioned funds are properly escheatable without also first determining whether sufficient efforts have been employed by the Agency (in accordance with Federal requirements) before those collections may be escheated.

The report referred to by the Auditor containing cases with funds held in the amount of \$323,241.43 representing 421 cases, has been reviewed. The sum of \$28,466.12 representing 29 cases will not be escheated in June 2014. The majority of these cases are escrow cases and are therefore not eligible for escheatment. Escrow cases are those cases in which a court orders funds to be held and therefore can only be released through a court order. As a result, the balance of \$28,466.12 will not be escheated to unclaimed property in June 2014 as there is a legal basis to continue to hold these funds. As a result of this particular report the sum of \$294,775.31 was determined to be distributable and was released to the custodial and/or noncustodial parent and/or retained by the state as appropriate.

The Auditor maintains funds were held "as far back as 1992". To put this in the proper perspective, there was 1 case with 13 payments totaling \$780.00 being held since 1992. Tracking notes indicate the reason for the hold on funds was the alleged adoption of the children. Funds were recently released to the custodial parent for arrears which accrued prior to the adoption. In sum, less than 1% of the \$323,241.43 represents funds prior to 2002.

This report is fluid, with funds released and funds on new cases being held. Routinely, cases with funds on hold are reviewed periodically to make a legal determination as to whether the funds should be released and to whom. OCSS requires additional staffing in order to continuously review and research these cases.

3. OCSS has submitted a change order to its vendor to analyze all funds currently being held and will review all processes and determine if there are additional funds that may be released after 12 months in an automated fashion without manual review and without violating other state laws and federal laws and requirements. Programming may be required.

Anticipated Completion Dates:

2. Ongoing. The accounting office will continue to review cases with funds on hold over 1 year as a priority. However, additional FTEs are needed.

3. 1 year

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Comply with Generally Accepted Accounting Principles

The Bureau identified several areas in which basic accounting principles were misapplied or overlooked by the agency. These accounting errors encompassed areas including segregation of escrow funds, revenue and expense recognition, tracking and recording of receivables, and budgeting. These accounting errors contributed to the unexplained variance between the escrow cash and escrow

liability accounts which are discussed later in this report.

An escrow account is a fiduciary arrangement, whereby, an independent third party receives and disburses money on behalf of the transacting parties. OCSS acts as the independent third party for the noncustodial parent and the custodial parent. As such, OCSS escrow account is intended to be used solely for the purpose of holding and disbursing child support. The activity detail should be recorded in the sub-ledger (InRHODES) with aggregate financial information maintained in the general ledger (RIFANS). Our review of accounting transactions uncovered the following weaknesses.

As discussed throughout this report, the relationship between the general ledger (RIFANS) and sub-ledger (InRHODES) is complex. Generally Accepted Accounting Principles (GAAP) requires the sub-ledger (InRHODES) and the general ledger (RIFANS) to reconcile to ensure complete and accurate financial information. While the two ledgers should contain the same basic financial information, the sub-ledger (InRHODES) contains all of the detail regarding individual transactions; whereas, the general ledger (RIFANS) contains summarized daily financial activity. As these two systems operate independently, each child support transaction requires accounting personnel to make entries to both systems.

The state and federal program rules and regulations governing the administration of the program further complicate the relationship between these two systems because the treatment of receipts and disbursements varies depending on the source of the receipt and the type of child support case. Transactions should be recorded consistently, and at each occurrence, to maintain proper control over escrow accounts.

The Bureau noted inconsistent financial practices and inconsistent transactional recording to both the state general ledger (RIFANS) and sub-ledger (InRHODES).

Additionally, accounting office staff has not been cross-trained, resulting in key procedures not being performed when an employee was absent from the office. Written policies and procedures which are clear and well-defined provide guidance to personnel and allow organizations to perform more efficiently and effectively.

Recommendations

4. Develop and document GAAP compliant financial policies and procedures. The policies and procedures should be implemented and used consistently by accounting personnel.
5. Cross train accounting personnel to be able to perform others' duties in the event of their absence.

Management's Responses:

4. Reconciliation between the general ledger RIFANS and the subledger INRHODES coupled with the interrelationship with the Bank Of America general fund account for expenditures, is a manual and highly complex process. DHS/OCSS collects and distributes over \$90 million annually. Additionally, the INRHODES computer system was designed as a case management system. It houses over 57,000 active cases in addition to closed cases and is over 25 years old. Because it was not designed as an accounting system, current financial management reports do not comprehensively result in a full account reconciliation with RIFANS. There are numerous transactions that occur daily on INRHODES including but not limited to: receipt of child support payments, posting to the correct case account, distribution of payments receipts among one or more cases where the non- custodial parent has been ordered to pay, money held for various legal reasons, payments made with insufficient funds, mis-postings, changes in court orders which result in retroactive adjustments or other issues resulting in adjustments. These must be captured and entered appropriately on the RIFANS general ledger in an on-going and daily manual process. Additional staff is required to do a comprehensive and manual reconciliation of these two accounts as well as transfer of funds to the general fund when appropriate.

DHS/OCSS has worked with numerous State partners over the past decade to address the reconciliation issues.

DHS/OCSS will work on implementing the audit recommendations given the scope, scale and complexity of this reconciliation. We will seek additional expertise through Accounts and Control to conduct refresher training of GAAP compliant procedures, secure other technical assistance as needed, request additional FTEs and resources to address the issues, and pursue a computer solution within our pending feasibility study which may assist with some specific reports for account reconciliation.

5. Cross training will continue to occur within union rules. The three employees in the accounting office each have different job titles and classifications as well as different union affiliation.

Anticipated Completion Dates:

4. Ongoing

5. Ongoing

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS-OCSS

Record Activity Consistently in both the General (RIFANS) and Sub-Ledgers (InRHODES)

Timing Differences/Use of different Dating Methodology

In an attempt to reconcile the sub-ledger (InRHODES) with the general ledger (RIFANS), the Bureau identified several timing differences which contribute to the ongoing unidentified reconciliation variance.

The most evident timing difference is the daily recording of receipt and disbursement activity. Currently, all general ledger (RIFANS) transactions are dated and recorded as of the date the cash activity appears on the bank statement. In contrast, transactions are recorded in the sub-ledger

(InRHODES) on the date of approval of receipt or disbursement. The two ledgers record transactions using different dates which results in inconsistent activity between the general and sub-ledgers.⁷

The Bureau noted the following instances in which the effective date of general ledger journal entries were not reflective of corresponding sub-ledger activity:

- Cash receipts collected by the vendor are recorded one business day in arrears.
- Cash disbursements are recorded one business day in arrears.
- Cash receipts collected by Rhode Island Family Court are recorded two to three business days in arrears.

Recommendation:

6. Record and title child support activity in the general ledger (RIFANS) as of the sub-ledger (InRHODES) approval date. Descriptions should be specific to explain the financial activity, and supporting documentation should be scanned and attached to provide an audit trail.

Management's Response:

6. To the extent the Auditor is recommending that OCSS record and provide descriptions of all transactions to explain the financial activity with supporting documentation, this has been implemented.

The Auditor states: "Currently, all general ledger (RIFANS) transactions are dated and recorded as of the date the cash activity appears on the bank statement. In contrast, transactions are recorded in the sub-ledger (InRHODES) on the date of approval of receipt or disbursement."

Federal regulation (45 C.F.R. § 302.81 (a)(4)(i)) specifically mandates that the proper date which shall be reflected as the date of any child support collection in a IV-D case, is the date of which the State's State Disbursement Unit received said payment. Accordingly, to the extent the Auditor's recommendation instructs the Agency to use any other date, Federal law compels us to reject such effort.

However, to the extent the Auditor is recommending entries pursuant to the above federal requirements, DHS/OCSS will need to confer with Accounts and Control and Office of the Treasury prior to fully implementing these changes.

Anticipated Completion Date:

6 months

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

⁷ Reference: *Comply with Generally Accepted Accounting Principles* finding above.

Escheatment Activity and Amounts

General accounting principles require the sub-ledger (InRHODES) and general ledger (RIFANS) to balance; strong internal controls emphasize the need to reconcile at regular intervals. The standard operating procedure to record escheatment as of June 30, 2013, is bulleted below.

- A report identifying case information to be escheated to The Division of Unclaimed Property is generated from sub-ledger (InRHODES).
- 34% of the cash⁸ required to be escheated is transferred to The Division of Unclaimed Property with the above-mentioned list.
- A journal entry for 34% of the amount is recorded in the general ledger (RIFANS).
- 100% of the escheated amount and related case information is removed from the sub-ledger (InRHODES).

This process caused a discrepancy between the sub-ledger (InRHODES) and the general ledger (RIFANS), since 100% of funds were considered escheated in the sub-ledger; whereas, the general ledger recorded the actual cash transferred (34%). Refer to *Comply with RIGL §33-21.1-13 – Property held by courts and public agencies* issue noted above.

Recommendations:

7. Immediately recognize in the general ledger the remaining 66% of all child support funds previously escheated.
8. Transfer the cash related to the additional 66% from the escrow liability bank account to the general fund bank account.

Management's Responses:

7. OCSS will work with Accounts and Control to determine how best to recognize the 66% federal share on RIFANS.
8. The Federal government has received its 66% of the total escheatment reported for the federal fiscal years 2008-2013. The appropriate procedure has been followed in that OCSS reports 100% of the escheatment as program income on the Federal OCSE 396A report. 66% of that total is then deducted, as program income, from the quarterly grant award due the State of RI. However, OCSS will transfer the 66% share already received by the Federal government from the escrow liability account to the general fund bank account since that is the account federal funds received for expenditures is deposited. DHS/OCSS will need to confer with Accounts and Control and Office of the Treasury prior to fully implementing these changes.

⁸ 34% represents the state share of funding for child support payments.

Anticipated Completion Dates:

7. 6 months

8. 6 months

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Revise Methodology to Recognize Program Income in RIFANS

Federal program instructions require “undistributable child support collections reported as ‘abandoned property’”⁹ to be reported as program income. Abandoned property includes undistributable collections from Title IV-D and non-IV-D cases. Undistributable collections from non IV-D cases which are not collected via wage withholding are not considered program income according to the agency’s interpretation of the federal program instructions. The undistributable collections are automatically removed from the sub-ledger (InRHODES) at the time of escheatment. However, OCSS must manually record the corresponding program income and related reduction in liability in the general ledger (RIFANS).

The journal entry to record the escheatment of undistributable child support should:

- Recognize the state and federal share of child support program income resulting from undistributable collections.
- Reduce the balance of the child support escrow liability and escrow cash accounts.
- Increase the balance of the general fund cash account and unclaimed property revenue accounts.¹⁰

Review of child support program journal entries yielded the following issues:

- Federal program income was not recognized upon initial escheatment of child support.
- State program income was not recognized at the time of escheatment during calendar years 2008, 2012, 2013, and 2014.
- Federal and state program incomes were prematurely recognized when writing off stale dated checks.
- Escheatment was recorded in the state general ledger (RIFANS) and sub-ledger (InRHODES) in different accounting periods.
- Abandoned property from non-IV-D non-wage withholding properties was not segregated from other abandoned properties when recognizing federal program income in the accounting system.
- Stale dated checks were not recorded during June 2013 escheatment.

⁹ Federal Form 396A instructions.

¹⁰ The Office of the General Treasurer initiates a wire transfer to move the money from the Child Support escrow bank account to the General Fund bank account at this time.

Reductions to federal program income were not recorded for claims paid by the Division of Unclaimed Property for child support during calendar year 2009 and 2011. Due to the issues identified above, the State and Federal program income account balances in the state general ledger (RIFANS) are incorrect.

Recommendations:

9. Coordinate with the Office of Accounts and Control to develop a methodology for recording state and federal program income from escheatment.
10. Immediately recognize Federal and State program income for all child support monies escheated.

Management's Responses:

Before responding to recommendation #9 and #10, OCSS first responds to the above comments bulleted as follows:

- OCSS will work with Accounts and Control to determine the appropriate entry on RIFANS for this transaction.
- The 34% State share was recognized in RIFANS for the years 2008, 2012 and 2013. The Treasury retains the 34% and records the 34% state share in RIFANS. OCSS does not enter this transaction. The year 2014 has appropriately not yet been escheated. The 2014 escheatment is due to be processed on June 30, 2014
- The Auditor states that escheatment was recorded in RIFANS and InRhodes in different accounting periods. The Treasury records the 34% share in RIFANS, not OCSS.
- Abandoned property from non IVD wage withholding properties is not part of the federal report and would not be segregated in that report. If the Auditors provide guidance as to how those funds may be segregated for a RIFANS entry, OCSS will work with Accounts and Control to follow that procedure. Additional resources may be required.
- According to InRhodes, stale dated checks in the amount of \$64,506.42 were recorded during the June 2013 escheatment.

9. For appropriate Title IV-D and NON IV-D wage withholding cases that are distributable, OCSS has an appropriate methodology for escheatment and determining the state and federal share and for remitting the federal 66% share through a deduction in the federal quarterly grant. The state also received its 34% share and the Treasurer's Office properly records the transaction in RIFANS. OCSS will work with Accounts and Control to determine the appropriate entry for recording the federal share in RIFANS.

10. It is important to note that the Federal government has received its appropriate 66% federal share of program income as reported on the federal report and through a deduction in the quarterly expenditure grant. However, OCSS will need to confer with Accounts and Control for the creation of new RIFANS account numbers to recognize the federal program income on RIFANS.

Anticipated Completion Dates:

9. 6 months

10. 6 months

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Reconcile and Document Daily Collections related to the Escrow Liability Activity

Child support collections are received through three methods:

Direct Payments – Cases established prior to the partnership with Connecticut, whereby, the noncustodial parent remits support payments via electronic transfer directly to the OCSS bank.

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

Partnership with Connecticut – A vendor (SMI) manages and administers child support collections, identifies the case associated with the payment, updates case information in InRHODES, and transfers the money to the escrow bank account daily.

SMI provides a series of web-based reports accessible by select OCSS personnel to facilitate collection reconciliation. Rhode Island Family Court also provides information to OCSS regarding daily collections. OCSS staff does not utilize the information available to reconcile collection activity.

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

Recommendations:

11. Contact the vendor to review daily reconciliation procedures and obtain an understanding of reports provided via the website; request training if necessary.

NOTE: This recommendation was implemented prior to the issuance of this audit report.

12. Reconcile cash collection activity daily. The daily reconciliation should be documented and approved by department management.

13. Eliminate direct payments to the escrow bank account and process all child support collections through the vendor with the exception of Family Court.

14. Notify Accounts and Control of any quarter-end outstanding items identified that may impact the related escrow liability account reconciliation.

Management's Responses:

11. Completed

12. Reconciliation between the general ledger RIFANS and the subledger INRHODES coupled with the interrelationship with the Bank Of America general fund account for expenditures, is a manual and highly complex process. DHS/OCSS collects and distributes over \$90 million annually. Additionally, the INRHODES computer system was designed as a case management system. It houses over 57,000 active cases in addition to closed cases and is over 25 years old. Because it was not designed as an accounting system, current financial management reports do not comprehensively result in a full account reconciliation with RIFANS. There are numerous transactions that occur daily on INRHODES including but not limited to: receipt of child support payments, posting to the correct case account, distribution of payments receipts among one or more cases where the non- custodial parent has been ordered to pay, money held for various legal reasons, payments made with insufficient funds, mis-postings, changes in court orders which result in retroactive adjustments or other issues resulting in adjustments. These must be captured and entered appropriately on the RIFANS general ledger in an on-going and daily manual process. Additional staff is required to do a comprehensive and manual reconciliation of these two accounts as well as transfer of funds to the general fund when appropriate.

13. Rhode Island does not have a law mandating employers to electronically transfer child support payments to the State Disbursement Unit (SDU). In an effort to implement the Auditor's recommendation, OCSS would be required to outreach, multiple times, to approximately 35 states and numerous large employers and large payroll providers to encourage them to transfer from a direct payment wire transfer, to an electronic transmission directly to the State Disbursement Unit. This method of payment has been in existence for more than a decade before the SDU was implemented. Child support payments through this direct method of payment via wire transfer have been routinely and consistently received in amounts which range from \$57,000 to \$580,000 daily. OCSS is not inclined to eliminate this method of payment entirely as an option for employers/states to pay. OCSS encourages any method of payment of child support. Moreover, SMI receives details of all transactions daily whether the payments are through direct payments or directly through SMI.

14. See response to #12 above.

Anticipated Completion Dates:

12. and 14. OCSS will need to request additional staff. To complete the hiring and training process to implement this recommendation would take approximately 18 months.

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Reconcile Escrow Liability to Escrow Cash on a Monthly Basis

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

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

The Bureau reconciled the accounts to within \$9,719, as of June 30, 2013, after making the recommended adjustments discussed in other sections of this report. The Bureau provided OCSS with a copy of its reconciliation procedure and all corresponding journal entries to be recorded in either general ledger (RIFANS) or sub-ledger (InRHODES).

Recommendation:

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

Management's Response:

15. Reconciliation steps take place on a regular basis. Multiple State partners along with OCSS have met for more than a decade in order to resolve the reconciliation of these accounts. Additionally, the incorrect journal entry reflects one data entry error that had no material effect on the collection and distribution of child support. Moreover, there are on-going controls in place for reconciliation of these accounts.

Nonetheless, OCSS will confer with Accounts and Control in an effort to fully implement this recommendation.

Anticipated Completion Date:

15. OCSS will continue to implement with the staff resources available. OCSS will need to request: additional staff, the expertise of Accounts and Control, technical assistance, and will be including computer assistance/capability in the OCSS feasibility study.

Contact Persons: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS and Janice Cataldo, CFO, DHS

Decrease the Number of Days between Receipt and Deposit of Funds

RIGL §11-28-1 requires all state funds be deposited with the General Treasurer within seven business days.

OCSS receives recoupment payments from erroneously overpaid recipients, or SMI for misapplied payments. The Bureau reviewed deposits of recuperated funds for the months of July and August 2013. It was noted that deposits were made between 10 to 18 days after the date of collection.

Recommendation:

16. Ensure all deposits are made in compliance within the mandated seven business days.

Management's Response:

16. Implemented

Anticipated Completion Date:

Completed

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Record and Budget Accounts Receivable

Circumstances outside of OCSS control may cause incidents of custodial parents being overpaid. Generally, overpayments result from:

- Non-Sufficient Funds (NSF) or Return Deposit Items (RDI) - A noncustodial parent payment to OCSS is returned due to insufficient funds. In accordance with federal regulation, payments are distributed to the custodial parent within two business days of receipt. Therefore, OCSS has no knowledge that the payment is rejected by the banking institution prior to distributing funds to the custodial parent.
- IRS adjustments - As part of enforcement services, IRS will intercept a noncustodial parent's tax refund in payment of child support arrears. The funds are forwarded to OCSS where they are held for a predetermined holding period. After the hold period has expired, the funds are distributed to the custodial parent. Occasionally, the IRS later reclaims the intercepted funds from OCSS due an error on the form filed, fraudulent return, injured spouse ruling, or other reason.
- Misapplied payments - OCSS identifies a child support collection that has been applied and distributed to the incorrect custodial parent.

Each of these events represents cash due to the escrow child support fund, and an appropriate receivable should be recognized in the general ledger and sub-ledger accordingly. The Bureau noted the following inaccuracies regarding the OCSS accounts receivables balance:

- Receivables due to IRS adjustments have not been recorded to the general ledger.¹¹
- Misapplied payments are tracked in Excel spreadsheets and have not been recorded to the general ledger.¹²
- Collection journal entry for \$118,824 as of December 12, 2012, was posted to the wrong account.

The agency utilizes current child support collections to bridge the deficit created by these uncollected receivables. If allowed to continue, this practice could potentially cause a shortage in the escrow cash account, leaving OCSS with insufficient funds to meet current support obligations.

Recommendations:

17. Record all receivables. Complete and sufficient supporting documentation should accompany all journal entries.

18. OCSS should correct \$118,824 misstatement in the accounts receivable balance.

19. The Rhode Island Department of Administration's Budget Office should study the impact of losses due to IRS adjustments, NSF/RDIs, and insufficient funds payments. The Budget Office should create budget line items accordingly and appropriate necessary funds.

20. Coordinate with the Office of Accounts and Control to establish accounts to record receivables resulting from IRS adjustments and misapplied payments.

21. See Appendices A and B for the Bureau's proposed entries which will enhance the accuracy and timeliness of recording, and also provide an audit trail.

22. All accounts receivable should be included in the tax return offset file sent to the Rhode Island Division of Taxation for recoupment.

Management's Responses– Budget Office:

19. The Budget Office will work with OCSS to determine the fiscal impact of the fees and create budget lines as necessary.

Management's Responses – OCSS:

17. Auditors recommendation to have "complete and sufficient supporting documentation to accompany all journal entries" has been implemented.

18. The \$118,824 misstatement error reflected a simple recording error on RIFANS. These funds were recorded in one RIFANS receipt account versus another RIFANS receipt account. This simple recording error had no impact on the disbursement of child support payments to customers.

19. OCSS will work with Accounts and Control to create budget line items.

20. OCSS will work with Accounts and Control to establish accounts to record receivables.

¹¹ Approximately \$224,400 in IRS adjustments were made during calendar year 2013.

¹² Approximately \$53,700 in misapplied payments were tracked for calendar year 2013.

21. OCSS will work with Accounts and Control to implement the proposed entries on Appendices A and B.

22. Federal distribution rules require all current support, medical support, arrears be paid prior to any other type of payment. Accounts receivable would be secondary to child support payments. The OCSS has been submitting a Federal and State offset file for past due child support for over 20 years. IRS and state refunds are intercepted for past due support owed to families per federal and state law and not for accounts receivable.

Improve Collection Efforts over Returned Deposits

The agency provided a collection strategy for returned deposit items. However, we were not able to validate that collection practices were consistently deployed. Prior to this audit, the NSF/RDI account activity had not been reviewed or analyzed to determine collectability. The Bureau's review of the account indicates a collection rate of approximately 35% of tracked NSF receivables since the account was established during July 2011. This collection rate indicates the account contains a large number of uncollectible receivables.

Recommendation:

23. Analyze account activity and present any uncollectible receivables annually to the state write-off committee.

Management's Response:

23. The collection strategy for returned deposits on insufficient funds is consistently applied, reviewed and analyzed by the OCSS accounting office. This is a manual process that is maintained and monitored daily. Letters are routinely sent to request recoupment for payments made with insufficient funds. Funds recouped must also be manually entered on InRhodes as an adjustment to the account. In the past we have sought the assistance of the State Police and the Attorney General's office. OCSS makes every effort to recoup on insufficient funds.

It is important to note, that when a non- custodial parent pays child support with insufficient funds or a bounced check, the arrears or past due support is thereby increased and all collection efforts employed by the state agency permitted by law are implemented including but not limited to: credit bureau reporting, bank liens, real estate liens, tax offset, driver's license suspension, lottery intercept, insurance settlement intercept and contempt proceedings. Accordingly these insufficient funds are pursued using child support enforcement techniques/tools.

OCSS will explore with Accounts and Control and OMB to submit these insufficient funds as appropriate to the State Write Off Committee, to the extent OCSS determines that such funds are uncollectable in accordance with federal distribution provisions.

Anticipated Completion Date: 1 year

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Segregate Escrow Cash from General Revenue Activities

The Bureau identified the following items which are deposited in, or paid from, child support escrow cash and do not meet the definition of a child support liability:

Application Fees

Revenue collected from clients who are not on public assistance in order to become full enforcement cases. Fees are received in cash and deposited into the escrow account by OCSS personnel.

IRS Offset Fees¹³

Expenses charged by the IRS for intercepting the income tax refund of noncustodial parents with child support arrearages. These fees are automatically deducted from incoming IRS offset intercepts; the net amount is electronically deposited to the OCSS bank account.

Paternity Test Fee Reimbursements¹⁴

Expenses originally paid by OCSS to establish paternity are subsequently recovered from the noncustodial parent through child support collections. Paternity test fee reimbursements are collected from noncustodial parents and processed through SMI; they are included in the daily wire deposit from SMI.

At month's end, OCSS accounting personnel record a general ledger journal entry to transfer the above activity to the respective revenue and expense accounts. The Bureau determined, for the period July 1, 2009, through June 30, 2013, the following fees have been transferred to the appropriate general ledger account from the child support liability account; however, the corresponding cash was not transferred between the escrow bank account and general fund bank account.

- \$44,241 application fees
- \$194,776 offset fees
- \$33,657 paternity test fee reimbursements

Recommendations:

24. Application fee money should be deposited into the general fund bank account when received. See Appendix D for proposed journal entry.
25. Recuprated paternity test fees should be recorded daily to the appropriate general ledger account.

¹³ The IRS charges the State a fee between \$14 and \$25 for each federal tax refund intercepted on the State's behalf.

¹⁴ "Establishment of paternity" 45 CFR 303.5 requires OCSS to first establish paternity in any case before the court can establish a child support obligation against a non-custodial parent. OCSS attempts to recuperate the cost of paternity tests from noncustodial parents after all other child support obligations have been satisfied. Any paternity test costs not recuperated by OCSS are reimbursed by the federal government at the rate of 66%.

26. The general and sub-ledger expense accounts should be reconciled quarterly. Following the reconciliation, the agency should initiate a wire transfer to move the funds out of the escrow bank account and into the general fund operating account. Refer to Appendix E.
27. Federal offset fees should be recorded weekly to ensure timeliness and accuracy of recording. Transfer the fee from the general fund on a regular basis. Refer to Appendix A.
28. For the period under review \$44,241 in application fees and \$33,657 in paternity test fee receipts presently held in the escrow bank account should be transferred to the general fund bank account.
29. For the period under review the escrow account should be reimbursed \$194,776 from the general fund for federal offset fees formerly paid with child support funds.

Management's Responses:

24. Implemented
25. Will be implemented as of July 1, 2014.
26. See Management's Response to Recommendations 12 through 14.
27. Will be implemented as of July 1, 2014.
28. OCSS will continue to confer with Treasury regarding the transfer from the escrow bank account to the general fund bank account.
29. OCSS will continue to confer with Treasury regarding this transfer from the general fund bank account to the escrow bank account Implemented

Anticipated Completion Dates:

24. Implemented
25. Will be implemented as of July 1, 2014.
26. See Management's Response to Recommendation 12 through 14.
27. Will be implemented as of July 1, 2014.
28. 3 months
29. 3 months

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Reverse the June 2012 Escheatment Activity

The escrow liability account in the general and sub-ledgers should maintain equal balances. For the past five years the unreconciled variance between these two ledgers has fluctuated between \$400,000 and \$3,600,000. Accounts and Control and OCSS staffs identified several reconciling items and timing differences which when corrected, allowed the ledgers to maintain a relatively stable variance of approximately \$1.4 million dollars.

Accounts and Control and OCSS made a joint decision to escheat and record approximately half of the unreconciled variance. On June 22, 2012, the agency authorized a transfer of \$700,000 to Unclaimed Property, and the related journal entry was recorded in the general ledger.

A review of this transaction revealed:

- The escheatment was not included on federal reports.
- The journal entry recording the escheatment did not recognize state and federal program income.
- The journal entry was not based on verifiable information derived from the sub-ledger (InRHODES).
- The sub-ledger (InRHODES) did not reflect this activity.

The Bureau identified several additional reconciling items and timing differences which, if known at the time of this \$700,000 journal entry, may have changed the agency decision.¹⁵ These reconciling items and timing differences have cast doubt upon the completeness upon which the \$700,000 escheatment was based and questioned the appropriateness of the amount of the escheatment.

Recommendation:

30. Reverse the transaction.

Management's Response – Accounts and Control:

30. Accounts and Control will work jointly with OCSS, the Budget Office and the Office of the General Treasurer to research this further and bring it to resolution.

Management's Response - OCSS:

30. OCSS will continue to work with the Budget Office, Accounts and Control and the Office of the General Treasurer to request this reversal or otherwise resolve this issue.

Anticipated Completion Date:

6 months

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Other Areas for Improvement

The following operational efficiency improvements are presented for management consideration.

Receive System Generated Reports in Electronic Format

OCSS relies on Northrup Grumman, the sub-ledger (InRHODES) vendor, to produce reports. Each day 28 reports are printed at the data center in Warwick. A courier obtains the reports from Warwick and delivers them to the OCSS office in downtown Providence. After receiving the reports, OCSS distributes them to the appropriate staff. Some reports are scanned to a PDF format, or hard copies are stored in boxes and maintained at Iron Mountain.

¹⁵ Refer to *Child Support Escheatment Process does not Comply with RIGL §33-21.1-13* finding above.

The use of hard copy (paper) reports prohibits the user from easily manipulating data. Additionally, OCSS incurs the costs of printing, transporting, and storing the paper reports.

Recommendation:

31. Request the vendor to provide the daily and monthly reports in an electronic format.¹⁶

Management's Response:

31. This change order request for electronic reports had previously been submitted to the OCSS vendor. Because of other competing statutory and regulatory requirements, OCSS continues to receive the necessary reports hard copy. All reports will eventually be electronic in a format capable of converting to excel for easy manipulation of data.

Anticipated Completion Date:

9 months.

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Notify Non-Custodial Parent about Required Court Stoppage Order to Cease Garnishment

The InRHODES system is programmed to "flag" book-keeping-only cases when the child reaches the age stated in the support agreement for which they no longer require financial support.¹⁷ This "flag" ceases disbursements to the custodial parent. However, the noncustodial parent continues to be garnished until they go to court to request stoppage.

This practice was mandated by the Rhode Island Family Court to ensure that, in the event of special circumstances which require continued financial support of the child, funds would be available to pay the custodial parent. The consequence of this mandate is that funds accumulate in the child support escrow bank account and escrow liability account and are not distributed until the case is resolved in court. In addition, this creates additional work for OCSS personnel, additional cases that must be heard in Family Court, and forces OCSS to hold money that potentially belongs to the noncustodial parent.

Recommendation:

32. Systematically generate a notification letter to the noncustodial parent when the child is of age, informing him/her that garnishments will continue until family court issues a stoppage order.

¹⁶ The vendor indicated to the Bureau that they are in the process of converting the reports to an electronic format and posting them on an OCSS accessible server. As of the date of this report, this project is still in a testing/quality control phase.

¹⁷ In Rhode Island, this age is typically 18 years old.

Management's Response:

32. This recommendation would require the agency to perform a function which is legally prohibited by federal regulations and RI Family Court Rules of Procedure. These are not IV-D full service agency cases but are "bookkeeping only" private cases. The agency role is limited to distributing child support received.

Anticipated Completion Date:

32. Federal regulations and RI Family Court Rules of Procedure legally prohibit OCSS from performing this recommendation

Contact Person: Sharon A. Santilli, Esquire, Associate Director, DHS/OCSS

Update Language to Partnership Agreement with Connecticut

In a collaborative effort to leverage process improvements, the State of Rhode Island partnered with the State of Connecticut and their vendor, Systems and Methods Inc. (SMI), during 2010 for the collection and processing of child support.

A portion of the current contractual agreement states:

The Contractor shall: d) accept responsibility for all research and recovery of misapplied payments in the case of misapplied payments resulting from the Contractor's error.

Further investigation of this matter revealed it was not the intent of the parties to be engaged in this service. This contract language was an oversight during the negotiation process. Both parties are taking the necessary steps to remove the language from the contract.

Recommendation:

33. Amend the contract.

NOTE: This recommendation was implemented prior to the release of this limited scope audit report.

Appendix A

Federal Tax Intercept Collections, Adjustments and Fees			
Proposed Process to Record Transactions			
Note: Please ensure that account strings reflect the appropriate fiscal year. Additionally, all accounts highlighted in yellow are pending approval of the Budget Office and the Office of Accounts and Control. OCSS should follow up to ensure that these accounts are created.			
Collections- Weekly			
Account	Account Name	Debit	Credit
00.10.068.8300052.00.101020.00000	General Fund. Administration, Departmenten.CCSE CITIZEN - CHILD SUP ..Cash In Bank.Undefined	Gross	
00.10.069.8301500.00.210010.00000	.General Fund.Human Services, Departmenten.COLLECTIONS-CHILD SUPPORT..Escrow Deposits.Undefined		Gross
<u>Note:</u> Recording tax intercept collections at gross will reduce the variance between the INRHODES and RIFANS systems. Collections should be recorded in the RIFANS escrow liability account 8301500 at gross because this is the total amount for which the agency is liable to the custodial parent. Further, recording collections separately will clarify tax intercept collection activity and improve the audit trail.			
Adjustments- Weekly			
Account	Account Name	Debit	Credit
00.10.068.8300052.00.101020.00000	General Fund. Administration, Departmenten.CCSE CITIZEN - CHILD SUP ..Cash In Bank.Undefined		Adjustment
00.10.069.8301500.00.210010.00000	.General Fund.Human Services, Departmenten.COLLECTIONS-CHILD SUPPORT..Escrow Deposits.Undefined	Adjustments Under Holds	
TBD	New IRS Adjustment Accounts Receivable Account	Adjustments Already Paid	
OCSS should budget for IRS adjustment losses.			

Weekly Fee Adjustment			
Account	Account Name	Debit	Credit
00.10.068.8300052.00.101020.00000	General Fund. Administration, Departmen.CCSE CITIZEN - CHILD SUP ..Cash In Bank.Undefined		Fees
13.10.069.2271101.01.649160.00000	General Fund.Human Services, Departmen.Child Support Enforcement.General Revenue.Fees: Miscellaneous.Undefined/	.34 Fees	
13.10.069.2272101.02.649160.00000	General Fund.Human Services, Departmen.Child Support Enforcement.Federal Revenue.Fees: Miscellaneous.Undefined	.66 Fees	
Note: As the incoming IRS wire has been received net of fees, the State should recognize these fees in the appropriate expense account. Fees should be recorded weekly when they are paid to ensure timeliness and accuracy of recording.			
Account Reimbursement			
Account	Account Name	Debit	Credit
00.10.068.8300052.00.101020.00000	General Fund. Administration, Departmen.CCSE CITIZEN - CHILD SUP ..Cash In Bank.Undefined	Adjustments Already Paid	
TBD	Reserve Account		Adjustments Already Paid
00.10.068.8300052.00.101020.00000	General Fund. Administration, Departmen.CCSE CITIZEN - CHILD SUP ..Cash In Bank.Undefined	Fees	
00.10.068.8300002.00.101020.00000	Balance Sheet.General Fund.Administration, Departmen.F10 BANK OF AMERICA - GFR..Cash In Bank.Undefined/Bonds 2000		Fees

Note: This entry represents a transfer from the reserve account into the child support escrow cash account in the amount of the IRS adjustments and fees. This transfer should be for the amount of the adjustment which has already been paid to custodial parents during the period. The second portion of this entry represents a transfer of funds from the General Fund bank account to the child support escrow cash account in the amount of fees paid to the IRS. This transfer needs to be initiated through Treasury when the entry is made.

Write off of Bad Debt			
Account	Account Name	Debit	Credit
TBD	New Bad Debt Expense	Loss	
TBD	New IRS Adjustment Accounts Receivable Account		Loss

Note: The account should be analyzed to determine any uncollectible receivables. Uncollectable receivables should be presented to the state write off committee annually, and written off.

Appendix B

OCSS Proposed Process to Record NSF and Recoveries			
<p>Note: Please ensure that account strings reflect the appropriate fiscal year. Additionally, all accounts highlighted in yellow are pending approval of the Budget Office and the Office of Accounts and Control. OCSS should follow up to ensure that these accounts are created.</p>			
NCP Payment is Returned NSF			
Account	Account Name	Debit	Credit
00.10.069.8301198.00.150001.00000	Newly Created NSF Receivable Account	NSF	
TBD	Reserve Account		NSF
<p>Note: When a check is returned NSF the journal entry should be made to increase the accounts receivable from the NCP. Additionally, the entry should record a decrease to the Reserve Cash account for the amount of the NSF reversal.</p>			
NSF is Recovered			
Account	Account Name	Debit	Credit
TBD	Reserve Account	Recoveries	
00.10.069.8301198.00.150001.00000	Newly Created NSF Receivable Account		Recoveries
<p>Note: When funds are recuperated, the funds should be recorded directly into the RIFANS reserve account. (The physical cash deposit will still be made to the Citizens Escrow account.)</p>			
Write Off of Uncollectible Accounts			
Account	Account Name	Debit	Credit
TBD	Bad Debt Expense	Bad Debt	
00.10.069.8301198.00.150001.00000	Newly Created NSF Receivable Account		Bad Debt
<p>Note: Based on BOA calculations, approximately 65% of funds related to NSF reversals are never recovered. This entry will need to be entered by OCSS after they have received approval for the amount of the write-off by the State Write-Off Committee.</p>			

Appendix C

OCSS Proposed Process to Record Misapplied SMI Payments and Recoveries			
Note: Please ensure that account strings reflect the appropriate fiscal year. Additionally, all accounts highlighted in yellow are pending approval of the Budget Office and the Office of Accounts and Control. OCSS should follow up to ensure that these accounts are created.			
Payment is Identified as Misapplied Paid to Incorrect CP			
Account	Account Name	Debit	Credit
00.10.068.8300052.00.101020.00000	Balance Sheet.General Fund.Administration, Departmen.CCSE CITIZEN - CHILD SUP ..Cash In Bank.Undefined/Bonds 2000	Misapplied Payment	
TBD	Reserve Account		Misapplied Payment
00.10.069.8301199.00.150001.00000	Newly Created SMI Receivable Account	Misapplied Payment	
00.10.069.8301500.00.210010.00000	.General Fund.Human Services, Departmen.COLLECTIONS-CHILD SUPPORT..Escrow Deposits.Undefined		Misapplied Payment
Note: When cash is incorrectly distributed as a result of an incorrect posting by SMI, the vendor is contractually obligated to reimburse OCSS for all resulting losses. As a result, OCSS should record these payments as an increase in accounts receivable due from SMI. Additionally, an entry should be made to reimburse the Escrow Cash account for the amount of the incorrect distributions.			
RI Pays Funds to Correct Custodial Parent			
Account	Account Name	Debit	Credit
00.10.069.8301500.00.210010.00000	General Fund.Human Services, Departmen.COLLECTIONS-CHILD SUPPORT..Escrow Deposits.Undefined	Correct Payment	
00.10.068.8300052.00.101020.00000	Balance Sheet.General Fund.Administration, Departmen.CCSE CITIZEN - CHILD SUP ..Cash In Bank.Undefined/Bonds 2000		Correct Payment

SMI Reimburses State of RI			
Account	Account Name	Debit	Credit
TBD	Reserve Account	SMI Reimbursement	
00.10.069.8301199.00.150001.00000	Newly Created SMI Receivable Account		SMI Reimbursement
Upon cash receipt, the funds should be immediately recorded in the OCSS reserve account.			
Recoupment by State of RI			
Account	Account Name	Debit	Credit
TBD	Reserve Account	CP Recoupment	
00.10.069.8301199.00.150001.00000	Newly Created SMI Receivable Account		CP Recoupment
Monthly reimbursement requests should be reduced by any recoupments received during that month. As recoupments are the responsibility of SMI, OCSS should minimize time spent on this process.			

Appendix D

Application Fees				
Proposed Process to Record Transactions				
Note: Please ensure that account strings reflect the appropriate fiscal year.				
Account	Account Name	Debit	Credit	
00.10.068.8300002.00.101020.0000	Balance Sheet.General Fund.Administration, Departmen.F10 BANK OF AMERICA - GFR..Cash In Bank.Undefined/Bonds 2000	Gross Application Fees		
13.10.069.2272101.02.462100.0000	General Fund.Human Services, Departmen.Child Support Enforcement.Federal Revenue.Rst/Fed:Fed:Grnts.Undefined/Bonds 2000		66% of Fees	
13.10.069.2271998.01.498100.0000	General Fund.Human Services, Departmen.CHILD SUPPORT ENFORCEMENT.General Revenue.Oth Income:Misc:Departmen.Undefined/Bonds 2000		34% of Fees	
Note: The application fees received should be immediately deposited into the Bank of America General Fund bank account and also immediately recognized as state and federal program revenue. As the application fees do not represent a liability of OCSS, they should not affect the escrow liability account.				

Appendix E

Paternity Test Fee Receipts and Paternity Test Expenses			
Proposed Process to Record Paternity Test Fee Receipts			
Note: Please ensure that account strings reflect the appropriate fiscal year.			
Daily			
Account	Account Name	Debit	Credit
00.10.068.8300052.00.101020.00000	General Fund.Administration, Departmen.CCSE CITIZEN - CHILD SUP .Cash In Bank.Undefined	Gross Receipts	
00.10.069.8301500.00.210010.00000	General Fund.Human Services, Departmen.COLLECTIONS-CHILD SUPPORT.Escrow Deposits.Undefined		Child Support Collections
13.10.069.2271101.01.643910.00000	General Fund.Human Services, Departmen.Child Support Enforcement.General Revenue.Pharmaceuticals.Undefined		34% Paternity Fees
13.10.069.2272101.02.643910.00000	General Fund.Human Services, Departmen.Child Support Enforcement.Federal Revenue. Pharmaceuticals.Undefined		66% Paternity Fees
Note: Paternity test fees recovered should be recorded in RIFANS daily. The RIFANS recovered fee total should be reconciled against the INRHODES reports each quarter. Following this reconciliation, a wire transfer should be initiated by OCSS to transfer the cash from the Child Support Escrow bank account to reimburse the general fund on a quarterly basis.			
Quarterly			
Account	Account Name	Debit	Credit
00.10.068.8300002.00.101020.00000	Balance Sheet.General Fund.Administration, Departmen.F10 BANK OF AMERICA - GFR..Cash In Bank.Undefined/Bonds 2000	Paternity Fees	
00.10.068.8300052.00.101020.00000	General Fund.Administration, Departmen.CCSE CITIZEN - CHILD SUP .Cash In Bank.Undefined		Paternity Fees
Note: The above entry should be made during the first five business days following the close of the quarter. The journal entry should be made effective as of the last day of the prior quarter so that the expenses and liability are accurate as of the quarter close.			