



DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Janice K. Brewer  
Governor

Neal Young  
Director

NOV 23 2009

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OFFICE OF THE PRESIDENT

The Honorable Robert L. Burns  
President of the Senate  
Arizona State Senate  
1700 West Washington  
Phoenix, Arizona 85007

Dear President Burns:

Pursuant to A.R.S. § 41-1960.01, enclosed is the Department of Economic Security report pertaining to the effectiveness of private sector involvement in the provision of child support enforcement services.

If you have any questions, please contact Veronica M. Hart Ragland, Assistant Director, Division of Child Support Enforcement, at (602) 771-8190 or me at (602) 542-5757.

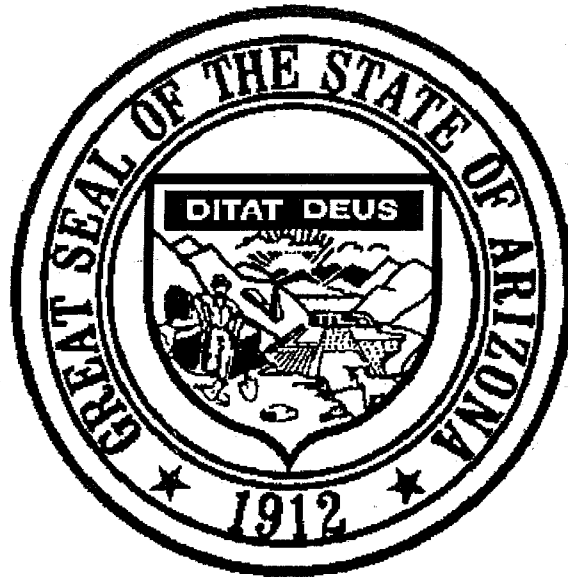
Sincerely,

Neal Young  
Director

Enclosure

cc: Governor Janice K. Brewer  
Speaker Kirk D. Adams, Arizona State House of Representatives  
Members of the Joint Legislative Audit Committee  
GladysAnn Wells, Director, Arizona State Library, Archives and Public Records





**DEPARTMENT OF ECONOMIC SECURITY  
DIVISION OF CHILD SUPPORT ENFORCEMENT**

**PRIVATE SECTOR INVOLVEMENT IN  
CHILD SUPPORT SERVICES**

**November 30, 2009**

## Introduction

The Arizona Legislature, through A.R.S. § 41-1960.01, directed the Department of Economic Security (DES) to implement and evaluate programs that are designed to test the effectiveness of private sector involvement in Title IV-D child support collections enforcement. The Department of Economic Security reports to the Legislature on the status of these programs by November 30 of each year.

With the recent state of the economy, the Department's Division of Child Support Enforcement (DCSE) anticipates the number of payments and collections to decrease. DCSE is reviewing its processes and implementing changes that streamline processes to maximize collections and better service customers.

## Centralized Payment Processing

### Purpose

The federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 required all child support payments to be processed by a Statewide Disbursement Unit. Currently, pursuant to A.R.S. § 46-441, the Department of Economic Security has responsibility for administration of the State Disbursement Unit, which processes all Arizona, child support payments.

### Vendor

The vendor for this contract is Affiliated Computer Systems State and Local Solutions, Incorporated (ACS). ACS operates its centralized payment processing services out of its Phoenix, Arizona location to ensure efficient, secure, and centrally located processing services.

### Scope

The contract provides for daily receipt and posting of case payments, imaging of source documents, secure daily deposit of payments into DCSE's bank account, daily reconciliation of postings and deposits, daily production of a payment file that is uploaded to Arizona Tracking Location Automated System (ATLAS), and employer outreach to replace paper checks with electronic payments. The contract also requires conformance to all applicable federal and state rules and regulations.

### Financial Arrangement

The ACS contract with the Department of Economic Security utilizes a two tier payment method. Per case payment was established at \$0.675 for paper checks and \$0.55 for electronic payments. In March of 2009 the vendor accepted a request for a five percent rate reduction. The current rates are \$0.6412 for paper checks and \$0.5225 for electronic payments. The payment to the vendor is made from state and federal program dollars and not from child support collections.

	Payments Processed	Total Amount Collected for Custodial Parents	Payments to Vendor
SYE 2008	3,209,925	\$628,518,510	\$2,293,494
SYE 2009	3,026,111	\$608,733,287	\$1,899,741

## Electronic Pay Card

### Purpose

To transition custodial parent and Unemployment Insurance recipients from checks to electronic pay cards (EPC).

### Vendor

The vendor for this contract is JP Morgan Chase Bank. Electronic payments were mandated by the state under A.R.S. § 46-445 in 2005. DCSE has converted almost 95 percent of its custodial parents to either EPC or direct deposit since 2005. There are no direct charges for this service.

### Scope

The Department continues to look for innovative ways to improve the quality of the child support program and service. The goal of this contract is to provide faster and more efficient access to a custodial parent's support payments and to provide an unparalleled level of service to custodial parents.

	Checks	EPC	Direct Deposit
SY 2005	1,835,154	20,940	762,635
SY 2006	582,042	736,224	1,373,411
SY 2007	485,410	945,653	1,453,797
SY 2008	268,776	1,185,938	1,468,645
SY 2009	188,423	1,298,142	1,449,466

## Debt Collection and Locate Services

### Purpose

The primary purpose of this service is to collect past due child support obligations. This contract is also available for use by other DES programs.

Additional services include the collection of Non Sufficient Funds (NSF) checks and to locate custodial parents (CP), non custodial parents (NCP), alleged fathers, obligors and others whom the Department has the legal authority to locate.

### Vendors

A new contract for services was awarded in August 2009. Six vendors were awarded a contract: Affiliated Computer Systems State and Local Solutions, Incorporated (ACS); RSI Enterprises, Incorporated (RSI); Progressive Financial Services, Incorporated (PFS); Valley Collection Services (VCS); Credit Management Control, Inc. (CMC); and NCO Financial Systems, Inc. (NCO).

## **Scope**

Cases are referred to the debt collection vendors by an automated process within ATLAS. In order to refer a case through automation, the case must have a court order and be delinquent in paying their current obligation. No cases are referred in which the non-custodial parent is paying their current obligation. The following is a list of additional criteria for a case referral:

- A case must be 61 or more days delinquent;
- The debt must exceed \$100; and
- The debt cannot be the result of a tribal order or a criminal contempt charge.<sup>1</sup>

The DCSE also retains the option to manually refer a case to the vendor. This option is used by the child support enforcement officer when a case does not meet the automated referral criteria, e.g., partial payments are being received or payments are inconsistent and attempts by DCSE to contact the non-custodial parent have been unsuccessful.

The caseload referred to the vendors fluctuates each month as cases are referred back to the DCSE due to ongoing payments by the non-custodial parent; litigation; case closure because the child support obligation, debt, or both have been satisfied; the custodial parent has withdrawn the application for services; or the case no longer meets the referral criteria.

## **How the vendor works cases**

The vendors must notify obligors within 15 days of referral that their case has been assigned for collection. The notice sent must state a demand for payment, the amount owed, the obligor's rights under the law, and an explanation of how to dispute the debt.

Vendors are required to make continuous attempts to collect the outstanding obligations for up to a full year or until it is mutually determined that there is no benefit to further action. If legal action is required to collect an obligation, the vendor must return the case to the DCSE.

Another service provided by the vendors is the location and verification of the obligor's current employer. This information is forwarded to the DCSE, which can then initiate an assignment against the obligor's wages.

The Department of Economic Security's contract with the collection vendors requires the vendors to comply with the "spirit" of the Fair Debt Collection Practices Act (FDCPA). Although court decisions have determined that child support collections are not regulated by the FDCPA, by including this reference, DCSE is able to make use of the standards of the FDCPA that provide protection for the consumer against unfair collection practices.

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<sup>1</sup> The vendor has no jurisdiction over tribal orders and the litigative nature of criminal contempt prevents vendor involvement.

### Financial Arrangement

The contract with the Department of Economic Security is based on a percentage of the amount of distributed collections made on the cases assigned to a vendor. The payments to the vendors are made from state and federal program dollars and not from child support collections themselves. The payment scale (payment rate) for total collections varies for each vendor, in accordance with the contract agreement. The payment rate is based on total collections and the age of debt collected. Payments made to vendors in fiscal year 2009 for collection services were \$1,005,321.

Debt Collection Vendor	SFY 2009 Collections
ACS	\$1,978,795
PFS	\$2,144,795
RSI	\$2,100,387
CMC	\$1,305,114
NCO	\$1,399,895
VCS	\$1,421,284
Total	\$10,350,270

### New Hire Reporting

#### Purpose

In 1996, the federal government mandated each state create a state directory of new hires (SDNH). The directory contains employee and employer information on newly hired/re-hired employees, which is then matched against ATLAS. If a match is identified within ATLAS, DCSE will use the employee and employer information to assist in the location of custodial and non-custodial parents, establish orders of paternity and child support, and aid in the collection of child support.

#### Vendor

Policy Studies, Inc. (PSI) is the current vendor contracted to provide new hire reporting services. PSI has staff dedicated to this contract and operates its new hire operations from the Arizona New Hire Reporting Center located in Austin, Texas.

#### Scope

The new hire reporting contract provides compliance with both state statute (A.R.S. § 23-722.01) and the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996, to ensure the successful operation of a new hire program. PSI is contractually responsible for the following services: data verification, data entry, data transmission, interactive voice response capabilities, quality control, employer outreach, training, and compliance.

New hire records are received from the employer by electronic media (website, file transfer protocol, electronic file transfer, CD, diskette, and cartridge) or paper media (W-

4 form, phone report, printed list, and new hire reporting form). Approximately 90 percent of those employers who report do so electronically. For records not received electronically, PSI staff manually enters the information into the database. Each day, new hire data is electronically transmitted to DCSE.

PSI conducts outreach to the employer community to heighten the awareness and importance of the new hire reporting requirement. The type of outreach conducted includes the following: monthly mailing to all new employers identified by the state Unemployment Insurance database, monthly targeted mailings to employers that report manually or have a lapse in their reporting, quarterly mailings to employers that are non-compliant with the requirement, and annual mailings to all Arizona and multi-state employers that report to Arizona. In addition, PSI conducts new hire presentations at the annual Arizona Payroll Association Conference, the Department of Revenue Employer Forum, and employers when requested.

### **Financial Arrangement**

This contract is based on a flat rate for each accepted data transmission (new hire record). The payment to PSI is made from state and federal program dollars and not from child support collections. The rate for this reporting period was \$0.233 per accepted data transmission. In fiscal year 2009, PSI was paid \$354,496 for the work performed under this contract.

### **Statistical Overview**

The following is a statistical overview outlining the success of the new hire program for fiscal year 2008 and 2009.

State Directory of New Hires (SDNH)	New Hire Records Received	Matches to an ATLAS Case	IWO's Generated as a Result of Match	Collections generated as a result of hire match
2008	1,975,806	94,248 (4.8%)	41,995	\$7,179,757
2009	1,538,608	68,098 (4.4%)	30,243	\$5,047,834

National Directory of New Hires (NDNH)	New Hire Records Received	Matches to an ATLAS Case	IWO's Generated as a Result of Match	Collections generated as a result of hire match
2008	84,664	74,096 (87.5%)	27,054	\$5,153,031
2009	66,314	61,118 (92.2%)	22,789	\$4,330,392

## **Child Support Lien Network**

### **Purpose**

To intercept insurance settlement funds from delinquent child support obligor parents.

### **Vendor**

The Child Support Lien Network is a consortium of 31 states and is based within the State of Rhode Island.

**Scope**

States combine delinquent child support cases into the CSLN database. The database is matched daily with personal injury and workers compensation claims registered by insurers with the ISO ClaimSearch. Liens or withholding orders are issued to the insurer. Arrears are collected by the state from the insurer at time of settlement.

**Financial Arrangement**

The contract with the Department of Economic Security is a fixed price contract based on the number of obligors matched to insurance claims. The payment to CSLN is made from state and federal program dollars and not from child support collections. In fiscal year 2009, the vendor was paid \$32,934.50 for the work performed on this contract.

**Statistical Overview**

State Fiscal Year	Claims	Insurance Funds Collected
FY 08	727	\$111,426
FY 09	684	\$185,668

**Financial Institution Data Match****Purpose**

The federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires that states enter into agreements with financial institutions for the purpose of identifying the financial assets of child support obligors. The purpose of this contract is to develop and implement a financial institution data match system as authorized by A.R.S. § 25-523, for use in identifying a non-custodial parent who may have an account with a financial institution, to be used in the establishment, enforcement, and/or collection of child support obligations.

**Vendor**

The vendor for this contract is Informatix Inc., which is headquartered in San Francisco, California and operates its financial data match program at its Lansing, Michigan location.

**Scope**

The contract provides for complete data match services between the state and financial institutions. The vendor is responsible for:

- Contacting each identified financial institution;
- Coordinating the exchange and matching of data between financial institutions and DCSE;
- Tracking compliance of financial institutions; and
- Providing reports to DCSE.

**Financial Arrangement**

The contract with the Department of Economic Security is a fixed price contract based on completion of selected tasks. The payment to the vendor is made from state and federal program dollars and not from child support collections. In fiscal year 2009, the vendor was paid \$23,383 for the work performed on this contract.

**Statistical Overview**

State Fiscal Year	Data Matches	Levy Actions	Dollars Collected
2008	52,612	23,002	\$6,558,469
2009	33,671	14,971	\$4,330,392

**Conclusion**

The Department of Economic Security is committed to working with the private sector when it will improve the Division of Child Support Enforcement's services and help to increase child support collections. The Department of Economic Security is continually assessing the cost/benefit of each private sector project to strive for maximum utilization of resources.

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