



DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Janice K. Brewer
Governor

Neal Young
Director

DEC 01 2010

Ms. GladysAnn Wells
Director, Arizona State Library, Archives and Public Records
1700 West Washington
Phoenix, Arizona 85007

Dear Ms. Wells:

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

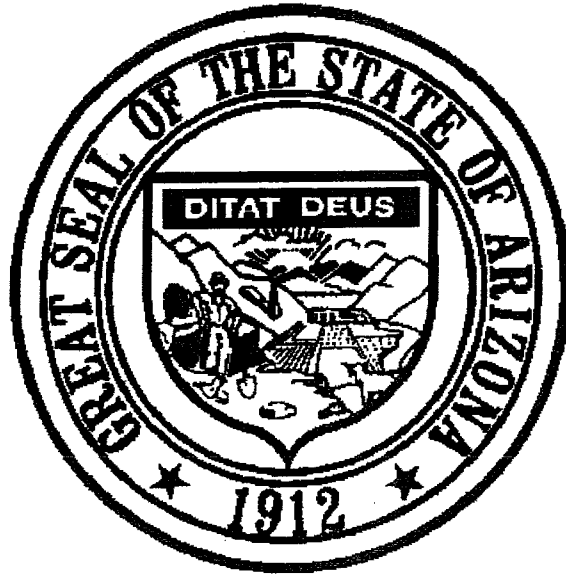
If you have any questions, please contact Veronica M. Hart Ragland, Assistant Director, Division of Child Support Enforcement, at (602) 771-8190 or me at (602) 542-5757.

Sincerely,

Neal Young
Director

Enclosure

cc: Governor Janice K. Brewer
President Robert L. Burns, Arizona State Senate
Speaker Kirk D. Adams, Arizona State House of Representatives
Members of the Joint Legislative Audit Committee



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

**PRIVATE SECTOR INVOLVEMENT IN
CHILD SUPPORT SERVICES**

November 30, 2010

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. DES reports to the Legislature on the status of these programs by November 30 of each year.

The three year trend has shown a decrease in the statewide total number of payments processed and funds collected. However, the Department's Division of Child Support Enforcement (DCSE) will continue to respond to the current economic realities and look for innovative ways to improve collections.

Centralized Payment Processing

Purpose

The Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) requires all child support payments be processed by a Statewide Disbursement Unit (SDU). Currently, pursuant to A.R.S. § 46-441, DES has the responsibility for the administration of the SDU, 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 DES utilizes a two tier payment method. 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	Payment to vendor
SFY 2008	3,209,925	\$628,518,510	\$2,293,494
SFY 2009	3,026,111	\$608,733,287	\$1,921,431
SFY 2010	2,831,120	\$602,163,956	\$1,658,761

Electronic Pay Card (EPC)

Purpose

Electronic payments to custodial parents were authorized 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. This contracted service is also utilized by 100 percent of Unemployment Insurance (UI) recipients.

Vendor

The vendor for this contract is JP Morgan Chase Bank. There are no direct charges for this service.

Scope

DES continues to look for innovative ways to improve the quality of the child support program and services. 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
SFY 2005	1,835,154	20,940	762,635
SFY 2006	582,042	736,224	1,373,411
SFY 2007	485,410	945,653	1,453,797
SFY 2008	268,776	1,185,938	1,468,645
SFY 2009	188,423	1,298,142	1,449,466
SFY 2010	169,770	1,346,204	1,459,301

Debt Collection Vendors and Locate Services

Purpose

This contract provides several services for DCSE: 1) to collect past-due child support obligations; 2) to locate custodial parents, non-custodial parents, alleged fathers, and others whom DES has the legal authority to locate; and 3) to collect Non-Sufficient Funds (NSF) checks. Other DES programs may use this contract.

Debt Collection Vendors

A new contract for services was completed 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 the current obligation. No cases are referred when the non-custodial parent is paying the 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.¹

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 the following reasons: 1) ongoing payments by the non-custodial parent; 2) litigation; 3) case closure because the child support obligation is satisfied; 4) the custodial parent has withdrawn the application for IV-D services; or 5) the case no longer meets the referral criteria.

How the debt collection vendor works cases

The vendor must send a notice to the non-custodial parent within 15 days of referral that their case has been assigned for collection. The notice sent must include the following: 1) a demand for payment; 2) the amount owed; 3) the non-custodial parent's rights under the law; and 4) an explanation of how to dispute the debt.

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

Another service provided by the vendor is the location and verification of the non-custodial parent's current employer. This information is forwarded to DCSE, and then DCSE sends an Income Withholding Order (IWO) to the non-custodial parent's employer.

DES's contract with the debt collection vendors requires the vendors 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 in the contract, DCSE is able to make use of the standards in the

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

FDCPA to provide protection for the non-custodial parent against unfair collection practices.

Financial Arrangement

The contract is based on a percentage of the amount of distributed collections made on the cases assigned to a vendor. The payments to the vendor are 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 the debt collected. Payments for collection services made to the debt collection vendors in fiscal year of 2010 were \$1,681,550.

Debt Collection Vendor	SFY 2010 Child Support Collections
ACS	\$2,373,382
PFS	\$2,470,056
RSI	\$2,583,052
CMC	\$2,275,098
NCO	\$2,372,283
VCS	\$2,417,717
Total	\$14,491,588

New Hire Reporting

Purpose

PRWORA mandated that 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 assist in the collection of child support obligations (payments).

Vendor

Policy Studies, Inc. (PSI) began the fiscal year as DES's vendor. On November 1, 2009, Stellarware Corporation became the current vendor contracted to provide new hire reporting services for the State of Arizona.

Scope

The new hire reporting contract provides compliance with both state statute (A.R.S. § 23-722.01) and PRWORA, to ensure the successful operation of a new hire program. Stellarware is contractually responsible for the following services: 1) data verification; 2) data entry; 3) data transmission; 4) interactive voice response capabilities; 5) quality control; 6) employer outreach; 7) training; and 8) compliance with the laws.

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 those records that are not received electronically, Stellarware staff manually enters the information into the database. New hire data is electronically transmitted to DCSE each day.

Stellarware 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: 1) monthly mailing to all new employers identified by the state Unemployment Insurance database; 2) monthly targeted mailings to employers that report manually or have a lapse in their reporting; 3) quarterly mailings to employers that are non-compliant with the requirement; and 4) annual mailings to all Arizona and multi-state employers that report to Arizona.

Financial Arrangement

This contract is based on a flat rate for each accepted data transmission (new hire record). The payment for new hire records is made from state and federal program dollars and not from child support collections. The rate for this reporting period was \$0.233 for PSI and \$0.18479 for Stellarware per accepted data transmission. In fiscal year 2010, PSI was paid \$112,696.97 and Stellarware was paid \$144,958.45 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 years of 2009 and 2010.

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
2009	1,538,608	68,098 (4.4%)	30,243	\$5,047,834
2010	1,178,363	55,325 (4.7%)	24,214	\$4,579,556
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
2009	1,460,136	61,118 (4.2%)	22,789	\$4,330,392
2010	1,340,988	49,094 (3.7%)	16,074	\$3,396,285

Child Support Lien Network (CSLN)

Purpose

To intercept insurance settlement and Worker's Compensation funds from delinquent non-custodial parents.

Vendor

CSLN is a consortium of 31 states and is based within the State of Rhode Island.

Scope

DCSE sends delinquent child support cases to the CSLN database. The database is matched daily with personal injury and Worker's Compensation claims registered by insurers with CSLN. Income Withholding Orders or Limited Withholding Orders are issued to the insurer by CSLN on behalf of DCSE.

Financial Arrangement

The contract with DES is a fixed price contract based on the number of non-custodial parents 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 2010, the vendor was paid \$28,574 for the work performed on this contract.

Statistical Overview

State Fiscal Year	Claims	Insurance Funds Collected
SFY 08	727	\$111,426
SFY 09	684	\$185,668
SFY 10	649	\$597,546

Financial Institution Data Match (FIDM)**Purpose**

PRWORA requires that states enter into agreements with financial institutions for the purpose of identifying the financial assets of non-custodial parents. The purpose of this contract is to develop and implement a financial institution data match system as authorized by A.R.S. § 25-523. This match is used to identify non-custodial parents who have accounts with a financial institution and is 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 DCSE and financial institutions. The vendor is responsible for the following: 1) contacting each identified financial institution; 2) coordinating the exchange and matching of data between financial institutions and DCSE; 3) tracking compliance of financial institutions; and 4) providing reports to DCSE.

Financial Arrangement

The contract with DES 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 2010, the vendor was paid \$22,733.23 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
2010	26,040	15,853	\$5,180,959

Conclusion

DES is committed to working with the private sector when it improves our services and helps increase child support collections. DES is continually reviewing and assessing the cost-benefit of each private sector project to strive for maximum utilization of resources.
