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ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85007

Janet Napolitano
Governor

Tracy L. Wareing
Director

NOV 30 2006

The Honorable Ken Bennett
President of the Senate
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear President Bennett:

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

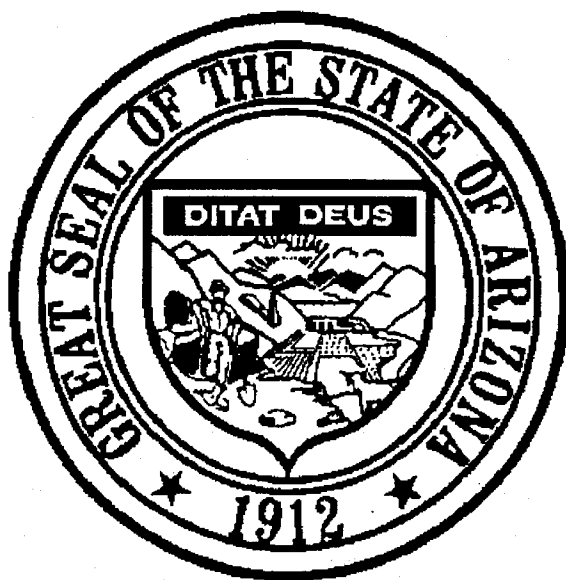
If you have any questions, please contact Leona M. Hodges, Assistant Director, Division of Child Support Enforcement, at (602) 274-7646 or me at (602) 542-5757.

Sincerely,

Tracy L. Wareing
Director

Attachment

cc: Governor Janet Napolitano
Speaker James P. Weiers, 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, 2006

Introduction

The Arizona Legislature, through A.R.S. §41-1960.01, directed the Department of Economic Security (DES) to test the effectiveness of private sector involvement in the provisions of child support enforcement services. The legislation also requires an annual report to the Legislature.

This report is intended to inform the Arizona Legislature of the DES efforts, through the Division of Child Support Enforcement (DCSE), to improve child support services and increase collections by privatizing selected areas of service.

Project I - Legal Services

Purpose

The Department of Economic Security, Division of Child Support Enforcement (DCSE), provides child support enforcement services in the following counties: Maricopa, Apache, Coconino, Graham, Greenlee, Mohave, Pima, Santa Cruz, Yavapai, and Yuma. DCSE also has intergovernmental agreements with county attorneys to provide services in La Paz, Gila, Navajo, and Pinal counties, and contracts with a private vendor to provide services in Cochise County.

The goals for this project were to:

- Increase child support collections;
- Comply with federal regulations and state statutes;
- Develop and maintain positive relations within the local communities;
- Assess the benefits of private participation in child support enforcement; and
- Acquire new strategies and approaches, which could be transferred to other parts of the program.

Vendor

In October 2002, Policy Studies, Inc. (PSI) was awarded a contract to provide full child support services in Cochise County. PSI is a Colorado-based corporation that specializes in child support enforcement activities and conducts business in Arizona as Child Support Services of Arizona (CSSA).

Scope

The services provided by CSSA include:

- Location of non-custodial parents;
- Establishment of paternity;
- Establishment of child support obligations;
- Establishment of medical support obligations;
- Enforcement of support obligations;
- Collection of child support;
- Financial assessment of the non-custodial person;
- Review and modification of child support awards;
- Establishment and maintenance of case records;
- Wage assignment monitoring;
- Provision of services in interstate Title IV-D cases;
- Legal representation on behalf of the Department of Economic Security in child support related litigation;
- Input into DSCE's computerized case management system, Arizona Tracking and Location Automated System (ATLAS); and
- Producing management reports (including statistical information).

All services are carried out in compliance with Title IV-D of the Social Security Act, federal regulations, and state statutes.

PSI's financial responsibility includes paying for its own staff, facilities, equipment, and insurance. The Bisbee office in Cochise County has one Program Manager, one Team Leader, one Administrative Support Specialist, one Receptionist, nine Child Support Specialists, one Financial Specialist, and one full time attorney. There is also a Regional Director located in Denver, Colorado, who oversees the PSI office.

PSI has full access to the DCSE's ATLAS, which is used to administer the Title IV-D program. ATLAS is used in conjunction with PSI's Performance Results Information System Manager (PRISM) system.

Financial Arrangement

PSI's contract with the Department of Economic Security is based on a percentage of the amount of distributed collections. Payments to PSI are made from appropriated state and federal program dollars and not from child support collections themselves. The current PSI Cochise County contract payment scale is 12.4% for July 2005 – September 2005, and 10.4% for October 2005 – June 2006, the end of the state fiscal year.

DCSE monitors PSI's case activities and production. The main tools used are the statistical reports generated by ATLAS and reports provided by the vendor. Customer complaint logs are maintained in each office and are available to the Department of Economic Security. The DCSE evaluation team monitors PSI's compliance with performance standards as determined by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), which have been incorporated into the contract.

Results

PSI's State Fiscal Year (SFY) 2006 collection amounts increased from the prior year.

State Fiscal Year	Collections	Change from prior year	Year over Year Percent Change
2006	\$7,738,683	\$604,022	8.5%
2005	\$7,134,661	\$1,053,743	17.3%

To further assess PSI's productivity, statistics regarding the establishment of paternity and child support orders and collections in Cochise has been compared to the performance of the state as a whole.

FFY 2006 Productivity and Performance as of June 30, 2006

	Children Born out of Wedlock Prior Year	Paternities established or Acknowledged	Paternity Establishment Percentage	Total Caseload	Support Orders Established	Order Establishment Percentage	Total Caseload	Average collections per case
State	167,786	139,958	83.41%	223,201	168,657	75.56%	223,201	\$1,376.72
PSI	3,785	2,823	74.58%	5,246	3,954	75.37%	5,246	\$1,475.16

The average collections per case serviced by PSI increased from \$1,244.10 in SFY 2005 to \$1,475.16 in SFY 2006; a 19 percent increase over the prior year.

Project II - Advanced Collection Techniques (ACT)

Purpose

The main purpose of this project is to increase child support collections while maintaining efficient and effective use of the Department of Economic Security's resources.

Vendors

Three vendors participated in this contract during SFY 2006: Affiliated Computer Systems State and Local Solutions, Incorporated (ACS); RSI Enterprises, Incorporated (RSI); and Progressive Financial Services, Incorporated (PFS).

Affiliated Computer Services, Inc.

ACS operates its child support locate and collections services from its San Antonio, Texas location. They use the DAKS software system to provide reports, locate and collection data. ACS also subscribes to several national consumer databases that provide assistance in locating non-custodial parents and their assets.

RSI Enterprises, Inc.

RSI operates its child support locate and collection services from its Phoenix, Arizona location. They use the CUBS software system to provide reports, locate and collection data. RSI also subscribes to several national consumer databases that provide assistance in locating non-custodial parents and their assets.

Progressive Financial Services (PFS)

PFS operates its child support locate and collection services from its Tempe, Arizona location. They use the Debt Master software system to provide reports, locate and collection data. PFS also subscribes to several national consumer databases that provide assistance in locating non-custodial parents and their assets.

Scope

Cases referred to the collection vendors are from all 15 Arizona counties.

In order to refer a case through automation, the case must have a court order and be delinquent. 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 60 days or more 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 (CSEO) when a case does not meet the automated referral criteria, e.g., partial payments are being received or payments are

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

inconsistent and attempts by DCSE to contact the non-custodial parent have been unsuccessful.

Cases referred manually must meet the following criteria:

- The case is active;
- The debt exceeds \$100;
- Family violence is not an issue;
- Bankruptcy is not an issue;
- The case is not in administrative review; and
- The case is not scheduled for a hearing or litigation.

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 person (NCP); litigation; case closure because the child support obligation, debt or both have been satisfied; the custodial person (CP) 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. The obligor has 20 days to respond to the initial letter. If there is no response, additional letters may be sent and telephone calls are made by the vendor.

Vendors must attempt to contact the obligor every 28 days. 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 for 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.

If a vendor is successful and an assigned case pays for 180 consecutive days, it is returned to the DCSE and the vendor no longer receives credit for payments made. However, if a paying case is returned to DCSE and falls delinquent again, it is returned to the vendor for continued collection activity.

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 it contains. The standards provide protection for the consumer against unfair collection practices.

The vendors have limited access to ATLAS and use this information in efforts to collect the full child support obligation owed by the non-custodial parent.

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 for total collections equal to or less than \$10 million varies for each vendor. The payment scale for ACS was 11.0%, the payment scale for RSI was 11.0%, and the payment scale for PFS was 8.8%.

Monitoring

The DCSE monitors case activities and production of the ACT vendors. The primary source for monitoring collections by the vendor is the use of ATLAS reports. The vendors are monitored for contractual compliance through a sampling of various system reports. Vendor staff receives training on the child support enforcement program and the ATLAS system.

Results and Expenditures

VENDOR	Amount Collected		Percent Change from SFY 2005	Amount Paid In SFY 2006
	SFY 2005	SFY 2006		
ACS	\$2,174,991	\$3,072,668	41%	\$337,993
RSI	\$3,231,579	\$3,888,528	20%	\$427,738
PFS	\$2,169,543	\$2,498,344	15%	\$219,854
TOTAL	\$7,576,113	\$9,459,540	25%	\$985,585

Project III – New Hire Reporting

Purpose

In 1996, the Federal government mandated each state create a State Directory of New Hire (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 Phoenix, Arizona.

Scope

This contract provides compliance with both State (A.R.S. §23-722.01) and the Federal Personal Responsibility and Work Opportunity Reconciliation ACT (PRWORA) of 1996, 42 USC 654A law, 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, diskette, and cartridge) or paper media (W-4, phone report, listing, new hire reporting form). Approximately 85 percent of those employers who report, do so electronically. For records not received electronically, PSI staff manually enter 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 Unemployment Insurance database, monthly targeted mailings to employers who report manually, have a lapse in their reporting or are non-compliant with the requirement, and annual mailing to all Arizona and multi-state employers who report to Arizona. In addition, PSI conducts new hire presentations to 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 SFY 2006, PSI was paid \$533,278 for the work performed under this contract.

Contract Compliance

DCSE monitors both the timeliness and accuracy of new hire records received from PSI. Each month, a statistically valid sample of manually entered new hire records is reviewed to ensure the 3-day timeframes and 99.8 percent accuracy requirement of the contract are met. Failure to achieve the requirements will result in liquidated damages against PSI.

Statistical Overview

The following is a statistical overview outlining the success of the New Hire Program for SFY 2006:

New hire records received	Matches to an ATLAS case	Income withholding orders generated as a result of a new hire match	Collections generated as a result of a new hire match
2,297,331	108,980 (4.7%)	43,132 (39%)	\$7,267,689

Project IV – Centralized Payment Processing

Purpose

Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, required all child support payments to be processed by a Statewide Disbursement Unit. Currently, under Arizona law, A.R.S. §46-441, the Department of Economic Security has responsibility for administration of the State Disbursement Unit, which processes all Arizona 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, and daily production of a payment file that is uploaded to ATLAS. The contract also requires conformance to all applicable federal and state rules and regulations.

Financial Arrangement

The contract with the Department of Economic Security is based on a flat rate for each case payment processed through ATLAS. The payment to the vendor is made from state and federal program dollars and not from child support collections. The rate for this reporting period was \$0.76 per case payment processed through ATLAS. In SFY 2006, ACS was paid \$2,282,431 for the work performed on this contract.

Monitoring

DCSE monitors ACS's processing accuracy rate. Each quarter a statistically valid random sample is reviewed to ensure the required 99.7% accuracy rate is achieved. Failure to achieve the required accuracy rate requires the vendor to submit a corrective action plan outlining the steps that will be taken to ensure compliance. ACS achieved or exceeded the 99.7% accuracy rate for each monitoring period this year.

Project V – Financial Institution Data Match

Purpose

Public Law §104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) 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 (FIDM) system or implement an existing 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 Tier Technology, Inc., and operates its financial data match program at its Phoenix, Arizona location.

Scope

The contract provides for complete data match services for the State. The vendor is responsible for:

- Contact with each identified financial institution;
- Coordinating the agreement between the financial institution and the Department of Economic Security;
- Coordinating the exchange and matching of data between financial institutions and DCSE;
- Track 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. For SFY 2006, the vendor has been paid \$19,936.

Statistical Overview

Data matches from the Financial Institution Data Match process have enabled DCSE to increase its collections by over \$11 million during the past two years.

State Fiscal Year	Data Matches	Levy Actions	Dollars Collected
2005	6,048	5,666	\$2,936,229
2006	15,245	9,506	\$5,300,786

CONCLUSION

The Department of Economic Security is committed to working with the private sector to improve the program and increase child support collections. As technological advances and improved automation are made available, the gap between the abilities of the private sector vendors and the Department of Economic Security has become smaller or been virtually eliminated. The Department of Economic Security is continually assessing the cost/benefit of each project to ensure maximum utilization of funds.
