



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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Janet Napolitano
Governor

Tracy L. Wareing
Director

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OFFICE OF THE PRESIDENT

The Honorable Timothy S. Bee
President of the Senate
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear President Bee:

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

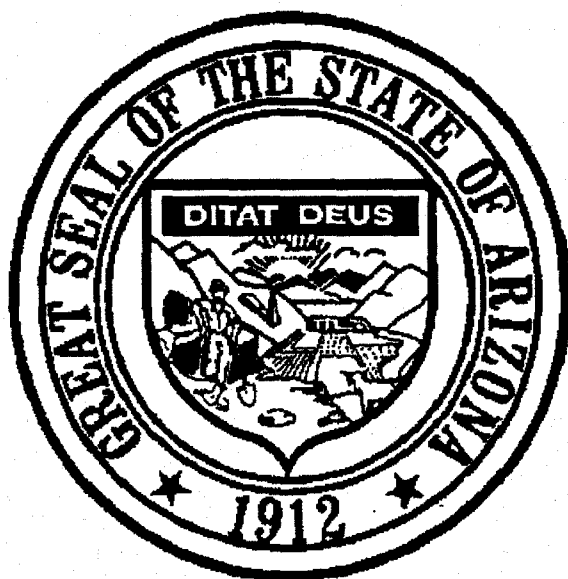
If you have any questions, please contact Veronica M. Hart Ragland, Assistant Director, Division of Child Support Enforcement, at (602) 771-8190 or me at (602) 542-5757.

Sincerely,

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
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, 2008

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 shall report 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 stay approximately the same or decrease. DCSE is reviewing its processes and implementing changes that streamline processes to increase collections and better service customers.

Centralized Payment Processing

Purpose

The 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, and daily production of a payment file that is uploaded to Arizona Tracking Location Automated System (ATLAS) through 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 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 fiscal year 2007 was \$0.77 per case payment. During fiscal year 2008 the Centralized

Payment Processing (CPP) contact was re-bid and awarded to ACS. The new contract began March 1, 2008 and reduced the per case payment to \$0.675 (paper checks) and \$0.55 (electronic payment). In fiscal year 2008, ACS was paid \$2,293,494 for the work performed.

	Payments Processed	Total amount collected for CP's
SFY 2006	3,025,823	\$582,433,917
SFY 2007	3,165,825	\$615,471,438
SFY 2008	3,209,925	\$628,518,510

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.

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
SFY 2005	1,835,154	20,940
SFY 2006	582,042	736,224
SFY 2007	485,410	945,653
SFY 2008	268,776	1,185,938

Advanced Collection Techniques (ACT)

Purpose

Advanced Collection Techniques (ACT)

Purpose

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 fiscal year 2008: Affiliated Computer Systems State and Local Solutions, Incorporated (ACS); RSI Enterprises, Incorporated (RSI); and Progressive Financial Services, Incorporated (PFS).

Affiliated Computer Services, Inc.

The ACS operates its child support locate and collections services from its San Antonio and Texas location. ACS uses Data and Knowledge System software to provide reports and locate and collection data. The ACS also subscribes to several national consumer databases that provide assistance in locating non-custodial parents and their assets.

RSI Enterprises, Inc.

The RSI operates its child support locate and collection services from its Phoenix, Arizona location. RSI uses Columbia Ultimate Business System software to provide reports and locate and collection data. The RSI also subscribes to several national consumer databases that provide assistance in locating non-custodial parents and their assets.

Progressive Financial Services, Inc. (PFS)

The PFS operates its child support locate and collection services from its Tempe, Arizona location. PFS uses Debt Master System software to provide reports and locate and collection data. The 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 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.¹

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.

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 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.

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.

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

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.

Financial Arrangement

The ACT 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 equal to or less than \$10 million varies for each vendor, in accordance with the contract agreement. The payment scale for ACS and RSI was 11.0 percent and the payment scale for PFS was 8.8 percent.

Results and Expenditures

Vendor	Amount Collected		Amount Paid in SFY 2008
	SFY 2007	SFY 2008	
ACS	\$6,253,932	\$5,827,470	\$423,761
PFS	\$5,897,969	\$5,874,427	\$368,463
RSI	\$7,118,803	\$7,293,849	\$634,138
Total	\$19,270,704	\$18,995,746	\$1,426,362

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, (42 U.S.C. 654A), 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 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 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 and the Department of Revenue Employer Forum and 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 fiscal year 2008, PSI was paid \$453,362 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 2007 and 2008

State (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
2007	2,360,154	106,687 (4.5%)	44,881	\$7,866,422
2008	1,975,806	94,248 (4.8%)	41,995	\$7,179,757

National (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
2007	82,100	71,885 (87.6%)	24,603	\$5,129,187
2008	84,664	74,096 (87.5%)	27,054	\$5,153,031

Financial Institution Data Match

Purpose

The 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 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 Informatix inc., 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 2008 the vendor was paid \$23,077 for the work performed on this contract.

Statistical Overview

Data matches from the financial institution data match process have enabled DCSE to increase collections by over \$15 million during the past two years.

State Fiscal Year	Data Matches	Levy Actions	Dollars Collected
2007	15,876	7,919	\$9,016,466
2008	52,612	23,002	\$6,558,469
Total	68,488	30,921	\$15,574,935

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.
