



Michigan Supreme Court

State Court Administrative Office

Family Services

Michigan Hall of Justice

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Lansing, Michigan 48909

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December 8, 2006

To: Program Leadership Group

From: Child Support Program Review Committee

Re: Final Report and Recommendations to the Program Leadership Group

Please find attached the Final report and recommendations of the Child Support Program Review Committee to the Program Leadership Group.

The Child Support Program Review Committee was formed to identify new funding sources for the IV-D program, and to recommend changes to bring the program in line with the anticipated federal funding reduction caused by the Deficit Reduction Act of 2006. Essentially the committee's options were to find \$18 million in new revenue, reduce program costs by \$54 million, or develop some combination thereof.

The committee started by reviewing the entire child support program's processes from the time a person first enters the program until child support ends. Its members attended meetings around the state to solicit input from child support professionals. It also reviewed the results of minutes from those meetings and surveys from end-users. Finally, the committee began reviewing ways of obtaining funding and changing processes.

This report is the consensus of the committee. While, individually we may not agree with every point in the report, the committee supports the report as a whole.

Sincerely,

Steve Capps
Chairman,
Child Support Program Review Committee

CHILD SUPPORT PROGRAM REVIEW
COMMITTEE REPORT & RECOMMENDATIONS
TO THE PROGRAM LEADERSHIP GROUP
DECEMBER 8, 2006

CHILD SUPPORT PROGRAM REVIEW COMMITTEE MEMBERS:

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Child Support Program Review Committee (CSPR)

Executive Summary

December 8, 2006

Child Support Program Description

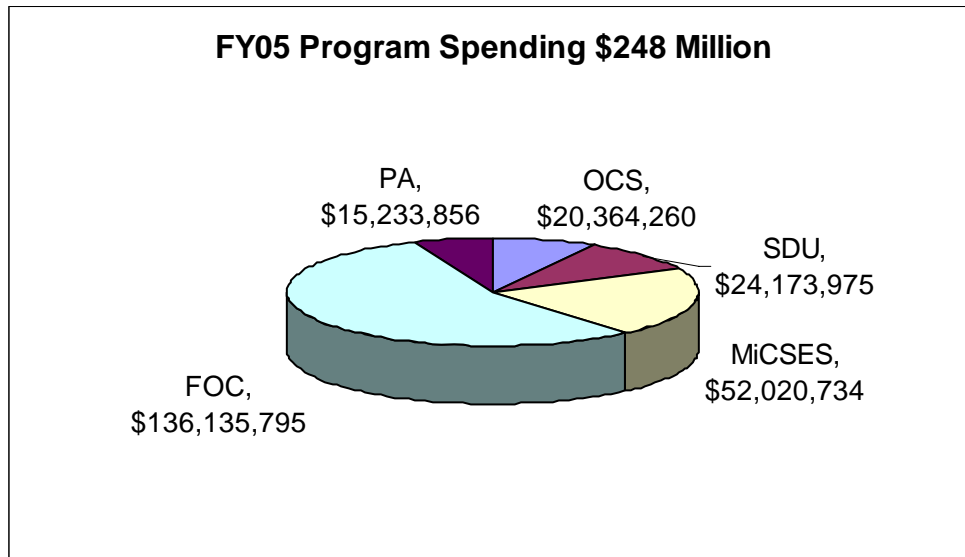
The Office of Child Support Enforcement (OCSE), U.S. Department of Health and Human Services, administers the federal Child Support Enforcement Program, which was established in 1975. Title IV-D of the Social Security Act requires that each state have a program to secure child support from legal parents with the financial ability to pay. Office of Child Support (OCS) is the state agency authorized to administer the federal Title IV-D child support program in Michigan. OCS operates the program through cooperative efforts with county prosecuting attorney (PA) offices, and county Friend of the Court (FOC) offices.

The OCS provides case initiation services to customers, operates the State Disbursement Unit, is responsible for policy development, maintains and enhances the automated statewide child support enforcement system, and provides some centralized enforcement services. The PA offices are responsible for establishing paternity and obtaining court orders for child support. The FOC offices are the operational arm of the circuit courts and are responsible for the enforcement of court orders including review and modification of support as well as parenting time and custody.

The goal of the Child Support program is to help Michigan's citizens obtain the child support to which they are entitled under federal and state law. The program reduces the number of families who receive public assistance and also reimburses the state and federal government with child support funds collected for custodial parents receiving public assistance. In fiscal year 2005 the Michigan child support program collected and distributed over \$1.3 billion in support payments for families and over \$90 million in reimbursement of public assistance.

The federal Office of Child Support Enforcement (OCSE) provides the state with 66% federal financial participation for IV-D child support services. OCSE also provides states with incentive payments based on five child support performance factors. The state and county governments also contribute to program funding. The Child Support Program for fiscal year 2005 had a budget of approximately \$248 million. This is a combination of \$191 million federal funds, \$26 million state general funds and \$31 million county funds. Incentive funds typically account for approximately \$27 million of the federal funds. In addition to these funds the counties spent an additional \$7.8 million in fiscal year 2005 for custody and parenting time. This is a vital part of the child support program but is not an allowable cost for federal matching purposes under the IV-D program.

The following is the breakdown of fiscal year 2005 costs for the major components of the program.



Source: DHS accounting records - does not include county custody and parenting time expenditures

Deficit Reduction Act (DRA)

Without state action, the federal DRA of 2005 will reduce funding to Michigan's IV-D child support program by more than \$50 million per year beginning October 1, 2007. The DRA prohibits the federal government from matching incentive funds earned by the states. This change in policy will result in significant reduction of child support collections unless state and local governments replace \$18 million which can then be matched to restore the programs' funding to current levels.

Child Support Program Review (CSPR)

In response to this funding crisis, the child support Program Leadership Group (PLG) made up of representatives of the Office of Child Support, State Court Administrative Office, Friend of the Court, Circuit Court Judges, Prosecuting Attorneys and Department of Information Technology has taken a two-pronged approach. First through small group sessions, they sought input from child support professionals across the state for suggestions on how to deal with this budget problem. Secondly, a "Child Support Program Review" committee was established. The group's charge was to identify new funding sources for the IV-D program, and to recommend changes to bring the program in line with the anticipated funding reduction. Essentially the committee's options were to find \$18 million in new revenue, reduce program costs by \$54 million, or develop some combination thereof.

The CSPR committee began its work by attending the small group sessions held around the state, reviewing the results of the on-line survey conducted of child support staff,

reviewing operations and policies in other state child support programs, reviewing federal and state laws and regulations, reviewing prior and current years budgets and expenditures, and reviewing OCS, PA, and FOC policies and procedures.

Overall Conclusion:

After completing its program review the committee has reached the following conclusion:

Michigan's child support program is already inadequately funded. Savings and improved customer service can be achieved in the child support program by making major shifts in how the program operates. However, before any major changes can be instituted statewide, they must be piloted. The pilot programs should be operated immediately for two to three years. During this timeframe, the state share of public assistance funds recovered by the program and other revenue and cost savings recommendations included in this report should be implemented to provide the necessary funding to continue the program as is until statewide changes can be implemented.

We recommend that the state invest \$20 million of additional state general funds in Michigan's child support program, which will generate an additional \$40 million of federal funds for a total investment of \$60 million. This investment will be sufficient to maintain the program in its' current state and provide an opportunity to pilot alternatives to generate longer term cost savings. This report contains recommendations identifying new revenue sources and cost saving measures to achieve the additional state funds needed.

CSPR Committee Summary Findings and Recommendations:

The committee has organized its findings and recommendations into the following areas: policy, revenue, cost savings, and legal and regulatory changes. All the committee's findings and recommendations are described in more detail in the following report. The more significant items are noted below.

Summary - Policy Findings

Eliminate duplication in the case initiation and establishment area to reduce the time from the date the customer applies for service until the support order is established and an income withholding notice is issued to the employer. Pilot projects should begin immediately trying two different options:

- Uncontested cases could be established centrally and registered locally.
- Cases go directly from DHS to counties for establishment and enforcement. Counties would determine locally what functions of the PA and FOC offices would need to change to provide this service.

Summary - Sources of Revenue

The committee has identified over \$58 million in funding that could be used to offset the impact of the federal DRA.

1. Replace lost federal funds with state public assistance recovery funds. In fiscal year 2005 the child support program collected approximately \$12 million more in public assistance reimbursement than the state invested in the child support program. Investing this \$12 million in the child support program will provide an additional \$24 million in federal funds for a total of \$36 million.
2. Implement the new \$25 federal fee mandated by the DRA to help offset the decrease in federal funding. We estimate that this will provide approximately \$2 million in new revenue the first year and \$2.7 million each year thereafter.
3. DHS is currently using state funds to provide a \$50 payment to public assistance recipients when they receive a child support payment while on public assistance. Starting in fiscal year 2009 the state can share the expense of the \$50 client participation payment with the federal government. The state portion of the funds saved (approximately \$3.5 million) should be invested in the child support program and matched with \$7 million federal funds giving the program \$10.5 million in new revenue.
4. The child support program helps the state recover a portion of the medical expenses paid for clients receiving Medicaid. The child support program collects medical expenses for the state by collecting:
 - a. Medicaid confinement expense reimbursement,
 - b. reducing the need for Medicaid coverage by enforcing court-ordered private health insurance, and
 - c. by identifying private insurance coverage that could possibly cover prior Medicaid expenses.

We estimate these efforts save the state at least \$6 million per year. Reinvesting only 50% of this amount in the child support program so it could be matched with federal funds would provide \$9 million in new revenue.

If the funding recommendations are not implemented, we recommend, as a last resort, that a user fee be established to replace the revenue removed by the DRA.

Summary - Cost Savings

The committee has identified cost savings that could be used to offset the impact of the federal DRA.

1. The State Disbursement Unit's (SDU) contract for electronic fund disbursements should be renegotiated to reduce the cost to the program. The state statutorily mandated electronic disbursement of child support in fiscal year 2006. Electronic disbursement Implementation is now almost complete and based on the information gained in the pilot program and the rest of the statewide rollout, a significant change to save costs can be made in the vendor contract. We estimate that the SDU can save \$1 million per year which can be reinvested in the child support program.
2. Efficiencies and cost reductions can be gained through an increase in electronic payments. Currently many employers and obligors forward child support payments to the SDU by check which creates manual labor at the SDU. Requiring employers and obligors to switch to electronic payment mechanisms over a period of time would reduce SDU costs. We estimate that implementing this over a 3 year period would increase electronic payments by 20% per year saving \$550,000 per year.

Summary - Legal and Regulatory Findings

Cost savings and improved customer service can be achieved in the child support program by making major shifts in how the program operates.

1. Establishment cases are infrequently contested in court. Reducing the formality and taking advantage of new technology could result in major cost savings and reduce the time for entry of support orders. It is recommended that a new summary process be implemented to establish paternity and support.
2. Several other technical changes are recommended in the detail of this report.

Child Support Program Review Committee (CSPR)

Report

December 8, 2006

Child Support Program Description

The child support system in Michigan is among the oldest in the nation having been established by statute in 1919. Until 1919, Michigan followed traditional laws that enforced child support through private court action or through criminal abandonment actions. In 1919, the legislature created the Friend of the Court to enforce court orders respecting children.

The status of children born out of wedlock was even more complicated. Early proceedings were criminal in nature, and the case began with the father's arrest. Therefore, the duty to establish support for children born out of wedlock fell on the prosecuting attorney. Later, the criminal aspects were relaxed, and have since been largely removed.

The first child support funding legislation was Public Act 133 of 1947, which imposed a service fee on child support in divorce cases of \$5 per year. The fees were paid to the county general fund to help fund the expense of the FOC office. This fee was extended to other acts in January 1967 and increased to \$18 per year. This fee was later extended to other child custody and support acts.

Sweeping changes to the traditional family, most notably the out-of-wedlock birthrate, divorce rate and the escalating mobility of families, prompted Congress to declare child support as both a federal and state responsibility by adding Title IV-D to the Social Security Act in 1975. Title IV-D required every state to establish a child support agency. The Office of Child Support (OCS) is the state agency authorized to administer the federal Title IV-D child support program in Michigan. OCS operates the program through cooperative efforts with county prosecuting attorney (PA) offices, and county Friend of the Court (FOC) offices. The OCS provides case initiation services to customers, operates the State Disbursement Unit, is responsible for policy development, maintains and enhances the automated statewide child support enforcement system, and provides some centralized enforcement services. The PA offices are responsible for establishing paternity and obtaining court orders for child support. The FOC offices are the operational arm of the circuit courts and are responsible for the enforcement and modification of child support orders.

Providing child support services for every family reduces the need for public assistance. Therefore, the federal government initially reimbursed states 75 percent of the program's child support enforcement and payment processing activities. The federal government also provided incentive funding based on a percentage of collections in AFDC cases.

Those incentives could be used for any purpose including payment of the state's 25 percent share of the program cost.

Michigan's first major overhaul of FOC duties and support laws occurred in 1982. These changes mandated many activities that were previously optional. Standards were established for automatic enforcement rather than relying on complaints for non-payment of child support. The new laws also required the FOC to become involved in custody and parenting time investigations and enforcement.

Recognizing the gap between funding and the level of mandatory services, the state legislature created an incentive funding formula for counties, equal to three percent of collections in public assistance cases, and also increased court fees to fund custody and parenting time. Even with the additional funding, many FOC's were concerned that the funding was insufficient to meet the new mandates, and legislators promised to review the funding system in three years time to determine if adjustments were necessary. This review did not occur. A second major overhaul of state laws occurred in the mid 1990s with significant amendment of procedures, but no additional funding.

Over the years the percentage of administrative expense reimbursement has been reduced. The federal government now reimburses only 66% of the state's child support expenditures. Additionally, because the program has successfully reduced the number of public assistance cases, the amount of public assistance recoveries has decreased significantly (see chart below). In 1999, the federal government adopted a new incentive formula that based incentive funding on performance rather than strictly collections. The state retained a greater share of the new federal incentives to accommodate federally-mandated centralized functions, while freezing the amount passed through to counties.

The historical ability to use federal incentive payments to meet local match requirements for administrative expense reimbursements will cease under federal law approved earlier this year effective October 1, 2007. In addition, Michigan had a federal waiver from 1995 to 1999 allowing it to use 66% federal matching dollars to fund its custody and parenting time activities. In 1999 the waiver expired and the federal government eliminated the ability to use the new incentives for any purpose other than IV-D child support-related activities. As a result, child custody and parenting time expenses of over \$7.7 million per year¹ are now funded entirely by the counties.¹

Funding reductions in real dollars, have impaired Michigan's ability to deliver child support services. The goal of the child support program in Michigan since 1919 has been to provide a means by which the state can insure that the parents of a child provide support instead of the state supporting the child. As currently funded, Michigan's IV-D program is understaffed. If the state does not replace lost federal revenue, families will

¹ This is the amount remaining after deducting fees that are used to fund these activities. There are 3 fees used to fund custody and parenting time activities, service and processing fees addressed above (which cannot be used to match federal child support dollars), and a \$70 judgment entry fee.

be adversely affected and the state will be required to increase public assistance payments to those families.²

The following is a comparison of similar states' staffing levels for the most recent year available, 2005.

STATE	CASELOAD	STAFF (FTE)	CASES PER FTE	COLLECTIONS DISTRIBUTED
Michigan	1,043,274	2,518	414	\$1,381,521,685
Florida	714,271	3,143	227	\$1,076,686,438
Illinois	601,957	1,546	389	\$561,787,781
Ohio	941,062	4,624	204	\$1,657,504,507
Pennsylvania	558,944	2,683	208	\$1,413,912,650

Source: OCSE 2005 Child Support Enforcement Preliminary Data Report

Deficit Reduction Act of 2005

Without state action, the federal DRA of 2005 will further reduce funding to Michigan's IV-D child support program by more than \$54 million per year beginning October 1, 2007. The DRA prohibits the federal government from matching incentive funds earned by the states. This change in policy will result in significant reduction of child support collections unless state and local governments replace \$18 million which can then be matched to restore the programs' funding to current levels. Based on Michigan's past performance, this provision will result in a reduction in revenue of between 20-25 percent.

The DRA also introduced a number of new requirements for the child support program which take effect over the next two fiscal years. These mandates will require the program at both the state and local levels to invest more time and resources. In addition, MiCSES system enhancements will be needed at the same time that federal funding is being cut. Some of the major DRA changes are noted below:

- **MANDATORY REVIEW AND ADJUSTMENT OF TANF CASES** - There must be a 3-year automatic initiation of review on all active public assistance

² The Center for Law and Social Policy (CLASP) used Congressional Budget Office estimates of the amount the federal government would save if the state replaced only one-half of the revenue. Based on those projections, CLASP was able to use 2004 HHS child support incentive payment records to estimate the reduction in collections that would result from the funding reductions. The projected decrease in child support collections for Michigan if it only replaces one-half the funding is \$185.7 million over five years and \$537.9 million over ten years.

cases. The review may be accomplished by a) Using cost-of-living criteria to establish an automatic adjustment to Michigan child support orders; b) Using a completely automated system of prioritization, initiation, review and modification which applies a “threshold” of whatever design; or c) Automatically initiating a manual review and modification process (as MiCSES does today) to include public assistance cases.

- **NEVER ASSISTANCE ANNUAL COLLECTION FEE** - 42 USC 654(B)(ii) requires a \$25 annual fee to be collected on cases that were never IV-A (never received public assistance) where at least \$500 in child support is collected. The fee may be charged to the payee, payer, or the state at the state’s option. Any collections of this fee must be shared with the federal government at federal financial participation (FFP) rate.
- **ASSIGNMENT ON CURRENT ASSISTANCE CASES** - 42 USC 608(a)(3) requires IV-A applicants to assign only support that accrues while the family receives IV-A assistance, eliminating assignment of pre-assistance arrears . This will reduce federal and state recoveries of public assistance in the future.
- **DISTRIBUTION CHANGES AND AN OPTION REGARDING FORMER ASSISTANCE ARREARAGE DISTRIBUTIONS** – This provision provides optional distribution choices to adjust the priority of distribution from "when" arrears accrued to "who" the arrears are due. The change from “when” to “who” removed the state’s right to retain Federal Tax Refund Offset (FTRO) payments in advance of the family unless the old process is retained. A state may choose to distribute using the existing “when” or the new “who” that prioritizes paying post-assistance, then pre-assistance then during-assistance arrears.
- **PASS THROUGH OF ADDITIONAL SUPPORT WITH FEDERAL PARTICIPATION** - 42 USC 657(7)(A) allows a state to pay to the family any permanently assigned (PAA) support collected on a former assistance case; (B) allows a state to pay to the family \$100 (or up to \$200 if more than one child) of support on a current assistance case. Michigan’s current Client Participation Payments (CPP) (\$50) and TANF reimbursement revenues may be impacted by the state’s election.
- **OPTION TO DISCONTINUE OLDER SUPPORT ASSIGNMENTS** - 42 USC 657(b)(1) allows a state to discontinue assignment for PAA that accrued pre-1997. 42 USC 657(b)(2) allows a state to discontinue assignment for any existing CAA and TAA accrued post-1997. Each is a separate option to choose, under the law. Electing any of these options would reduce TANF reimbursement.
- **USE OF TAX OFFSET PROGRAM TO COLLECT FOR CHILDREN OVER 18** - Authorizes use of federal income tax refund offset program to collect arrearages on behalf of children who are no longer minors. This will increase both family and TANF collections.
- **DECREASE IN ARREARS AMOUNT TRIGGERING PASSPORT DENIAL** - Passport denial, revocation, or restriction would be triggered by \$2,500 in past-due support owed, not \$5,000. (This change has already been implemented in MiCSES.)
- **MEDICAL CHILD SUPPORT ORDERS** - Section 7303 of the Budget Reconciliation Act amends Title IV-D of the Social Security Act to redefine

medical support and to enforce medical support against either parent, instead of just the non-custodial parent (NCP). Michigan does not need to make any changes to the system or its policy.

- ***MAINTENANCE OF FEDERAL PARENT LOCATOR SERVICE (FPLS)*** - Amends funding for FPLS by freezing funds for the service at FY 2002 levels.
- ***MAINTENANCE OF TECHNICAL ASSISTANCE FUNDING*** - Amends the amount used for technical assistance by freezing the amount at FY 2002 levels.
- ***ADMINISTRATIVE MATCH RATES*** - The federal reimbursement rates for lab paternity tests is decreased from 90% down to 66%.
- ***AUTOMATED DATA PROCESSING INFORMATION RETRIEVAL*** - Permits IV-D agencies to open a case file when high-volume, automated, administrative enforcement is used in interstate cases.
- ***INFORMATION COMPARISONS WITH INSURANCE DATA*** - Authorizes the federal HHS to use the FPLS to compare information of non-custodial parents who owe past-due child support with information maintained by insurers regarding claims, settlement, awards, and payments. The secretary may furnish the information resulting from the match to state child support agencies. Includes state reimbursement of federal costs.

Child Support Program Review Committee

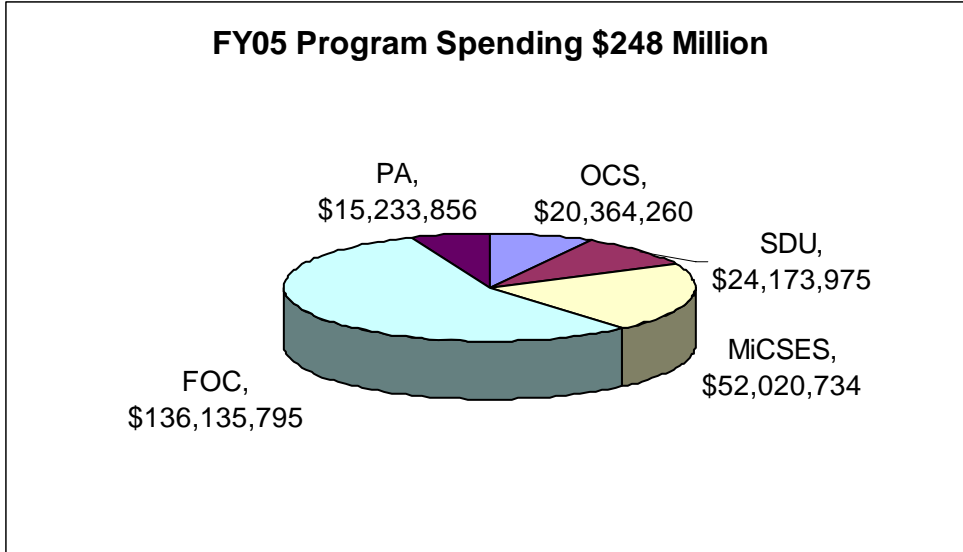
In response to this funding crisis, the child support Program Leadership Group (PLG) made up of representatives of the Office of Child Support, State Court Administrative Office, Friend of the Court, Circuit Court Judges, Prosecuting Attorneys and Department of Information Technology has taken a two-pronged approach. First through small group sessions, they sought input from child support professionals across the state for suggestions on how to deal with this budget problem. Secondly, a “Child Support Program Review” committee was established. The group’s charge was to identify new funding sources for the IV-D program, and to recommend changes to bring the program in line with the anticipated funding reduction. Essentially the committee’s options were to find \$18 million in new revenue, reduce program costs by \$54 million, or develop some combination thereof.

The CSPR committee began its work by attending the small group sessions held around the state, reviewing the results of the on-line survey conducted of child support staff, reviewing operations and policies in other state child support programs, reviewing federal and state laws and regulations, reviewing prior and current years budgets and expenditures, and reviewing OCS, PA, and FOC policies and procedures.

Child Support Program Budget Overview:

The Child Support Program had a budget of approximately \$248 million for fiscal year 2005. This is a combination of \$191 million federal \$26 million state and \$31 million

county funds. Incentive funds typically account for approximately \$27 million of the federal funds. The DRA restriction that prohibits matching of federal funds on incentives accounts for \$54 million. The following is the approximate percentage of the total program cost for the major program components.



Source DHS accounting records

Guiding Principles:

The committee recommends the following principles be used to guide the state in solving the budget problem:

1. Any changes should aim to enhance the delivery of services or at least not diminish service delivery.
2. Wherever possible, efficient and cost-effective, services should be made available in person and be accessible at the local level.
3. Revenue generated by the child support program should be reinvested in the program.

Revenues generated by the child support program serve a dual purpose: they provide additional funds to the state and they save the state money by reducing the amount of public assistance dollars that would normally be spent to support children. A reduction in services will cost the state in both areas. Therefore, it makes sense to spend revenue generated by the program to preserve the program's benefits to the state.

4. Wherever possible, the program should take advantage of technology to assist in the delivery of services.

5. There should be flexibility at the local level in the manner in which services are provided within a framework that assures consistent results and practices.
6. Major changes in the program should be initiated only after piloting to determine how they can best be implemented.
7. Because Wayne County represents 40 percent of the state's caseload, its unique challenges should be considered before any changes are implemented.

Overall Conclusion and Recommendation:

After completing its program review the committee has reached the following conclusion:

Michigan's child support program is already inadequately funded. Savings and improved customer service can be achieved in the child support program by making major shifts in how the program operates. However, before any major changes can be instituted statewide, they must be piloted. The pilot programs should be operated immediately for two to three years. During this timeframe, the state share of public assistance funds recovered by the program and other revenue and cost savings recommendations included in this report should be implemented to provide the necessary funding to continue the program as is until statewide changes can be implemented.

We recommend that the state invest \$20 million of additional state general funds in Michigan's child support program, which will generate an additional \$40 million of federal funds for a total investment of \$60 million. This investment will be sufficient to maintain the program in its' current state and provide an opportunity to pilot alternatives to generate longer term cost savings. This report contains recommendations identifying new revenue sources and cost saving measures to achieve the additional state funds needed

Findings and Recommendations

The committee has divided its findings into:

- Policy Findings
- Sources of Revenue
- Cost Savings
- Legal and Regulatory Findings

Policy Findings

1. There is significant duplication of effort in establishing new child support cases. IV-A staff, IV-D Support Specialists, Prosecuting Attorneys, and Friends of the Court have overlapping functions. The time needed to establish a support order can be significantly reduced by gathering as much information up front as possible and quickly referring to the agency responsible for establishing support. Establishment cases are rarely contested in court. Legal and judicial resources are often unnecessary.

Recommendation: Eliminate duplication in the referral and establishment areas and reassign roles as necessary to reduce the time needed from the date a person requests services until a support order is entered and an income withholding notice is issued. Consider consolidation in one agency for establishment cases. Pilot projects should begin immediately trying two different options:

- Uncontested cases could be established centrally and registered locally.
- Cases go directly from DHS to counties for establishment and enforcement. Counties would determine locally what functions of the PA and FOC offices would need to change to provide this service.

Potential Impacts – There are potential Headlee amendment issues. Bargaining agreements may be affected. There may be a need to realign resources at the state or county levels.

2. The current IV-A (public assistance) IV-D (child support) systems interface does not include all the information necessary for a complete and efficient transfer between the two systems. As a result, child support cases are not established timely and public assistance benefits may not be determined accurately.

Recommendation: Continue developing a robust interface between the public assistance (IV-A) system and child support (IV-D) system that provides for a timely exchange of all necessary data between the two systems.

3. Continuing to improve the IV-D statewide computer system (MiCSES) to allow better use of existing resources and result in timelier establishment and enforcement of support orders.

Recommendation: The state should continue to implement necessary fixes and improvements in MiCSES and resources should continue to be devoted to this effort.

4. DHS workers determining eligibility for public assistance often get insufficient information from the client to allow workers in the child support program to establish

child support. In some cases the applicant's willingness to cooperate with child support workers decreases after they qualify for public assistance.

Recommendation: Require clients who apply for public assistance to obtain an approval from a child support worker that shows the applicant has cooperated before benefits are awarded.

Potential Impacts – DHS would refer all public assistance applicants not just those approved which may increase referrals by approximately 50%. There could be a reduction in public assistance that would normally be paid to those applicants who ultimately do not cooperate. This could speed up referrals.

5. The IV-E (Child Welfare) system does not have an automated interface with the IV-D system (MiCSES) to provide a seamless transfer of information necessary to establish a child support case. As a result, child support for children placed in out of home care placements may get misdirected.

Recommendation: Develop an efficient interface between the IV-E and IV-D systems.

6. Bonds for future support are cumbersome and time consuming to establish and operate. Locally each FOC has different processes to handle bonds which may not be the most cost effective.

Recommendation: Have OCS enter into a single statewide contract with a financial institution to manage bonds for future support in accordance with a single set of business practices.

7. Child support workers have significant institutional knowledge and abilities that could be lost if wholesale changes are made in the child support program.

Recommendation: If this report's recommendations are not adopted and staffing reductions become necessary or program efficiencies allow for the transfer/reassignment of child support workers, wherever possible, staff reductions should be implemented by attrition and transferring of functions to other offices within the same locale as those staff whose positions are reduced.

8. Certain enforcement functions can be performed on a more cost-effective basis at the central level rather than at the front of the court because practices differ from county to county. These enforcement functions include driver license suspension, employer noncompliance with income withholding notices, and qualified domestic relations orders.

Recommendation: Move responsibility to the Office of Child Support for these enforcement functions.

Potential Impacts – More resources would be needed in the Office of Child Support.

9. Wayne County represents 40% of the state’s child support caseload. Because it faces unique challenges, performance in the county has been suppressed. Wayne County performance impacts the entire state by reducing federal incentives paid to the state.

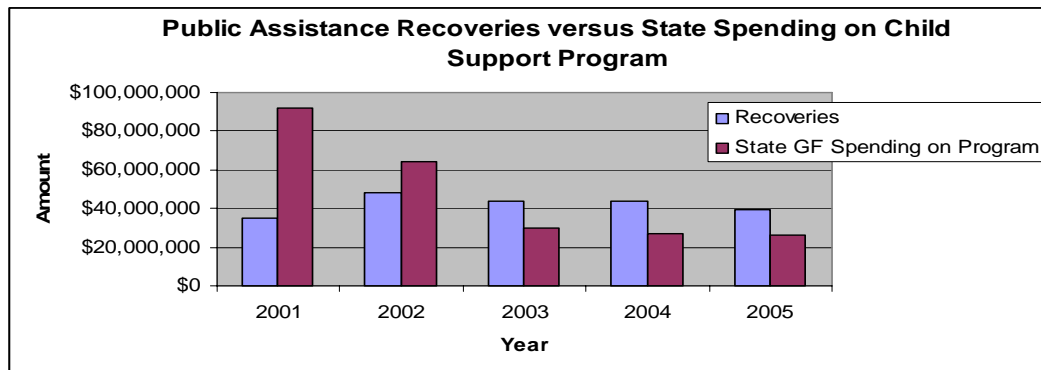
Recommendation: Implementing recommendations that provide funding to counties based on public assistance recoveries and Medicaid recoveries will help Wayne County as their caseload contains a higher volume of such cases. This increase in funding should be tied to a requirement that the county sufficiently staff its friend of the court office.

Sources of Revenue

10. A significant portion of the funding “gap” due to federal changes effective October 1, 2007 could be filled by using the state share of public assistance reimbursement collected by the child support program.

Recommendation: Public assistance recoveries collected by the child support program should be reinvested into the child support program. The child support program can invest these additional funds and receive federal matching dollars that will triple Michigan’s investment. In fiscal year 2005 the child support program collected approximately \$12 million more in public assistance reimbursements than the state invested in the child support program. Investing this \$12 million in the child support program will provide for an additional \$24 million in federal funds or a total of \$36 million. This begins to fill the funding gap created by the DRA.

Potential Impacts –This would reduce funds that now go to DHS to fund the public assistance program but that receive matching funds at a lower rate.



11. The DRA mandates a new \$25 annual fee for child support enforcement services.

Recommendation: Implement the new \$25 federal fee to help offset the decrease in federal funding. We estimate that this will eventually provide approximately \$2 million the first year and \$2.7 million each subsequent year in new revenue to help fill the funding gap caused by the DRA.

Potential Impacts – This new fee will require legislation and MiCSES changes.

12. The child support program helps the state recover a portion of the medical expenses paid for clients receiving Medicaid. The child support program collects medical expenses for the state by collecting: Medicaid confinement expense reimbursement, reducing the need for Medicaid coverage by enforcing court-ordered private health insurance and by identifying private insurance coverage that could possibly cover prior Medicaid expenses.

Recommendation: Reduction in state medical expenses as a direct result of the child support program should be reinvested in the child support program. We estimate that a minimum of \$3 million annually is saved through these efforts. Matching this \$3 million with federal funding provides \$9 million that could be used to fill the DRA funding gap.

Recommendation: Reinvest \$1 million in new Medicaid reimbursement (collected as a result of the ordinary medical supplement in the child support formula) in the child support program. Matching this \$1 million with federal funding provides \$3 million that could be used to fill the DRA funding gap.

Impacts – These reimbursements of medical expenses are currently budgeted in the Department of Community Health budget where they receive matching federal dollars at a rate less than 66%. The ordinary medical expense reimbursement is new and is not yet budgeted.

13. DHS is currently using state funds to provide a \$50 payment to public assistance recipients when they receive a child support payment while on public assistance. This expense can be shared with the federal government under the DRA in fiscal year 2009.

Recommendation: In fiscal year 2009 the state should share the expense of the \$50 payment with the federal government. The state funds saved (approximately \$3.5 million) should be invested in the child support program and matched with federal funds giving the program \$10.5 million to fill the DRA gap.

14. The Child Support Lien Network (CSLN) interface required by MCL 552.624b has never been funded or implemented. Joining CSLN or participating in the new OCSE interface could result in additional child support collections of \$1 million for families, and approximately \$100,000 in public assistance recovery. This recovery could then be budgeted for child support and matched with federal funds to produce revenue of \$300,000.

Recommendation: Fund and implement CSLN or the new OCSE interface. Use any TANF recovery for additional child support program funding.

15. Some cases remain on friend of the court books for many years without a successful collection. These hard-to-collect cases may be caused by limitations in traditional locate information available to the friend of the court. By remaining open, the cases impair efficiency and reduce incentives. Some collection agencies have more locate tools that could be used to either collect the support, or provide locate tools sufficient to close the case.

Recommendation: Use a collection agency for hard to collect debts. Use TANF recoveries to fund the program and match them with federal funds to increase funds available to fund the child support program. (A pilot project is currently in the planning stages in DHS.)

If these recommendations to replace revenue in the child support program are not implemented, we recommend as a last resort, that a user fee be implemented to generate the revenue necessary to maintain the program.

Cost Savings

16. Efficiencies and cost reductions can be gained through an increase in electronic payments. Currently many employers and obligors forward child support payments to the SDU by check which creates manual labor at the SDU. Requiring employers and obligors to switch to electronic payment mechanisms over a period of time would reduce SDU costs.

Recommendation: Mandate that employers and obligors switch child payments from check to electronic funds transfer (EFT) over a three year period. Increasing electronic payments by 20% per year would save \$550,000. The \$550,000 savings from the SDU can be redirected into the child support program to fill the funding gap caused by the DRA.

17. The SDU's contract for electronic fund disbursements should be renegotiated to reduce the cost to the program. The state mandated electronic disbursement of child support in fiscal year 2006. Electronic disbursement implementation is now almost

complete and based on the information gained in the pilot program and the rest of the statewide rollout, a significant change can be made in the vendor contract.

Recommendation: We recommend the SDU renegotiate their contract with their vendor to obtain a lower rate per transaction. We estimate that the SDU can save \$1 million which can be reinvested in the child support program to fill the DRA gap.

18. The child support program is currently responsible for claiming program income on fees collected for the Attorney General. MCL 600.2538 requires the non-custodial party to pay a service fee of \$.25 per month to offset the cost of the Attorney General's child support costs. These fees are appropriated to the Attorney General, however the federal government has determined that these fees are program income and thus 66% must be returned to the federal government. The Office of Child Support budget is reduced by the amount of program income that is paid to the federal government.

Recommendation: Budget the program income reduction in the Attorney General's appropriation rather than the Office of Child Support. This would increase the Office of Child Support's budget by \$400,000 to fill the DRA gap.

19. The federal definition of program income is more restrictive for child support and impairs the state's ability to recover costs for non-IV-D services and indirect costs

Recommendation: Change the federal definition of program income.

20. Switching certain non-technical duties from the MiCSES vendor contract to state employees would generate savings. Currently, the help desk and some training resources that are contracted for these positions could be switched to state employees and provide a savings of approximately \$200,000.

Recommendation: Replace non-technical MiCSES contractors with state employees.

Impacts – DIT would need approval from state hiring freeze to fill these positions.

21. The ability of MiCSES to recognize certain forms via optical recognition equipment would save program staff time in entering information into MiCSES, thereby increasing efficiency.

Recommendation: Enhance MiCSES to accept optical recognition of the Uniform Support Order.

22. The program provides numerous versions of the same form for PA and FOC offices so that they can edit the form to meet the needs of their local protocols. The program could eliminate this feature and provide only a standardized single version of forms. This

would eliminate programming resources and simplify forms management. It would also improve the consistency of services offered to citizens across the state. We estimate that this change would save the program \$500,000 annually.

Recommendation: Provide PA and FOC offices with a standardized set of forms that all counties would be mandated to use.

23. The program sends forms and pleadings to multiple addresses within the system. This requires staff time to maintain addresses and can cause confusion. Legal papers must be sent to the legal address even if it is no longer valid. This results in wasted postage.

Recommendation: Amend the child support laws to require that a person maintain only one valid address after the initial service of process has been effectuated and the court has obtained personal jurisdiction. Provide that if mail is returned from that address, no additional information is required to be sent to that person until a good address is established.

24. Income Withholding Notices which are the major source of child support payments for the program are now printed and mailed to employers. Sending these notices to employers in an electronic format would provide savings of approximately \$100,000 to the program and simplify the processing for employers.

Recommendation: Implement electronic IWNs as soon as feasible in MiCSES.

Legal and Regulatory Findings

25. Currently, genetic testing establishes a presumption of paternity in a contested judicial proceeding, but the state has the burden of starting a court case to establish a court order based on the presumption. Because genetic testing can establish the probability of paternity in excess of 99%, the burden of proof should be shifted to the father to set aside paternity. Changing this burden will also result in cost-savings.

Recommendation: The state should no longer be required to initiate a lawsuit to prove a man's paternity when genetic testing demonstrates with a scientific certainty that the man is the child's father.

26. Establishment cases are rarely contested in court. Legal and judicial resources devoted to processing these cases are often unnecessary to their resolution. Reducing the formality will result in significant cost-savings.

Recommendation: A new summary process should be developed and implemented to establish paternity and support. Genetic testing should be required as a means of contesting paternity.

27. It is difficult to establish paternity in hospitals due to the notary requirement on acknowledgements of paternity. This reduces the state paternity establishment percentage, which reduces federal incentives and leads to more costly proceedings later on.

Recommendation: Eliminate the notary requirement on the Acknowledgement of Parentage form and instead require a witnessed statement under penalty of perjury.

28. Motions to set aside paternity orders lead to additional costs in the system. A person who seeks to set aside a paternity finding pursuant to a default order, or a voluntary acknowledgment of parentage, should be held responsible for the cost of the action.

Recommendation: Require a person seeking to set aside a finding of paternity to post a bond to cover court costs and attorney fees associated with the proceeding.

29. Lawyers are being used in proceedings that do not require the presence of a lawyer. Some friend of the court offices send lawyers into court to present information from friend of the court files to the court. The court may rely on the friend of the court, as an administrative arm of the court, to provide information in its records without an attorney representing it. This will result in cost-savings in the program.

Recommendation: Develop and implement a court rule clarifying the necessary functions lawyers need to perform in the child support program.

30. The child support formula has so many calculations that it is difficult and time-consuming for staff and litigants to gather information and to input it in programs to obtain the support amount.

Recommendation: Simplify the child support formula.

31. States that use a cost of living adjustment are doing fewer support reviews.

Recommendation: Amend the Friend of the Court Act to allow Michigan to use a COLA option to adjust support orders.

32. License suspension requires the child support program to reinstate a license. That action costs money locally and does not require any cost on the part of the person whose actions resulted in the suspension.

Recommendation: Amend statute to require the person seeking to reinstate the license to pay for a certificate of compliance from the friend of the court and to apply at the Secretary of State for reinstatement.

33. The federal government requires the costly procedure of setting aside fraudulent conveyances but these rarely occur except in connection with actions that would give rise to a criminal nonsupport case.

Recommendation: A) Contract with local prosecuting attorneys and the Attorney General to initiate proceedings to set aside fraudulent conveyances in connection with criminal non-support cases. B) Provide that costs of the proceeding will be paid out of proceeds of the sale of property that is set aside.

34. Using QDROs for support is difficult because local offices have different practices, the court is required to enter a QDRO order, and the offices often do not have familiarity with the requirements of different plan administrators.

Recommendation: A) Amend law to impose QDRO on all support orders and authorize an administrative order to implement the QDRO. B) Pilot centralized QDRO enforcement with counties wishing to participate.

Attachment

Attached to this report is an outline of a process to implement the less formal proceedings in recommendations 1 and 25-28.

Attachment 1
Outline of Summary Proceedings

Outline of Proposed Changes

1. Define situations in which a man is considered a child's father:
 - a. When conceived or born during marriage.
 - b. When executed an acknowledgment of parentage.
 - c. When genetic tests exceed a probability of paternity of over 99%.
 - d. When parents use expedited proceedings to establish paternity.
2. Define expedited proceedings for establishing paternity:
 - a. Service of notice and affidavit to establish paternity.
 - b. Use of genetic tests in response to expedited proceedings.
3. Establish duty to support children.
4. Establish expedited proceedings for enforcing duty of support:
 - a. Requesting FOC to enforce duty when law has established paternity.
 - b. Registering proof of paternity with the court and asking for support.
 - c. When parents agree to support.
5. Provide a method for a person to set aside paternity or support.
6. Provide that counties may elect to have FOC, PA, or other agency carry out establishment functions.
7. Provide for agreements in advance of court case that may be registered with court.
8. Provide methods for setting aside presumed paternity.
 - a. Establish venue for filing.
 - b. Require presumed father to post bond to cover costs of proceeding.
 - c. Address payment of support that accrued due to father's delay in defending proceedings.
 - d. Provide time limitation for filing complaint.