

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**CALIFORNIA COLLECTED AND  
DISBURSED STIMULUS PAYMENTS AND  
INCOME TAX REFUNDS UNDER THE  
FEDERAL TAX REFUND OFFSET  
PROGRAM IN ACCORDANCE WITH  
FEDERAL AND STATE REQUIREMENTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Amy J. Frontz**  
Deputy Inspector General  
for Audit Services

June 2022  
A-01-21-01501

# ***Office of Inspector General***

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## Report in Brief

Date: June 2022

Report No. A-01-21-01501

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Audit

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided qualifying individuals with stimulus payments. The CARES Act allows for the collection of stimulus payments to settle child support debt. In fiscal year 2019, California had one of the least cost-effective child support programs in the nation. Because of the significant impact that intercepting stimulus payments could have had on paying down past-due child support, we focused our audit on whether California had policies and procedures to ensure that the State child support program collected and disbursed stimulus payments and income tax refunds under the Federal Tax Refund Offset (FTR Offset) program.

Our objective was to determine whether California collected and disbursed stimulus payments and income tax refunds under the FTR Offset program in accordance with Federal and State requirements.

### How OIG Did This Audit

We selected a simple random sample of 115 noncustodial parents, with 133 FTR Offsets, totaling \$144,262, and reviewed documentation for each sampled noncustodial parent to determine whether the State possessed a copy of required documents and ensured the State accurately and timely disbursed FTR Offset payments to custodial parents and updated the noncustodial parents' arrears balances.

## California Collected and Disbursed Stimulus Payments and Income Tax Refunds Under the Federal Tax Refund Offset Program in Accordance With Federal and State Requirements

### What OIG Found

California collected and disbursed stimulus payments and income tax refunds under the FTR Offset program in accordance with Federal and State requirements during our audit period. For all 115 noncustodial parents sampled, we found California collected and disbursed \$144,262 in FTR Offset payments.

Specifically, California complied with Federal and State requirements by having in its records a copy of the support order and modifications that specifies the date of issuance and amount of support. California maintained a copy of the payment record and provided written notices of the FTR Offset to noncustodial parents. In addition, California accurately and timely disbursed FTR Offset payments to custodial parents and updated the noncustodial parents' arrears balances.

### What OIG Recommends and California Comments

This report contains no recommendations. In written comments on our draft report, California concurred with the results of our audit.

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## INTRODUCTION

### WHY WE DID THIS AUDIT

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020, provided qualifying individuals with an economic stimulus payment (stimulus payment) of up to \$1,200 (or \$2,400 if married and filing a joint tax return) plus up to \$500 for each qualifying child.<sup>1</sup> The CARES Act allows for the collection of stimulus payments to settle child support debt. As a result, the stimulus payments made to eligible noncustodial parents who owe past-due child support, and who were subject to intercept under the Federal Tax Refund Offset (FTR Offset) program,<sup>2</sup> were offset by the amount of past-due child support.<sup>3</sup> If States do not have effective procedures for ensuring that delinquent child support is collected and distributed, stimulus payments may not have been intercepted and provided to custodial parents.

We performed this audit because of the significant impact that intercepting stimulus payments could have had on paying down past-due child support. We selected California for this audit because in fiscal year (FY) 2019 it had the second highest number of cases with past-due child support (846,287 cases) and the second highest amount of past-due child support (\$17.5 billion).<sup>4</sup> In addition, California collected only \$2.51 for every dollar of Federal Child Support Enforcement Program funds it spent in FY 2019; less than half the average of \$5.06 for all 54 child-support programs.<sup>5</sup>

COVID-19 has created extraordinary challenges for the delivery of health care and human services to the American people. As the oversight agency for HHS, the Office of Inspector General (OIG) oversees HHS's COVID-19 response and recovery efforts. This audit is part of OIG's COVID-19 response strategic plan.<sup>6</sup>

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<sup>1</sup> These payments are also commonly referred to as recovery rebates.

<sup>2</sup> "Intercept" means a method of securing child support by taking a portion of nonwage payments made to a person paying support. Nonwage payments subject to intercept include Federal tax refunds, State tax refunds, unemployment benefits, and disability benefits.

<sup>3</sup> The FTR Offset program intercepts Federal tax refunds of noncustodial parents who owe past-due support and forwards those funds to the State child support agency to pay the past-due support.

<sup>4</sup> The total amount of arrears due and unpaid as of the end of the fiscal year for all fiscal years, including the fiscal year covered by the report. Interest and penalties on arrearages may be included.

<sup>5</sup> The total Title IV-D dollars collected divided by the total Title IV-D dollars expended.

<sup>6</sup> OIG's COVID-19 portal is located at [HHS-OIG's Oversight of COVID-19 Response and Recovery | HHS-OIG](#).

## **OBJECTIVE**

Our objective was to determine whether the California Department of Child Support Services (State agency) collected and disbursed stimulus payments and income tax refunds under the FTR Offset program in accordance with Federal and State requirements.

## **BACKGROUND**

### **Child Support Enforcement Program**

The Child Support Enforcement Program (CSE program) is a Federal, State, and local partnership, established in 1975 under Title IV-D of the Social Security Act, to collect child support payments from noncustodial parents for distribution to custodial parents. Within the Department of Health and Human Services, Administration of Children and Families (ACF), the Office of Child Support Enforcement (OCSE) provides Federal oversight of the CSE program. All 50 States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands operate individual CSE programs and are entitled to Federal matching funds. The Federal Government and the States share CSE program costs at the rate of 66 percent and 34 percent, respectively.

### **Federal Tax Refund Offset Program**

Congress enacted the FTR Offset program on August 13, 1981, to recover delinquent child support debts.<sup>7, 8</sup> The State agency is required to submit all cases for an FTR Offset to the Department of Treasury (the Treasury) when the noncustodial parent's past-due balances are \$150 or more for those in the Temporary Assistance for Needy Families (TANF) program or foster care program. The State agency is also required to submit cases for an FTR Offset to the Treasury when the noncustodial parent's past-due balances are \$500 or more for Medicaid only cases or for families that do not participate in the TANF program. A noncustodial parent whose past-due support meets the criteria for an FTR Offset will receive an advance notice of the FTR Offset that explains the process and shows the amount of past-due support owed at the time of the notice.<sup>9</sup> When the Treasury processes stimulus payments and tax refunds, it identifies noncustodial parents who owe past-due support and intercepts all or part of these funds.<sup>10</sup>

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<sup>7</sup> Omnibus Budget Reconciliation Act of 1981, P.L. 97-35, § 2331, Aug. 13, 1981.

<sup>8</sup> Debt and arrears refers to the past-due, unpaid child support that is owed by a noncustodial parent and may include medical support.

<sup>9</sup> The OCSE 34 instructions for line 2a define offset of Federal income tax refunds as: "Amounts received on behalf of IV-D cases as a result of offset by the IRS of refunds from Federal income tax returns, or as determined by the Tribe under the terms of a Tribe-State agreement."

<sup>10</sup> The actual amount that the Treasury deducts from the tax refund may differ from the amount on the advance notice based on updated activity on the support obligation.

Treasury forwards the intercepted funds through OCSE to the State child support agency to pay the past-due support.

### **California Department of Child Support Services**

In California, the State agency is designated as the single and separate Title IV-D agency within the California Health and Human Services to administer all services and perform all functions necessary to establish, collect, and distribute child support. Child support services including securing child, family, spousal, and medical support, and determining paternity are provided under a cooperative agreement between the State agency and 49 Local Child Support Agencies (LCSAs).<sup>11</sup>

Each State must operate a State Disbursement Unit (SDU) that must collect and disburse payments under support orders for all cases in which the income of the noncustodial parent is subject to withholding (the Personal Responsibility and Work Opportunity Reconciliation Act § 454B). In California, the State agency contracted with Conduent State & Local Solutions to operate its SDU.

### **Child Support Enforcement Automated Systems**

The State agency and LCSAs use the Child Support Enforcement System (CSE system) to perform case management, enforcement remedies, payment allocation and distribution, and accounting functions. The CSE system creates child support cases automatically based on the terms and charging instructions in support orders.<sup>12</sup> These cases are certified automatically for FTR Offset if the noncustodial parent's past-due balances are \$150 or more for those in the TANF program or \$500 or more for those not in the TANF program.

The CSE system works with the State agency Intercept Collection Engine (ICE) to review all of the relevant data on noncustodial parents' account balances and to review applicable court orders needed to determine whether to apply FTR Offset payments. Conduent State & Local Solutions gets instructions from the CSE system and disburses FTR Offset payments to custodial parents according to those instructions.

### **Federal Requirements for Collection and Disbursement of Past-Due Support by Federal Tax Refund Offset**

Federal regulation (45 CFR § 303.72 (a)(4)) specifies that the State agency must have in its records a copy of the following documents when requesting collection of past-due support by

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<sup>11</sup> Cooperative agreement means a legal instrument of financial assistance between a Federal awarding agency or pass-through entity and a non-Federal entity (45 CFR, part 75.2).

<sup>12</sup> "Charging instructions" are monthly financial terms that a court or administrative agreement requires an obligor to meet (i.e., debt type, payee, amount, court case, and length of time the obligation must be paid).



FTR Offset:

- a support order and modifications upon which the amount referred is based that specifies the date of issuance and amount of support and
- a payment record or, if there is no payment record, an affidavit signed by the custodial parent attesting to the amount of support owed.

In addition, the State agency must send a written advance notice to inform a noncustodial parent that the amount of past-due child support will be referred to the Treasury for collection by FTR Offset (45 CFR § 303.72 (e)(1)).

Federal regulation (45 CFR § 302.32(b)(3)(ii)) states that collections due a family, as a result of FTR Offset, must be sent to the family within 30 calendar days of the date of initial receipt by the State agency.<sup>13</sup>

## **HOW WE CONDUCTED THIS AUDIT**

During our audit period of April 1, 2020, through June 30, 2020, the State agency collected and disbursed to custodial parents 150,234 FTR Offset payments of \$100 or more from 133,630 noncustodial parents, totaling \$168,864,921.<sup>14</sup> We selected a simple random sample of 115 noncustodial parents. These 115 noncustodial parents were associated with 133 FTR Offset payments totaling \$144,262. The State agency provided us with documentation from the CSE system and granted read-only access to the CSE system so that we could review written advance notices to noncustodial parents.

We reviewed the documentation for each noncustodial parent to determine whether the State agency possessed the following required documents:

- the support order and modifications upon which the amount referred for collection was based, which specifies the date of issuance and amount of support;
- a payment record or, if there was no payment record, an affidavit signed by the custodial parent attesting to the amount of support owed; and

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<sup>13</sup> The regulations make limited exceptions to the 30-day requirement for noncustodial parent appeals after an offset and situations in which OCSE has notified the State agency that an offset is being made to satisfy non-TANF past-due support from a refund based on a joint return.

<sup>14</sup> We excluded payments that were less than \$100 from our review due to materiality considerations. These payments under \$100 totaled \$226,791, which is less than 1 percent of total FTR Offset payments collected and disbursed during our audit period.

- the written advance notice to inform the noncustodial parent that the amount of past-due child support will be referred to the Treasury for collection by FTR Offset (45 CFR § 303.72 (e)(1)).

We also reviewed the documentation to verify the State agency accurately and timely disbursed FTR Offset payments to custodial parents and updated the noncustodial parents' arrears balances.

We assessed the State agency's internal controls for ensuring the collection and disbursement of stimulus payments and income tax refunds under the FTR Offset program. To evaluate these controls, we performed audit procedures as detailed in the "Scope" section of Appendix A.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our scope and methodology.

## **RESULTS OF AUDIT**

The State agency collected and disbursed stimulus payments and income tax refunds under the FTR Offset program in accordance with Federal and State requirements during our audit period. For all 115 noncustodial parents sampled, we found the State agency collected and disbursed \$144,262 in FTR Offset payments in accordance with Federal and State requirements.

Based on the results of our sample, the State agency complied with Federal and State requirements by having in its records a copy of the support order and modifications that specifies the date of issuance and amount of support. The State agency also maintained a copy of the payment record and provided written notices of the FTR Offset to noncustodial parents. In addition, the State agency accurately and timely disbursed FTR Offset payments to custodial parents and updated the noncustodial parents' arrears balances.

Accordingly, this report contains no recommendations.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency concurred with the results of our audit. The State agency's comments are included in their entirety as Appendix C.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

During our audit period of April 1, 2020, through June 30, 2020, the State agency collected and disbursed to custodial parents 150,234 FTR Offset payments for \$100 or more from 133,630 noncustodial parents, totaling \$168,864,921. We selected a simple random sample of 115 noncustodial parents, with 133 FTR Offsets, totaling \$144,262.

We assessed the State agency's internal controls related to ensuring the collection and disbursement of stimulus payments and income tax refunds under the FTR Offset program. To evaluate these controls, we:

- interviewed State agency officials regarding the collection and disbursement of stimulus payments and income tax refunds under the FTR Offset program;
- reviewed State agency's policies and procedures related to compliance and monitoring, statewide training, data reliability, and records retention; and
- reviewed supporting documentation for a random sample of 115 noncustodial parents to determine whether the State agency possessed a copy of the required documents (e.g., support order and modifications).

We performed audit work from December 2020 to April 2022.

### METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State laws and regulations related to the Title IV-D program;
- interviewed State agency officials to gain an understanding of how they collect and disburse past-due support by FTR Offset;
- reviewed the State agency's Child Support Program self-assessment for Federal fiscal year 2019;<sup>15</sup>

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<sup>15</sup> A State must conduct an annual review covering all of the required criteria in 45 CFR § 308.2 (45 CFR § 308.1(c)).

- reconciled the State agency's reported FTR Offset collections on the Form OCSE 34, Child Support Enforcement Program Quarterly Collections Report for the period of April 1, 2020, through June 30, 2020, with the State's accounting system;
- performed logical testing of the data, including looking for duplicates, to determine whether we could reasonably rely on the data provided;
- held discussions with OCSE to gain an understanding of the FTR Offset program;
- selected a simple random sample of 115 noncustodial parents from the sampling frame (Appendix B);
- reviewed supporting documentation for the 115 noncustodial parents to verify that the State agency possessed a copy of the following required documents:
  - the support order and modifications upon which the amount referred is based, which specifies the date of issuance and amount of support,
  - the payment record or, if there is no payment record, an affidavit signed by the custodial parent attesting to the amount of support owed, and
  - the written advance notice to inform a noncustodial parent that the amount of his or her past-due child support will be referred to the Treasury for collection by FTR Offset (45 CFR 303.72 § (e)(1));
- reviewed supporting documentation for the 115 noncustodial parents to verify that the State agency accurately and timely disbursed FTR Offset payments to custodial parents and updated the noncustodial parents' arrears balances.
- discussed the results of our audit with the State agency.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **APPENDIX B: STATISTICAL SAMPLING METHODOLOGY**

### **SAMPLING FRAME**

The sampling frame consisted of 133,630 noncustodial parents from which 150,234 FTR Offsets for \$100 or more were collected and disbursed to custodial parents during the period of April 1, 2020, through June 30, 2020, totaling \$168,864,921.

### **SAMPLE UNIT**

The sample unit was a noncustodial parent.

### **SAMPLE DESIGN**

We used a simple random sample.

### **SAMPLE SIZE**

We selected 115 sample items.

### **SOURCE OF RANDOM NUMBERS**

We generated the random numbers using the OIG, Office of Audit Services (OAS), statistical software.

### **METHOD OF SELECTING SAMPLE UNITS**

We sorted the sampling frame items in descending order by the noncustodial parent ID assigned by the State agency's CSE program to identify a participant. We then consecutively numbered the noncustodial parents in the sampling frame. After generating the random numbers, we selected the corresponding frame items for audit.

### **ESTIMATION METHODOLOGY**

We found that the State agency collected and disbursed stimulus payments and income tax refunds under the FTR Offset program in accordance with Federal and State requirements for all items in the sample, and as a result we made no estimates.

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES**

P.O. Box 419064, Rancho Cordova, CA 95741-9064



May 9, 2022

Mr. Curtis M. Roy  
Regional Inspector for Audit Services  
Office of Inspector General  
15 New Sudbury Street, Room 2425  
Boston, Massachusetts 02203

REPORT NUMBER: A-01-21-01501

Dear Mr. Roy:

California Department of Child Support Services (CA DCSS) received the Department of Health and Human Services, Office of Inspector General (OIG) draft report *California Collected and Disbursed Stimulus Payments and Income Tax Refunds Under the Federal Tax Refund Offset Program in Accordance With Federal and State Requirements*.

CA DCSS carefully considered the draft report and concurred with the results of the audit. In addition, we sincerely appreciate the OIG auditors for their display of patience and utmost professionalism throughout the entire audit process.

If you have any questions or concerns regarding this matter, please contact Deepshikha Kumar at (916) 464-5520 or [deepshikha.kumar@dcss.ca.gov](mailto:deepshikha.kumar@dcss.ca.gov).

Sincerely,

A handwritten signature in cursive script that reads "David Kilgore".

DAVID KILGORE  
Director  
California Department of Child Support Services