

**Office of the Attorney General
Child Support Enforcement Program**

**Performance Audit
October 1, 2000 through March 31, 2003**

**OPA Report No. 03-09
November 2003**



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EXECUTIVE SUMMARY

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Child Support Enforcement Program
October 1, 2000 through March 31, 2003**

In January 2003, the Office of the Public Auditor (OPA) initiated a performance audit into the activities of the Child Support Enforcement Division (CSED) of the Office of the Attorney General (OAG) in response to a request for an audit by the Attorney General.

The OAG is tasked to operate the Child Support Enforcement Program, which involves the delivery of child support from non-custodial parents to custodial parents. As part of this responsibility, the OAG is required by federal law to establish a State Disbursement Unit (SDU) and an automated computer system. The SDU is the functional body that collects and disburses support payments under court orders.

In compliance with these requirements, the OAG contracted with Chase Global Services Guam and its predecessor Andersen Consulting from 1994 to 2004 to establish the Absent Parent Automated System Information (APASI). In October 2001, the OAG also contracted Chase Global to operate the SDU.

The major findings pertaining to these matters are as follows:

- The majority of the contracts for Child Support Enforcement projects were procured without competition and the contracts were extended without assessing performance in previous contracts. Total contractual cost through 2004 for both APASI and the SDU is expected to be \$14.4 million of which \$11,386,159 has been paid as of June 2003. The Federal Office of Child Support Enforcement did approve the sole source procurement based on the rationale of the previous attorney general, who now works for Chase Global.
- After 10 years and payments of \$10.5 million, the APASI project still has not met the federal certification requirement. This resulted in a reduction of \$292,921 of the Child Support Enforcement Grant for FY 2001 and 2002. Failure to meet the revised federal certification deadline on December 2003 may result in further grant reduction of \$431,604.
- Internal controls dealing with monitoring, separation of duties, and reconciliation of accounts were insufficient or lacking:
 - As of August 2003 there was a total of \$5.4 million in the Child Support Trust Account balance, yet to be disbursed. It is composed of \$2.9 million in undistributed child support collections (UDC), \$368,000 in unknown collections, and \$2.1 million in unreconciled balances.
 - Chase Global, having both APASI and SDU duties, was allowed to function without controlled supervision and monitoring and performed duties beyond their authority. Chase Global ceased the disbursement of child support welfare reimbursements without proper documentation and authorization, then later overrode the APASI to disburse \$2.5 million of welfare reimbursements without documented authorization.

- Chase Global's duties for both APASI and SDU projects were allowed to overlap, which violated internal control principles of separation of duties.
- The Attorney General acknowledged that the Child Support Enforcement Division monitors Chase Global's programming and SDU functions, but is prevented from detecting any misconduct due to lack of competent staff and the fact that Chase Global's programmers and SDU are located in the same office.
- Another child support bank account with \$207,000 as of June 2003 has been dormant since 1995.
- The CSED relocated to a new office, which cost nearly \$2,830 more per month than the prior lease. An additional \$344,871 in renovation and start up costs were also incurred. Chase Global was also allowed to establish their office within this office at no cost to Chase Global.

Some of our recommendations include:

- The CSED coordinate with the SDU to identify and determine the source of the \$5.4 million in unreconciled, unknown, and undistributed amounts in the trust account.
- The OAG initiate Request for Proposals (RFP) for competitive procurement of APASI development/maintenance and SDU services in FY 2004 when the contracts with Chase Global terminate. The RFPs should prohibit both functions from being awarded to the same vendor. In the interim, we recommend the OAG monitor and ensure that the operations of Chase Global's programming unit are strictly separated from the operations of the SDU.
- The CSED revise and update its policies and procedures to include control procedures, and in particular, address the resolution of undistributed collections.
- The OAG assign a project manager capable of understanding and managing the APASI and SDU projects, as well as conducting appropriate reviews to confirm the reasonableness of deliverables, deadlines, and costs.
- The OAG obtain collections report, daily deposit detail reports, and other operational reports from the SDU to facilitate proper SDU and UDC monitoring and reconciliation.
- The Director of Administration in consultation with the Attorney General, close the dormant child support bank account and transfer the balance to the General Fund, subsequent to a proper reconciliation.
- The Department of Public Health and Social Services direct its efforts to resolve the problems associated with the AGUPA system involving the child support welfare program to facilitate the monitoring of welfare reimbursements disbursed by the SDU.

The Attorney General generally concurred with our findings and recommendations.



Doris Flores Brooks, CPA, CGFM
Public Auditor



Office of the Attorney General
Investigative Audit of the Child Support Trust Account and Activities

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Introduction

In January 2003, the Office of the Public Auditor (OPA) initiated a performance audit into the activities of the Child Support Enforcement Division of the Department of Law, Office of the Attorney General (OAG) in response to a request for an audit by the elected Attorney General.

Jurisdiction to Audit

The Public Auditor is required to annually audit “all the transactions and accounts of all departments, offices, corporations, authorities, and agencies in all of the branches of the Government of Guam.” The Public Auditor may also “conduct or cause to be conducted such audits or reviews as he or she deems necessary.”¹

Background Information

Department of Law, Office of the Attorney General

The Department of Law was established by §3102 of Title 5 of the Guam Code Annotated as part of the executive branch of government and is headed by the Attorney General. The Attorney General has been recently converted to an elected position with a term of four years.²



According to §30105 of 5 GCA, the Attorney General has discretion to create the divisions of the Department of Law. One of the divisions is the Family Law Division. Under the administration of the elected Attorney General, the Family Law Division had been reorganized into the Child Support Enforcement Division (CSED). The other five divisions under the OAG are the General Crimes, Government Corruption, Civil, Compiler of Laws, and Solicitors’.

According to the OAG website, the “Child Support Enforcement Division is a public service agency who locates non-custodial parents, establishes paternity, secures, modifies, and enforces child and medical support orders, recovers

¹ 1 GCA § 1908

² 5 GCA § 30101 (a)

AFDC³ (now known as TANF,⁴ child support welfare) benefits paid on behalf of the children, and processes child support payments.”

Absent Parent Automated System Information (APASI)

Guam is mandated to have a single statewide automated data processing and information retrieval system, which has the capability to perform certain functions relating to the management of the Child Support Enforcement Program, among other things.⁵ The Absent Parent Automated System Information (APASI) is Guam’s Child Support Enforcement system. It is the computer system utilized by the Child Support Enforcement Program to manage child support cases and facilitate the responsibilities of the State Disbursement Unit.

In order to comply with the law, the OAG entered into a contract in 1994 with Andersen Consulting, who started creating a system fashioned after the Child Support Enforcement System of Texas. Andersen Consulting withdrew from the project before the contract was completed. Our interviews indicated that Andersen’s withdrawal was due to the government’s inability to remit timely payments. Because no Andersen Consulting representatives are present on the island, we could not confirm the validity of this reason. In August 2000, Chase Global Services Guam (Chase Global) was assigned to complete the APASI. Over the years, the system has been enhanced in an effort to meet federal mandates outlined in the Family Support Act of 1988 (FSA) and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). **As of March 2003, however, the system still has not met federal certification.**

The timeline below summarizes the APASI contractors by year.

Andersen Consulting						Chase Global Services Guam					
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	

In addition to the programming of the APASI, Chase Global was also contracted to perform daily maintenance services for the APASI. According to the IV-D Director⁶ of the Child Support Enforcement Division, maintenance services include daily computer and system troubleshooting support that are provided to the Child Support Enforcement Division with regards to the APASI.

State Disbursement Unit (SDU)

According to the Social Security Act,⁷ “the State agency must establish and operate a unit (which shall be known as the “State Disbursement Unit”) for the collection and disbursement of payments under support orders...” Although the Department of Law has been designated as the Guam child support

³ Aid to Families with Dependent Children Program (AFDC)

⁴ Temporary Assistance for Needy Families Program (TANF)

⁵ 42 USC 654a (Social Security Act §454A)

⁶ IV-D Director is the State’s administrator of the Child Support Enforcement Program

⁷ 42 USC 654b (Social Security Act §454B)

disbursement unit,⁸ the Social Security Act also stipulated that the “State Disbursement Unit shall be operated directly by the State Agency (or 2 or more agencies under a regional cooperative agreement), or (to the extent appropriate) by a contractor responsible directly to the State agency...”



Before the existence of the SDU, the Department of Administration and the Family Law Division (now known as the Child Support Enforcement Division), under a cooperative agreement, collected and distributed the child support payments. On October 2001, the OAG contracted Chase Global Services Guam to function as Guam’s State Disbursement Unit and it is now assigned to collect and distribute child support payments.

Chase Global is currently contracted to complete the programming and maintenance of the APASI, as well as operate the SDU. For a comprehensive illustration of the projects of the Child Support Enforcement Program and its respective contractors, see **Appendix A**.

Child Support Trust Account

The Child Support Trust Account was established to fulfill the responsibility of the Child Support Enforcement Division in collecting and disbursing child support payments. Child support collections are deposited into this trust account and are disbursed from it soon after. The trust account is also being utilized to hold unclaimed child support monies described in 5 GCA §34111.

Objectives

The objectives of this audit were to determine the causes of the excessive accumulation of child support collections in the Child Support Trust Account and evaluate the procurements of the APASI Automated Child Support System, the State Disbursement Unit, and the Child Support Enforcement Division’s current office lease agreement.

Scope and Methodology

The scope of the audit encompassed the Child Support Enforcement Program activities from fiscal year 2001 through the first half of fiscal year 2003 (ending

⁸ 5 GCA §34152

March 31, 2003), all existing contracts between the OAG and Chase Global, regardless of date, and the contract for the CSED office space lease.

Our audit was conducted in accordance to *Generally Accepted Government Auditing Standards* applicable to performance audits. Accordingly, our methodology included gaining an understanding of the policies, procedures, and applicable laws and regulations pertaining to CSED responsibilities. Management controls over the collection and disbursement of child support payments by the SDU were assessed through interviews, independent observation, and review of control procedures. Additionally, our audit included tests of procurement processes to ensure that expenditures were duly authorized, recorded, and documented in compliance with the purposes set forth in laws and regulations, or in line with the activity.

Scope Limitation

Our audit plan included procedures for non-statistical testing of specific child support cases, however, OAG refused access to OPA auditors due to concerns of confidentiality. We were not able to determine whether preferential practices occurred in child support cases involving OAG employees. Although we acknowledge the confidentiality concerns of the OAG, the OAG's application of the law appears to act against accountability and appropriate checks and balances.

We also did not perform statistical testing of random child support cases because these procedures were conducted by the contracted auditor for the Single Audit and doing so would have been a duplication of work.

Prior Audit Coverage

Government of Guam Single Audit

The Child Support Enforcement Grant is annually audited under the Single Audit Act. The following are the findings and recurring findings of the Single Audit of the government of Guam for fiscal years 2000 and 2001, most of which were attributed to weak internal controls:

FY 2000

- The Office of the Child Support Enforcement (OCSE) 34A reports, OCSE 394 reports, and SF272 reports were submitted late relative to the requirements in OMB Circular A-133 and Government Payment Management.
- No social security numbers or cards are being kept on file for three years as required by 45 CFR 74.53.

- There were no attempts to locate the absent parent within the required 75 days. This finding was recurrent in FY 2001.
- No documentation to indicate that actions were taken to establish paternity and/or enforce support obligations after the application was filed. This finding was recurrent in FY 2001.
- FY 2000 income tax refund offset collections are still pending release or disbursement. Child support liability or undistributed collections as of September 30, 2001, was \$4,698,309, which is comprised of balances from 1992-2000.

FY 2001

- Boxes of undeliverable child support checks dating back to 1995 are not transmitted to the agency for investigation.
- A child support payment of \$1,076 has not been sent to the custodial parent and is placed on hold. There was no indication of any attempt to contact the custodial parent.
- As of September 30, 2001, \$22,500 had been collected for a certain case, but there had been no distribution. The cause is attributed to system constraints.
- For 5 out of 46 case files tested, no documentation was found to indicate that services were provided after the case files were opened.

Federal Data Reliability Audit

The federal Office of Child Support Enforcement, Division of Audit conducts annual Data Reliability Audits. The purpose of these audits is to help in determining Guam's incentive payments. The audits are conducted to assess whether the system (APASI) used by Guam's Child Support Enforcement Program to report performance measurement data was reliable and that the data generated by that system were accurate, complete, and secure. These audits, however, do not evaluate whether collections were distributed in accordance with federal regulations, which are performed during the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) certification reviews. The findings were as follows:

FY 2000

- Guam did not have sufficient procedures to document data for reporting the number of "Children in the State with Paternity Established or Acknowledged."
- Guam understated the reported number of "Children with Paternity Established" through the in-hospital voluntary acknowledgement program.
- Guam had inaccurately reported the "Total Amount of Current Support Due for the Fiscal Year," which indicated errors amounting to \$19,329. The cause of the errors can be attributed to a weakness in the report program.

FY 2001

- Guam did not have accurate information in the automated system for identifying children having paternity established.
- The figure reported for “Children in the State with Paternity Established or Acknowledged” was overstated.

DHHS OIG State Disbursement Unit Inspection

The Department of Health and Human Services Office of Inspector General had conducted a nationwide inspection on the Child Support Enforcement State Disbursement Units in August 2000. The report expressed three major findings:

- Thirty-eight states report they have fully implemented the federal law to centralize payment processing of most child support payments;
- States experienced a number of problems in implementation, but managers report the severity of most problems has diminished over time; and
- A majority of managers believe their State Disbursement Units have improved payment processing, particularly after an initial startup period.

Overall Findings

The following are the major findings of this audit:

- Majority of the contracts for Child Support Enforcement projects were procured without competition, which may have resulted in lesser quality work and possible higher costs than would have been incurred in a competitive process. Contracts were extended without assessments of performance of previous contracts. The total contractual cost for the projects from 1994 to 2004 is expected to be \$14,387,400 (\$12,531,999 for APASI and \$1,855,401 for SDU).
- The Automated Child Support Enforcement System project did not meet the federal deadline of October 2000, thus resulting in a reduction of \$292,921 of the Child Support Enforcement Grant. Failure to meet the revised deadline by December 2003 may result in further reduction of \$431,604.
- Internal controls dealing with monitoring, separation of duties, and reconciliation of accounts were insufficient or lacking.
 - The OAG engaged one contractor for several projects who was allowed to function without controlled supervision and monitoring, which allowed the contractor to perform duties beyond their authorized responsibilities. The contractor ceased the disbursement of child support welfare reimbursements without proper documentation and authorization. The contractor overrode the APASI to disburse \$2.5 million of child support welfare reimbursements from the Child Support Trust Account without proper documentation of authorization. Two

million dollars were disbursed in October 2002 just prior to the November general election, while the other half million dollars were disbursed in June 2003.

- Because only one contractor was procured for different projects, duties of the contractor on one project were allowed to overlap on another project, which violated internal control principles of separation of duties.
- There was little monitoring of the contractor for the multi-million dollar contracts of the Child Support Enforcement Program by the OAG.
- Child Support Trust Account balances were not reconciled with records from the APASI, which have resulted in continued and unreconciled increases of undistributed collections and other unaccounted balances.
- As of August 2003, the Child Support Trust Account had \$2.9 million in undistributed collections, \$368,000 in unknown collections, and another \$2.1 million in unreconciled trust account balances for a total of \$5.4 million that has yet to be disbursed.
- As of June 2003, there was a child support bank account with a balance of \$207,000 that has been dormant since 1995.
- Updated operating procedures and cooperative agreements, both of which are tools for effective management, were absent for the Child Support Enforcement Program.
- The new CSED office space was leased for \$2.78 per square foot compared to the prior location of \$2.47 per square foot or nearly \$2,830 more per month. An additional \$344,871 in renovation and start up costs was incurred in the move to the new location.
- OAG's contractor, Chase Global was allowed to establish their office within the Child Support Enforcement Division, which may have privileged Chase Global to reduce their operational costs at the government's expense, as well as compromise the security of confidential child support information.

Specific Findings and Conclusion

Finding 1: Absent Parent Automated System Information (APASI)

APASI System Procurement – Andersen Consulting

According to 2 GAR §3108, unless otherwise authorized by law, all territorial contracts shall be by competitive sealed bidding, except for the competitive selection for certain professional services. These services are to be procured in the form of Requests for Proposals (RFP).

The procurement of the Guam Child Support Enforcement Program's automated system began with the contractor, Andersen Consulting. The files for this

procurement were not available for our review; therefore, we were not able to determine whether the contract was competitively procured.

Andersen Consulting began the project in 1994, but withdrew from it in 1999 before it was completed. The basic foundation of the computer system, however, was already established, yet it had not met the specific requirements under the federal laws. By that time, Guam had already spent approximately \$3,090,518 for the computer system.

From December 1996 to February 1997, Andersen Consulting provided enhancement and maintenance services to the OAG without a contractual agreement. On April 1997, OAG ratified or accepted these services and agreed to pay Andersen Consulting \$150,000. In addition, OAG contracted Andersen for enhancement and maintenance services through December 1997 for another \$450,000. This was subsequently followed by four contractual amendments, all of which called for extensions of service. The enhancement and maintenance contracts with Andersen Consulting finally ended in March 1999 when they withdrew from the APASI project.

Below is a table summarizing the history of the APASI contracts under Andersen Consulting:

	APASI Contracts	Terms	Purpose	Contract Cost	Amount Paid
Andersen Consulting	1	Effective 02/1994	Creation of APASI	\$2,262,741	\$1,791,568 ^
	2	12/1996 - 02/1997 03/1997 - 12/1997	Enhancements, Maintenance, and Support of APASI	\$150,000 + \$450,000	\$500,000 ^^
	1st Extension	01/1998 - 03/1998	Enhancements, Maintenance, and Support of APASI	+ \$150,000	\$248,950 ^^^
	2nd Extension	04/1998 - 06/1998	Enhancements, Maintenance, and Support of APASI	+ \$150,000	\$150,000
	3rd Extension	07/1998 - 12/1998	Enhancements, Maintenance, and Support of APASI	+ \$300,000	\$300,000
	4th Extension	01/1999 - 03/1999	Enhancements, Maintenance, and Support of APASI	+ \$150,000	\$100,000 ^^^^
	Totals			\$3,612,741	\$3,090,518

^ Amount was not fully paid, as the APASI system was not fully implemented with federally certifiable functions.

^^ This contract ratified Andersen's work from 12/1996 - 02/1997 for payment of \$150,000. Additionally, it extended the contract to cover 03/1997 - 12/1997. Only \$500,000, however, was encumbered and paid for this contract. An excess payment for the subsequent period makes up for this shortage. See ^^^.

^^^ This was the first of a series of four amendments. \$248,950 was paid for this amendment even though only \$150,000 was due. The excess \$100,000 paid makes up for the shortage of payment from the previous period.

^^^^ The original encumbrance was \$150,000, but \$50,000 was reversed on 10/2001. Currently, only \$100,000 had had been paid.

As can be seen in the table above, the OAG engaged Andersen Consulting to create the APASI system in 1994. The contract stipulated the creation of a functional system that meets federal criteria at a fixed price of \$2,262,741 although only \$1,791,568 was paid for this portion of the contract. At the time of Andersen's withdrawal in 1999, the system was not yet fully functional.

Sole Source Procurement of APASI Maintenance Services – Chase Global

As mentioned earlier, Andersen Consulting provided enhancement and maintenance services, where enhancements dealt with upgrading the APASI and maintenance dealt with the daily support services involving the use of the APASI. After Andersen Consulting's withdrawal, the APASI enhancement services and the maintenance services were separately contracted. It was not until October 2001 that the enhancement services and maintenance services were reconsolidated into one contract.

Chase Global Services Guam, a company created by one of Andersen Consulting's former employees, was subsequently assigned to provide maintenance services to the APASI beginning May 1999. This procurement was conducted on a sole source basis.⁹ Total APASI maintenance costs charged by Chase Global amounted to \$1,730,983. The table below summarizes the maintenance costs paid to Chase Global from April 1999 through September 2001.

Chase Global Services Guam APASI Maintenance Costs		
Purchase Orders	Term	Amount Paid
P996A04135	04/1999 - 09/1999	\$2,226
P996A04136	04/1999 - 09/1999	\$31,144
P996A04137	04/1999 - 09/1999	\$16,221
P996A04138	04/1999 - 09/1999	\$145,262
P996A04139	04/1999 - 09/1999	\$54,377
P006A00554	11/1999 - 06/2000	\$249,231
P006A03536	05/2000 - 11/2000	\$312,785
P016A01211	11/2000 - 06/2001	\$61,240
P016A01212	11/2000 – 09/2001	\$806,360
P016A01212IJ	11/2000 – 09/2001	\$52,137
Total		<u>\$1,730,983</u>

Based on our review of the contracts, it appeared that from April 1999 through July 2000, no APASI enhancement services were provided to the OAG. Enhancement services did not resume until August 2000, when Chase Global was awarded a contract to provide the OAG with enhancement services.

⁹ 5 GCA §5214 Sole source procurement is permitted only when the chief procurement officer or a designated procurement official determines a supply, service, or construction item can be obtained from only one source and competition is not required.

Appendix A identifies the different contractors for the procurement of the APASI system enhancements and maintenance services.

Sole Source Procurement of APASI Enhancements – Chase Global

Andersen Consulting's withdrawal prompted the OAG to select a new contractor to complete the system's enhancements. Chase Global Services Guam was selected to complete the APASI enhancements on August 2000 on a sole source basis. The following reasons were stated by the former Attorney General to justify OAG's sole source determination:

1. "Other than Andersen Consulting, a former contractor, CGS (*Chase Global*) is the only other candidate who is currently familiar with the technical aspects of APASI. CGS staff, who had been previously employed by Andersen Consulting and who had worked on APASI, has been the existing contractor since 3/99. If another contractor is selected, then additional time is needed to be familiarized with the technical aspects of APASI. This is time we can't afford since we are currently addressing existing federal requirements in addition to PRWORA.
2. The Department of Law's Child Support Enforcement Office has only until October 2000 to address PRWORA. Non-compliance will be subjected to penalties particularly as to the update distribution hierarchy under PRWORA. CGS is familiar with the distribution requirement and the modification to APASI this will entail. There is no other contractor on island with this knowledge. There is no time for acquisition of familiarity with the system necessary to perform the work by any contractor not already acquainted with APASI.
3. Acquainting another contractor other than CGS would require additional time with staff of the Family Division, Department of Public Health and Social Services, Department of Revenue and Taxation, Department of Administration and federal officials. This includes time needed to build the working relationships with the personnel of a new contractor which would not have to be expended if CGS is selected.
4. Should another contractor be selected for this particular project, this will entail possible two contractors, CGS to address the maintenance and support aspects of APASI, and the other vendor, PRWORA enhancements. It would be costly for the Government of Guam to house or work with two contractors. This will also entail staff to work with both contractors which will be an additional burden to the government.
5. The APASI project is of paramount importance. The Child Support Enforcement Office currently handles over 10,000 active cases and issues child support payments to many non-welfare recipients. The system also reinforces child support collections to keep custodial parents off welfare assistance. The impact of child support orders and the additional income they provide to the financial stability of families in Guam's harsh economic times has a broad effect on the public welfare generally as well as providing self sufficiency for those particular families. Should another

contractor be selected, this would entail an adjustment period which may result in delays, interruptions, non-compliance, etc., in the operation and delivery of services. As result of the Asian crisis, Guam welfare roles [sic] are at an all time high where the country is booming elsewhere.

6. PRWORA enhancements should be completed within one year. Considering the need to be familiar with the existing system, build the necessary working relationships with appropriate staff and officials, maintain a level of continuity with IV-D services, etc. it is clear that selecting another contractor would be a decision detrimental to the APASI project and the clients we serve.”

The OAG also sought permission from the Department of Health and Human Services (DHHS) Administration for Children and Families (ACF) to procure the services for the APASI project on a sole source basis with Chase Global.

According to 2 GAR §3112 (d), a record list of all sole source procurement must be submitted to the Legislature. Based on our review of the records, we did not find any documentation indicating that such a list was submitted to the Legislature. OAG indicated uncertainty with regards to the submission of such a report. GSA, the agency responsible for all procurement, also indicated that such lists do not exist and therefore, are not being submitted to the Legislature.

As stated before, Chase Global was selected to continue the APASI enhancement project. Since then, Chase Global had been granted four sole source contracts to make the APASI system compliant with the federal requirements. The table below summarizes the contracts with Chase Global, followed by further discussions of the various contracts. Refer to **Appendix B** for a schedule of all APASI system contracts.

	APASI Contracts	Terms	Purpose	Contract Cost	Amount Paid
Chase Global	1	08/2000 - 03/2001	Phase I Enhancement	\$1,875,031	\$1,875,031
	2	05/2001 - 09/2001	Phase II Enhancement (\$2,390,218) ****	\$3,015,859	\$999,608 *
	3	10/2001 - 09/2002	Phase II Enhancement Extension and Maintenance		\$2,015,859 **
	4	10/2002 - 09/2004	Enhancement Extension and Maintenance	\$2,820,000	\$822,500 ***
Total				\$7,710,890	\$5,712,998

* Only a fraction of the contract cost was paid because this contract was modified by contract 3.

** APASI Contract 3 is a modification of contract 2; the previous payment of \$999,608 on contract 2 should be applied to the \$2,015,859 payment on contract 3. This should then satisfy the contract cost of contract 3 (See also ****). An unpaid balance of \$392, however, still remains.

*** This amount represents payments as of 6/10/2003.

**** APASI Contract 2 and 3 as indicated have actually been consolidated with a total contract cost of \$3,015,859.

APASI Contract 1

The OAG, in the first sole source contract, engaged Chase Global to complete Phase I of the APASI enhancements. The contract cost was \$1,875,031 and covered the period August 23, 2000 through March 31, 2001.

According to our review of the correspondences between the OAG and the federal Administration for Children and Families, the deadline for the enhancements was October 2000. Records also indicated that OAG acknowledged and accepted an alternative system penalty for failing to meet the deadline. An Implementation Advance Planning Document (IAPD) was submitted to the ACF as a corrective action plan that proposed to complete the project by September 2001.

APASI Contract 2

The second sole source contract was for the completion of the Phase II of the APASI system enhancements and covered the period May 15, 2001 through September 2001. Although the original cost obligation under this contract was \$2,390,218, only \$999,608 was actually paid to Chase Global because the contract was only partially completed.

On October 31, 2001, the former Acting Attorney General wrote a letter to the ACF confirming that the new September 2001 deadline was not met and claimed that the project could not be completed due to "local budget appropriation barriers." This caused the OAG to incur a penalty, which reduced the Child Support Enforcement Grant by \$77,119 in FY2001.

APASI Contract 3

The third sole source contract was formed as a result of the circumstance stated in the previous paragraph. It encompassed the period from October 1, 2001 through September 30, 2002 with a revised cost of \$3,015,859.

This contract was a modification of the second contract, which consolidated the remaining APASI Phase II enhancements with APASI maintenance services.

Because this contract was a modification of the second one, the payments made to the second contract were carried over to fulfill the cost obligations of this new contract. A total of \$2,015,859 was paid for this contract. This, in addition to the \$1 million paid in the second contract, fulfilled the government's obligation.

APASI Contract 4

Ideally, the APASI enhancements should have been completed with the third contract, but a fourth contract with Chase Global was engaged. This contract called for a total cost of \$2,820,000 and covered the period from October 1, 2002 through September 4, 2004. At the time of this contract, the APASI system was already two years overdue for federal certification.

The purpose of the contract was “to provide on-going maintenance and support of APASI CSE system including the modifications mandated by the PRWORA requirements.” Based on our review, it appeared that this contract was another extension for the APASI enhancements.

One of the terms and conditions stated in the third contract at Section IV 4.4 was “final payment shall be made upon satisfactory delivery and acceptance of all services herein specified and performed under this Agreement.” Because payment for the third contract had already been liquidated and because the APASI system should have been federally certifiable by the end of the previous contract, the enhancement portion of this new contract appears to be a duplication of the previous contract. The government was paying for services that should have been completed in the previous contract.

Based on our review of the procurement files and the relevant correspondences between the OAG and the ACF, we saw that Chase Global failed to meet enhancement deadlines, yet received contract extensions.

Failing to meet these deadlines subjected the OAG to alternative system penalties, which lowered the Child Support Enforcement Grants that fund the APASI project. This decrease in federal support ultimately required increased local funds for the funding of the Child Support Enforcement Program. According to documents reviewed, the cumulative penalties incurred by the OAG for FY 2001 and FY 2002 were \$292,921. Failure to meet the revised deadline by December 2003 may result in further reduction of federal support by \$431,604.

We noted that the fourth APASI contract was engaged in October 1, 2002 prior to the election of the Attorney General. The former Acting Attorney General had awarded Chase Global a two-year contract term, the longest term thus far and at a time where federal certification should have already been completed. This contract expires at the end of fiscal year 2004 and completion of the APASI project is expected to occur before that time.

Former Attorney General, an Employee of Chase Global Services

The former Attorney General, who had been one of the persons responsible for awarding Chase Global contracts through sole source procurement, was subsequently employed by Chase Global in January 2003. Although he did not sign any of the contracts with Chase Global, he had influenced the government’s decision to enter into a sole source procurement of services with Chase Global; he had endorsed the services of Chase Global to the government. He was in correspondence with the federal government (ACF), requesting for permission to procure the contract for the APASI project through sole source. The federal government, in turn, allowed the sole source transaction.

When we interviewed the General Manager of Chase Global, the former Attorney General was present in the interview. At the time of the interview, he stated that

he was a systems analyst for Chase Global. Chase Global later indicated in a subsequent correspondence that the former Attorney General does marketing work for Chase Global. As of October 2003, the former Attorney General was still employed by Chase Global earning a salary of \$100,000 per annum.

According to 5 GCA §5632, it shall be a breach of ethical standards for any former employee, within one (1) year after cessation of the former employee's official responsibility, knowingly to act as a principal, or as an agent for anyone other than the Territory, in connection with any contract or controversy in matters which were within the former employee's official responsibility, where the Territory is party or has a direct or substantial interest.

We recommend the Attorney General conduct a further review and investigation into this matter and determine whether legal action is warranted.

APASI Cost Analysis

Because all the relevant aspects of the APASI project were procured without the solicitation of competition, it is difficult to assess whether the costs charged by Chase Global were reasonable. In order to evaluate the reasonableness of the cost, we obtained comparative figures from the Virgin Islands (VI), a U.S. Territory mandated to create an Automated Child Support Enforcement System compliant with FSA and PRWORA standards. The Virgin Islands' Child Support Enforcement Program has similar caseload responsibilities like Guam's Child Support Enforcement Program. Below is a table summarizing the comparison between Guam's system and the Virgin Islands' system.

	Guam APASI	Virgin Islands CSTARS
Procurement Method	Sole Source	RFP
Case Load	15,000	12,000
Active Cases	13,500	7,000
Project Timeframe	10 years	4 years
Estimated System Cost	8,037,304	7,000,000
Annual Support Cost	716,269*	200,000
Total Cost	12,531,999**	9,600,000

* This represents support cost for 1999 – 2003

** For a breakdown of this amount, refer to **Appendix C**

The Guam Child Support Enforcement Program currently handles 15,000 cases, with 13,500 active cases based on figures given to us by Chase Global. Because the Virgin Islands Child Support Enforcement Program handles approximately 12,000 cases, 7,000 of which are active, we utilized their performance measures as comparative criteria for our evaluation of the APASI system.

Based on our conversation with the IV-D Director of the Virgin Islands' Department of Justice Paternity and Child Support Division, the automation

project began with the Virgin Islands Paternity Enforcement Reporting System (VIPERS). This system was infamous for its weakness in design and was abandoned altogether before year 2001. On December 2000, the Virgin Islands began implementing a new automated system, known as the Child Support Territorial Automated Reporting System (CSTARS).

The new system was procured through an RFP. According to the Virgin Islands' IV-D Director, an RFP was released and although local vendors were not able to submit any offers, the Virgin Islands received offers from national companies, which included Andersen Consulting, IBM, GM, and Covansys. CSTARS was designed after Hawaii's Child Support Automated System.

According to the Virgin Islands' CSTARS project manager, the entire project had been appropriated \$7 million, which excludes support costs, based on a five-year budget. They expect the total cost of the project to be around \$9.6 million. The total cost expected to be incurred for APASI is approximately \$12,531,999; this, in comparison with the VI CSTARS's cost, differs by almost \$3 million.

The VI CSTARS's support costs, which are synonymous to maintenance costs, are estimated at \$200,000 annually. They expect a decrease of support costs as the project nears completion. As stated before, maintenance costs incurred for the APASI from May 1999 to September 2001 were \$1,730,983. This equates to \$716,269 annually. This amount is significantly higher than the Virgin Island's system annual support cost of \$200,000.

We attribute most of this cost differential to the fact that competition was not solicited. Chase Global, being the only vendor allowed to develop and maintain the APASI system, had been placed in a position of greater bargaining power. Basically, the OAG has been totally reliant upon Chase Global and cannot afford to lose their services.

According to the Virgin Islands' IV-D Director and the project manager of the CSTARS, the system development had made significant progress. The project manager stated that there are only ten federal findings left with regards to their PRWORA certification. The CSTARS is expected to be fully operational and federally certified by December of 2004. The system development exhibited in the Virgin Islands appears more progressive than the APASI system, which has been in development nearly ten years and is still not certified.

Finding 2: State Disbursement Unit (SDU)

Sole Source Procurement of State Disbursement Unit (SDU)

The State Disbursement Unit's primary responsibilities are to collect child support payments and distribute them to the proper individuals. On October 1, 2001, the OAG hired Chase Global to undertake the responsibilities of the SDU. The three-year contract was negotiated through sole source procurement for \$1,855,401.

The former Acting Attorney General documented the following reasons to justify the sole source procurement:

1. "Since their involvement with the APASI system back in 5/20/99, Chase Global Services has displayed their capability of maintaining and enhancing the APASI system operational [*sic*] without any significant delay.
2. No other provider, other than Chase Global Services, is familiar with the enhancements, as this project is, to the APASI system imposed by Title III of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.
3. Services provided by Chase Global are critical for they are currently in a programming phase (writing codes, editing data/formats, etc.) with enhancements to the APASI system. Intervention or introduction of a new provider will only result in additional cost (hardware, software, cost of services, etc.) time familiarity with the system, meetings with users/staff, project deadlines, etc.), and possibly penalties (not meeting deadlines for PRWORA requirements) from the federal grantor, Administration for Children and Families, Department of Health and Human Services.
4. Enhancements to facilitate collections distribution required by the Personal Responsibility and Work Opportunity Reconciliation Act of 1966 have since pass [*sic*] the October 1, 2000 deadline. With the past deadline penalties will continue to further accrue if the PRWORA requirements are not met. Maintenance and improvements on the child support enforcement (APASI) automated system by Chase Global will insure compliance with federal mandates."

Although the OAG was advised by the federal Administration for Children and Families that sole source procurement of the SDU was allowed, the reasons stated above do not appear to justify a need for sole source procurement for the SDU. The reasons focus on the programming of the APASI and does not necessarily relate to the functions of SDU. Chase Global had shown an inability to perform timely as evidenced by the extension of contracts for the APASI. Having Chase Global as the SDU gives them dual responsibilities, with little to nonexistent monitoring or control. This allows opportunity for errors to go undetected and even collusion between the programmer and the SDU. Internal control deficiencies are discussed further in the report.

According to a procurement specialist, sole source procurement should be the exception, not the rule. The procurement regulations also state, "in cases of reasonable doubt, competition should be solicited."¹⁰ By foregoing competitive procurement for the SDU, potential savings may not have been realized. An analysis on SDU cost is presented in the following section.

¹⁰ 2 GAR §3112

SDU Cost Analysis

The OAG is currently paying Chase Global \$618,467 annually to operate the SDU. This amount represents labor costs, as well as operational costs. Because the SDU was contracted under sole source procurement, there is little basis for determining whether this contractual amount was reasonable.

The Virgin Islands, in contrast, opted not to hire a contractor for the SDU. Instead, they have assigned 7 employees – 5 collectors, 1 accountant, and 1 supervisor – to perform the duties of the SDU. This equates to approximately \$221,000 - \$436,000 annually under Guam's salary rates (see **Appendix D**).

Based on this estimated figure, approximately 36% – 70% of the \$618,467 could be attributable to labor costs, while 30% – 64% would be attributable to operational costs.

The Child Support Enforcement Division, cooperatively with the Department of Administration, operated the SDU prior to the Chase Global contract. Although, hiring Chase Global as Guam's SDU had shown improvements, the costs associated with it may not have been reasonable.

Because the award of the SDU to Chase Global was on a sole source basis, we recommend that the Attorney General seek SDU services through competitive procurement.

Finding 3: Internal Control Deficiencies

State Disbursement Unit Internal Controls Deficiencies

The Social Security Act §454B(a)(2) states that the State Disbursement Unit (SDU) shall be operated directly by the State agency, or to the extent appropriate, by a contractor responsible directly to the State agency.

In addition, 45 CFR 302.20 (a) states that the IV-D agency will maintain methods of administration designed to assure that persons responsible for handling cash receipts of support do not participate in accounting or operating functions, which would permit them to conceal in the accounting records the misuse of support receipts. It further states in (b) that the scope of paragraph (a) affects persons who participate in the collection, accounting or operating functions, which includes employees of any private or governmental entity from which the IV-D agency purchases services.

Chase Global was contracted to operate the SDU for the collection and disbursement of child support money. As stated above, Guam's IV-D agency, the Child Support Enforcement Division, is responsible for making sure that Chase Global adopts an internal control system with adequate checks and balances, particularly in cash receipts and cash disbursements.

We reviewed the internal control system of the State Disbursement Unit and found the following deficiencies:

- No separation of collection and record keeping duties
- Pre-numbered receipts are not utilized and issued for collections
- Check payments are made payable to various entities
- No policy of immediate restrictive endorsement of check payments
- APASI programming duties are not separated from SDU duties

No Separation of Collection and Record Keeping Duties

An important principle of internal control is that a person who controls or has access to an asset (child support payment) must not keep that asset's accounting records. This principle reduces the risk of theft or waste of an asset because the person with control over the asset knows that records of the asset are kept by another person. Also, the record keeper doesn't have access to the asset and has no reason to falsify records.¹¹

Chase Global, as the SDU, handles both the collection and record keeping of child support payments. An effective internal control system calls for the separation of these duties: the collection of cash from the recording of cash. Without this separation or monitoring there is a high level of risk that errors in the receipt or recording could go undetected or collusion could occur.

We also saw that the SDU Office Manager has overlapping responsibilities and duties involving overnight safekeeping of collections, recording payments, and supervisory approval. There is no separation of custodianship duties, posting duties, and authorization duties and no monitoring of the office manager activities.

The SDU does not have assigned cashiers. Cashiers who collect direct delivered payments are rotated among those with record keeping duties. SDU explained that those who are cashiers for certain transactions do not post those particular transactions. We did not find procedures to control and regulate this practice.

We found that two different entities, Chase Global and the Treasurer of Guam (TOG) collect child support payments. Chase Global receives mail and direct delivery payments with the exception of cash payments, while TOG receives direct delivery payments including cash.

We recommend that the collection and record keeping of child support payments be separated from Chase Global's responsibilities by assigning all collection duties to the Treasurer of Guam.

¹¹ Larson, Wild, Chiappetta. Fundamental Accounting Principles p. 366

Pre-Numbered Receipts are Not Utilized and Issued for Collections

Based on our interviews, we found that the SDU does not utilize and issue pre-numbered receipts, but rather, they create a photocopy of the check and stamp-date it. By not having pre-numbered receipts there is no audit trail to verify the number of checks actually received. The SDU also receives child support payments via mail and direct delivery at the SDU office, however, there are insufficient written procedures delineating how these collections should be handled. SDU stated that they do not accept cash payments.

Check Payments are made Payable to Various Entities

We found that payments from non-custodial parents or their employers are being made payable to either the Treasurer of Guam, Chase Global, Superior Court of Guam, Program Coordinator, or the child support recipient. Checks made payable to Chase Global could be deposited into Chase Global's account or to the other named recipients. The SDU had informed all non-custodial parents and employers to make payments payable to the Treasurer of Guam.

No Policy of Immediate Restrictive Endorsement of Check Payments

We noted that the SDU was not restrictively endorsing checks for deposit immediately after receipt of payments. Immediate restrictive endorsement is a common internal control practice that should occur immediately upon receipt of collections.

APASI Programming Duties are Not Separated from SDU Duties

Because Chase Global is the programmer of APASI, acting as the State Disbursement Unit puts Chase Global in a position to make changes to the system that could go undetected. The APASI system serves as the accounting system of child support payments, but Chase Global's access to the system allows them to override the security system of the APASI and conceal errors or mistakes that the system may document.

Larson and Chiappetta explained it best in *Fundamental Accounting Principles*, "Because computerized systems are so efficient, companies often need fewer employees. This savings carries the risk that the separation of critical responsibilities may not be maintained. In addition, companies that use computers need employees with special skills to program and operate them. The duties of such employees must be controlled to minimize undetected errors and the risk of fraud. For example, better control is maintained if the person who designs and programs the system does not serve as the operator. Also, control over programs and files related to cash receipts and disbursements should be separated. To prevent fraud, check-writing activities should not be controlled by the computer operator."

Our audit found that an APASI programmer, an employee outside the SDU staff, had been allowed access to the SDU safety vault, which contains blank checks and child support collections stored for later remittance to the TOG. SDU

indicated that this employee was given access to the blank checks in the safety vault as he had been assigned to print out the child support checks daily. The employee comes in early morning to access the vault and prepare the printing of the checks even before any of the SDU staff comes in.

In the interim, we recommend that the OAG cause the APASI programming staff to refrain from performing SDU responsibilities immediately. The OAG should begin preparing Requests for Proposals for the procurement of APASI system development/maintenance and SDU services for FY 2004 when the contracts with Chase Global terminate. The RFP should prohibit both projects from being awarded to the same vendor; the vendor selected to perform the APASI system development/maintenance should not be selected to perform the SDU services.

Other Internal Control Deficiencies

We also found internal control deficiencies outside the SDU. They are as follows:

- Deficiencies in bank reconciliation by Department of Administration
- Outdated operating procedures for Child Support Enforcement
- Lack of contract monitoring

Deficiencies in Bank Reconciliation by Department of Administration

Performing timely bank reconciliation helps to detect errors and unrecorded transactions. The reconciliation should be performed by someone who does not have receiving, depositing, disbursing, and record keeping duties.¹² Although DOA meets these criteria, given their multitude of other responsibilities, we are of the opinion that the monthly bank reconciliation should be done by the Child Support Enforcement Division (CSED). CSED has supervisory oversight over the Child Support Enforcement Program and would serve as an independent check. We therefore recommend that the responsibility for bank reconciliations be shifted from DOA to the CSED. An accountant should be assigned the responsibility of ensuring that reconciliations are performed timely and independently reviewed.

Other Bank Reconciliation Problems

We found that the bank reconciliations are not prepared timely. As of June 2003, no bank reconciliation for fiscal year 2003 has been prepared.

We found at least six different versions of reconciliation on file for the month of March 2001. The different versions all had different book balances, but the cut-off date was not indicated in any of them, making the review of the reconciliation difficult. A DOA supervisor informed us that the different versions arise from the re-reconciling of books when an adjustment is made or a follow-up is made on a late posting.

¹² Larson, Wild, Chiappetta. Fundamental Accounting Principles p 387

We also found that the reconciliations are not being reviewed and approved timely. According to a DOA supervisor, he had approved the FY 2001 monthly reconciliations in FY 2002, which indicated that the span of time for a reconciliation to get approved is about one year. He also stated that they were approved only because they were needed for the annual audit.

We saw that reconciling items dating back as much as two years have not been resolved with the bank. According to 11 GCA §106112 errors in a statement of account must be objected to within one year of its receipt or the statement shall be presumed to be correct thereafter.

We found that the bank statements provided to DOA contained incomplete information, which made it difficult to reconcile. While the bank statements contained a list of all checks that have cleared, their respective check numbers were missing in the statements. This omitted information is important for the determination of outstanding checks and the reconciliation of the bank account.

According to DOA, other problems in the bank statements include duplicated check numbers with different amounts and wrong check numbers. DOA stated that efforts to resolve the problem with the bank have already been initiated. This problem dates back to the beginning of FY 2001 and has steadily and consistently worsened. We recommend the Department of Administration maximize efforts to resolve this issue with the bank, although per our earlier recommendation, CSED would assume this responsibility.

Outdated Operating Procedures for Child Support Enforcement

We reviewed the Child Support Enforcement Division's (CSED) operating procedures to determine whether the Child Support Enforcement Program's activities were documented in writing. The manual given to us, however, dates back to 1994 and was not applicable to the current functions required of the CSED. There were no procedures involving the APASI. The manual also recognized that DOA plays a major role in the Child Support Enforcement Program. DOA, however, is not as involved in the program today as it was before. The IV-D Director stated that the manual is currently being updated.

An outdated policy and procedure is an indication that control procedures have not been clearly established. A poorly defined internal control system subjects the CSED not only to errors in the day to day management of the system, but also to higher risks of fraud, waste, abuse, and other illegal acts.

We recommend that the Child Support Enforcement Division revise and update their operating procedures, which include relevant control procedures.

Lack of Contract Monitoring

When we initiated our audit in December 2002, we found that OAG staff were unable to provide us with information regarding the relationship with Chase

Global, how the contract was managed, or how to obtain information from the system. Many staff members told us they were directed not to attempt to understand nor ask questions about the contractual relationship. It appeared that the staff of the Child Support division were subordinate to the contractor rather than participating in the management of the contract.

As our audit progressed, we observed that the IV-D Director was taking a more assertive role in managing the Child Support Enforcement Program. However, we saw that the contractor is not being monitored from a technical perspective.

The CSED did not address the monitoring of contracts. A project manager was not assigned to determine whether the obligations in the contracts were being accomplished timely and in accordance with federal standards. The APASI project is not monitored by anyone in the CSED and only Chase Global is aware of how the project operates. Should Chase Global withdraw prematurely, no one in CSED is knowledgeable enough about the technical aspects of the APASI to assume operations. The Virgin Islands' Paternity and Child Support Division had assigned a program manager to oversee their CSTARS project, unlike Guam.

We recommend that the Attorney General assign a competent project manager capable of understanding the PRWORA requirements and the technical aspects of the APASI to manage the APASI project and conduct appropriate reviews and monitoring to confirm the reasonableness of deliverables, deadlines, and costs.

Contract Compliance Review

We reviewed the SDU contract and found that Chase Global had been noncompliant with certain responsibilities. The contract calls for a monthly billing of non-custodial parents (NCPs) and employers with wage assignment orders, however, interviews with the SDU manager revealed that not all NCPs are billed. Only NCPs without employment information are sent billing notices. Because the billing notices are generated automatically by APASI, and because the APASI is programmed to only print out notices to NCPs without employment information, the SDU does not send billing notices to all NCPs.

The contract states that a Master Receipt Document and a Daily Operational Report are to be provided to CSED daily. We found that neither reports were provided to the CSED, but were only provided to the TOG. This noncompliance contributed to CSED's failure to monitor the SDU.

We recommend that the SDU provide all child support payers with monthly billing notices as stipulated in the contract. We also recommend that the Child Support Enforcement Division seek Master Receipt Documents (collections report) and a Daily Operational Report (daily deposit detail) from the SDU to facilitate proper monitoring of the SDU.

Finding 4: Child Support Trust Account

Child Support Trust Account

The Child Support Trust Account is used to deposit and disburse child support payments. This trust account is currently accounted for separately under the General Fund.

Before the inception of the State Disbursement Unit, the Department of Administration collected and disbursed child support payments through this account. This function was facilitated through a cooperative agreement between the Office of the Attorney General and the Department of Administration in 1992, amended in 1993. In that agreement, the Department of Administration had been assigned as the custodian of the bank account.

Multiple Bank Accounts

The Child Support Trust Account was originally established with a local bank (Account 1) in 1991, which, according to the Treasurer of Guam, was not an interest bearing bank account. Another Child Support Trust Account, an interest bearing account, was later opened in 2000 with another local bank (Account 2); Account 2 is the bank account currently being used by the Child Support Enforcement Program. Both bank accounts were in coexistence for approximately 14 months.

Account 1 had a balance of \$1,427,598.10 as of January 5, 2001. Approximately \$1,000,000 was transferred into Account 2 in February 2001. Account 1 was later closed in May 2001 and the remaining \$427,553.26 was deposited into Account 2.¹³ These transferred amounts would later become a part of the undistributed collections discussed later in this report.

We found another interest bearing account established with a third bank (Account 3) in 1995. This was created pursuant to a federal requirement.

An Action Transmittal in February 1995 from the federal Administration for Children and Families (ACF) required Guam to establish an escrow account that contains 10% of the local share of payments used for the Automated Child Support Enforcement System project. Account 3 became known as the holdback account because the amounts deposited are actually payments being held back until the completion and federal certification of the project.

According to correspondence by the former Attorney General, the minimum balance required for the account was \$29,052, however, \$156,761 was deposited into the account in 1995. The account has remained dormant since, only increasing due to interest. As of June 30, 2003, the balance in the account was \$206,768. According to DOA, the account is still in existence because the

¹³ There was a decrease in Account 1's balance by \$44.84; because the amount was immaterial, we did no further work to examine this transaction.

Child Support Enforcement Division had not given them formal notification to close the account and revert the balance to the General Fund.

If after a proper reconciliation has been performed, we recommend that the Director of Administration in consultation with the Attorney General close Account 3 and transfer the balance to the General Fund.

Undistributed Collections (UDC)

Undistributed collections (UDC) are Child Support monies collected and deposited into the Child Support Trust Account, but were not disbursed. Title 5 of the Guam Code Annotated §34111 (b) (2) states that with respect to any funds paid to the Department of Public Health and Social Services, pursuant to any order of support, which have remained unclaimed for not less than two (2) years after diligent effort to locate the person entitled to such funds, the Superior Court may enter an order decreeing that the funds be returned to the person who paid them pursuant to the order of support or that the funds be deposited with the Treasurer of Guam in an interest-bearing account for a period of five years, after which time, if still unclaimed, the funds shall escheat to the government of Guam.

Failure to disburse child support collections within five years may cause an escheat of those monies to the government. These funds belong to child support recipients and therefore the government is acting as the custodian for these monies. The government has a fiduciary duty to exercise due diligence in disbursing monies to recipients and make reasonable effort to return unclaimed monies to non-custodial parents.

The following table summarizes the breakdown of undistributed collections for the years 1996 through July 2003 updated as of July 24, 2003. The UDC records given to us were real time data as opposed to historical data. This means that the UDC balances presented below are constantly being adjusted and updated. The undistributed balances presented below reflect \$2,933,743 of remaining UDC balances that have not been resolved as of July 24, 2003.

CY Year	Unreleased	Identified	Unidentified	Suspense	Overage	Held	Remaining Undistributed Balance
1996	2,474	-	16,854	1,503	16,993	-	37,824
1997	1,541	1,597	117,408	5,625	85,959	2,441	214,571
1998	1,888	2,753	365,999	3,928	71,701	18,686	464,955
1999	361	6,338	377,031	2,111	101,523	31,330	518,694
2000	2,564	12,854	485,122	868	79,324	24,579	605,311
2001	1,455	10,669	530,279	11,987	83,280	26,052	663,722
2002	1,676	8,225	-	18,116	146,333	37,826	212,176
2003*	-	8,187	-	29,215	126,805	52,283	216,490
Totals	11,960	50,623	1,892,694	73,354	711,918	193,197	2,933,743

Note: These figures were taken from the APASI Collection Reports as of 7/24/2003 and have not been audited.

* Updated as of 7/24/2003.

According to Chase Global, the APASI system is not programmed to produce historical data reports. The lack of historical data to compare with bank statements makes it difficult to reconcile bank balances. We recommend that the Child Support Enforcement Division cause Chase Global to produce historical data reports for reconciliation purposes, as well as for UDC monitoring.

The undistributed collections of \$2,933,743 presented above do not include any welfare reimbursements that have not yet been disbursed. Welfare reimbursements are discussed in a later section in this report.

Undistributed collections are not uncommon. It is a national child support program issue and they occur for many reasons. The following were some of the reasons identified in the Guam Child Support Enforcement program by Chase Global (For further details, refer to **Appendix E**):

- Unidentified collections
- Collections accounted for in suspense
- Overages
- Distribution/Collection hold
- System-related problems

Because undistributed collections accumulated as far back as 1996 and possibly even earlier, it appears that the reason for the cumulative increase in UDC was the lack of emphasis in resolving the UDCs in prior years.

According to our interviews, the Child Support Enforcement Division had assigned two personnel to resolve the increasing UDC balance. These assignments, however, represented collateral duties, so emphasis and priority on resolving the UDC was not established. Currently, no one is assigned to resolve the undistributed collections.

Based on our discussions, Chase Global had also taken measures to reduce UDCs. They indicated that since their assignment as the SDU in 2002, they have been able to eliminate unidentified account balances and shift them to suspense accounts. According to Chase Global, suspense accounts are easier to resolve than unidentified accounts.

According to a best practices publication by the Department of Health and Human Services, it is important to monitor undistributed collections on a daily basis. Furthermore, management must convey the message that solving the problem of undistributed collections is the responsibility of all staff, not just the fiscal staff. It also recommends that child support programs should set an acceptable level or target percentage for undistributed collections.

We recommend that the Head of Child Support Enforcement Division assign staff immediately to resolve the undistributed collections. Sufficient staffing will be needed to keep undistributed collections to a minimum.

Welfare Reimbursements

The Guam Department of Public Health and Social Services (DPHSS) makes available to eligible custodial parents the benefit of Child Support welfare through the Temporary Assistance to Needy Families (TANF) Program, formerly the Aid to Families with Dependent Children (AFDC) Program. The TANF program is administered by DPHSS under the Social Security Act and PRWORA.

As a condition of receiving child support assistance, the recipient must assign their right to support payments to the State, not exceeding the total amount of assistance provided to the family, as a condition of eligibility.¹⁴ The Child Support Enforcement Program is required to recover child support payments for the State and Federal governments.

Welfare reimbursements are allocated to federal and state funding. The PRWORA requires that APASI be designed to distinguish between these two types of welfare reimbursements and automatically disburse the appropriate amounts to the State and Federal governments.

Although welfare reimbursements should be disbursed automatically in accordance to the PRWORA requirements, Chase Global ceased welfare reimbursement disbursements beginning in October 2000. They stated that the cessation was due to modifications in APASI involving the federal distribution hierarchy criteria and the failure of the Department of Public Health and Social Services' (DPHSS) AGUPA system to interface properly with the APASI system. According to Chase Global, DPHSS was manually providing inaccurate and incomplete TANF case data. Chase Global stated that there were no documents that authorized the cessation of the disbursement of welfare reimbursements.

We were not able to determine the amounts collected, disbursed, and accumulated for welfare reimbursements, as documents were not readily available for our review. According to Chase Global, however, the disbursement of welfare reimbursements is now current up to August 2003.

Disbursements of \$2.5 Million Welfare Reimbursement

During our audit, we found four \$500,000 checks issued by Chase Global in 2002 and paid out to the Treasurer of Guam from the Child Support Trust Account for TANF welfare reimbursements. We verified that \$2 million were credited to the Public Health and Social Services Accounts Receivable and deposited into the General Fund. According to the Treasurer of Guam, because the TANF program administered by DPHSS is partly funded by the General Fund, these were

¹⁴ Social Security Act §408 (3)(A)

reimbursements that belonged to the General Fund. All four checks were issued within a span of 15 days. Subsequent to our fieldwork, we found another \$500,000 welfare reimbursement check issued in June 2003, resulting in a total of \$2.5 million.

We are concerned that these transfers were made without proper documentation and further support as to how the \$2.5 million disbursements were determined.

Based on our conversation with the Chief Human Services Administrator, the Division of Public Welfare in the Department of Public Health and Social Services (DPHSS) was not aware of the \$2.5 million reimbursements.

We recommend that DPHSS direct its efforts to resolve the problems associated with the AGUPA system involving the TANF program to facilitate the monitoring of welfare reimbursements disbursed by the SDU.

APASI Disbursement Transactions Overridden by Chase Global

Chase Global explained that these disbursement transactions were for welfare reimbursements. Chase Global stated that welfare reimbursements were distributed in lump sums of \$500,000 because the SDU ceased to distribute them since October 2000.

Chase Global acknowledged that they were overriding the system to “kick out” the \$500,000 disbursements from APASI. This activity exemplifies the internal control weakness discussed earlier about having the same company program the APASI and operate the SDU. Chase Global is now in a position to disburse significant amounts of money by overriding the system. This also shows that all the security controls that have been implemented in the APASI are not effective because the SDU could easily override them.

Chase Global also stated that the former IV-D Director authorized Chase Global verbally to release the welfare reimbursement in lump sums out to the Treasurer of Guam. The current IV-D Director informed us that she was not aware of any authority that allowed Chase Global to cease the disbursement of welfare reimbursements and release them in lump sums.

We recommend that Chase Global cease and desist from overriding the system. The operations for Chase Global’s programming unit should be strictly separated from the operations of the State Disbursement Unit. The Child Support Enforcement Division should monitor Chase Global’s programming and SDU activities to ensure that they are not overlapping the responsibilities.

Other Welfare Reimbursements

In addition to the \$2.5 million disbursements discussed above, we have also identified the following checks issued to the Treasurer of Guam, for a total of \$3,689,267.07:

Date of Issuance	Amount
05/01/00	\$ 169,370.88
06/01/00	\$ 128,015.57
07/01/00	\$ 105,206.21
08/01/00	\$ 83,198.86
09/01/00	\$ 71,249.00
07/25/02	\$ 315,072.37 *
08/01/03	\$ 317,154.18
	<u>\$ 1,189,267.07</u>
	+ \$ 2,500,000.00
Total	<u><u>\$ 3,689,267.07</u></u>

* A reissuance of previous cancelled checks

The Child Support Enforcement Division (CSED) issued the checks listed above dated from 05/01/00 – 09/01/00; Chase Global was not the SDU at the time and their involvement was limited to printing out child support checks. CSED stated that Chase Global gives them the checks for validation and verification with individual cases prior to issuance. CSED stated, however, that checks issued to Treasurer of Guam for welfare recovery are not verified due to their complex nature; the welfare reimbursement checks are issued in lump sum amounts, for multiple child support cases and it would be difficult to verify the lump sum amounts to the different cases. The procedure adopted for validating the welfare reimbursement checks was to obtain the approval of the supervisor and the IV-D Director.

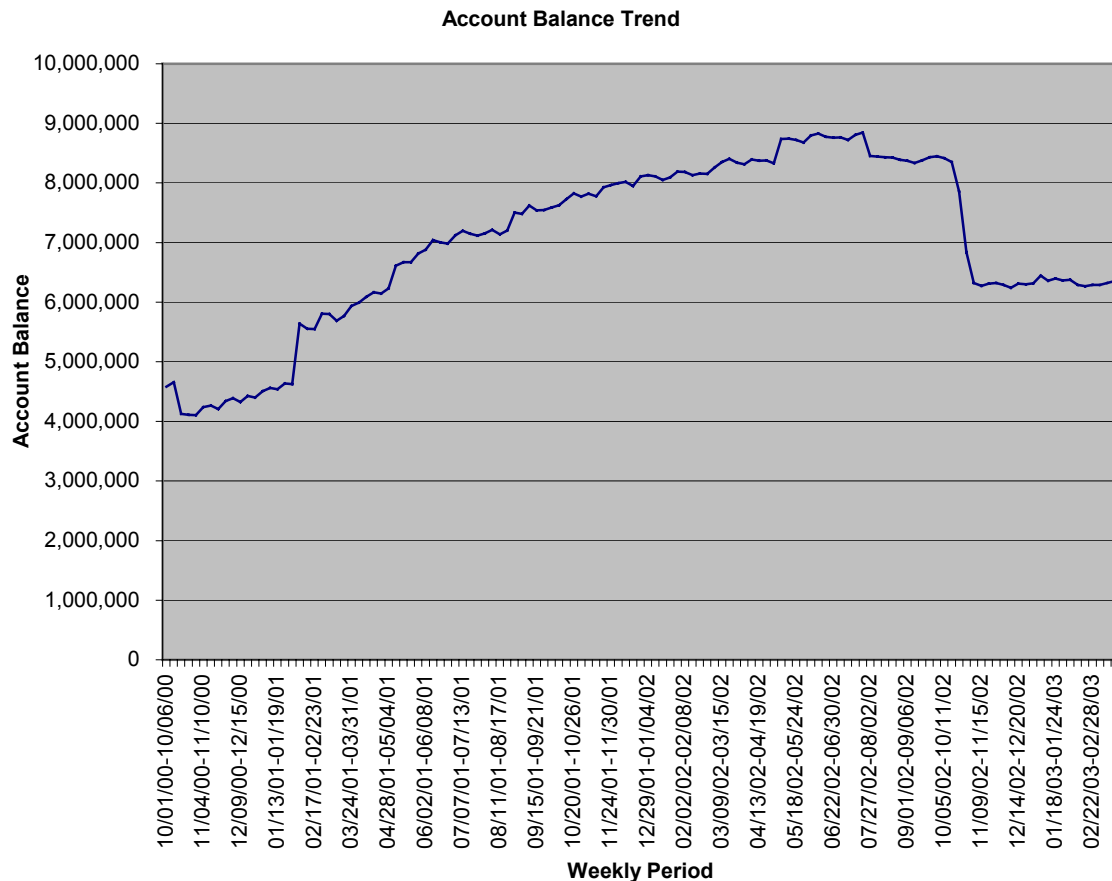
We also identified another check for \$213,730 that was issued in October 2000, but was withheld by the CSED and allowed to become stale-dated. According to CSED and Chase Global, this check is recorded in the APASI as a valid disbursement and distribution. Chase Global further asserted and acknowledged its validity and was not certain why it was withheld by the CSED at the time it was issued. As of November 2003, this check has not been reissued and remained as a liability to the Government of Guam.

Federal PRWORA certification requires that APASI automatically calculate welfare reimbursement amounts based on a distribution hierarchy. The failure of the APASI system to calculate the welfare reimbursement resulted in checks being issued without computer or manual verification. This is another internal control weakness that may have misstated the proper amounts due to the Treasurer of Guam for welfare recovery.

Child Support Trust Account Balance Trends

We obtained the trust account bank statements for the scope period October 2000 through March 2003 and conducted an analysis on the balances. As can be seen in the following graph, the balance increased from \$4 million to almost \$9 million within two years; an average increase rate of \$35,572 per week.

The steep increase by \$1 million in February 2001 documents the transfer of balance from the previous Child Support Trust Account into the current Child Support Trust Account. The steep decline in October 2002 documents \$2 million disbursements to the Treasurer of Guam for welfare reimbursements.

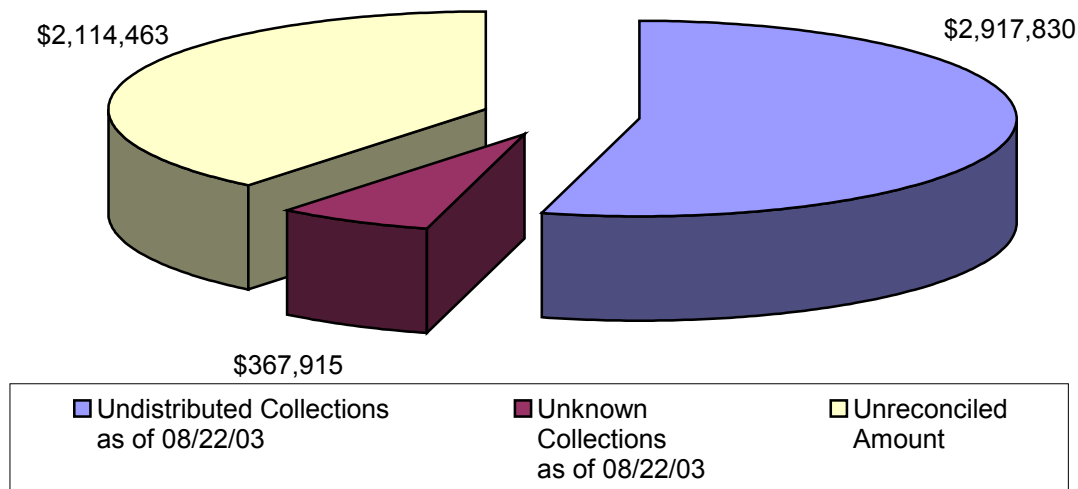


The Child Support Trust Account, in theory, should not have any balances. All child support collections deposited are expected to be disbursed immediately, within two days. The account is composed of current child support collections, undistributed child support collections, and non-disbursed welfare reimbursements. The fact that balances continue to increase suggests the existence of large sums of undistributed collections and non-disbursed welfare reimbursements.

We conducted an analysis of the Child Support Trust Account balance for July 24, 2003, which at the time was \$5,798,710. Based on UDC data given to us, \$2,933,743 of this balance is undistributed collections (dating back to 1996). Chase Global records also indicated that \$825,217 was for unknown collections. We were not able to identify the remaining balance of \$2,039,750 in the Child Support Trust Account.

We also conducted an analysis of the Child Support Trust Account balance for August 22, 2003, which at the time was \$5,400,208. The undistributed collections of this balance were \$2,917,830, while unknown collections were \$367,915. The remaining unreconciled amount was \$2,114,463.

Components of Child Support Trust Fund Bank Balance as of 08/22/03



The remaining balances are unreconciled amounts that may include non-disbursed welfare reimbursement, undistributed collections prior to 1996, and other unidentifiable collections. However, as mentioned earlier, Chase Global indicated that the disbursements of welfare reimbursements are current as of August 2003. Therefore, the unreconciled trust account balances of \$2,039,750 for 7/24/2003 and \$2,114,463 for 8/22/2003 are not non-disbursed welfare reimbursements. These differences can be attributed to the failure to conduct effective and timely bank reconciliations, and the lack of daily monitoring of collections as they come in.

We recommend that the Child Support Enforcement Division coordinate with the State Disbursement Unit to identify and determine the source of the \$5.4 million in trust account balance. Additionally, we recommend that immediate actions be taken to reconcile the APASI records with the bank statements.

Child Support Collections

Chase Global was able to provide us with batch collections data, which essentially were historical data on child support collections. Additionally, the Child Support Enforcement Division was able to supply us with quarterly collections reports. These reports contained the total child support amounts that were collected and submitted to the federal Office of Child Support Enforcement.

We compared these data with the deposits made in the Child Support Trust Account for calendar years 2001 and 2002. For calendar year 2001, we found that bank deposits exceeded the batch collections data by \$406,506, but deposits were short by \$42,729 when compared to the collections reported to the federal government. For calendar year 2002, bank deposits exceeded the batch collections data by \$108,199, but deposits were short by \$130,266 when compared to the collections reported to the federal government. The following table provides a brief summary of the three comparative amounts.

CY2001

Batch Collections Data	OCSE 34A Reports	Bank Deposits
\$10,461,584	\$10,910,819	\$10,868,090*

* Includes a transfer of \$427,553 from old trust account

CY2002

Batch Collections Data	OCSE 34A Reports	Bank Deposits
\$9,385,622	\$9,624,087	\$9,493,821

CY 2001

The total bank deposits for 2001 was \$10,868,090. The total amount accounted for in the batch collections data was \$10,461,584. The amount that was reported to the federal Administration for Children and Families Office of Child Support Enforcement for 2001 was \$10,910,819.

Because child support collections are not deposited the same day and because the total bank deposits for 2001 represented only 362 days in the year, we expected the bank deposits to be lower than the batch collections data by \$127,860. Instead, however, we found that the bank deposits were more than the batch collections data by approximately \$406,506. After the transfer of \$427,553 from the old Child Support Trust Account to the current trust account, the difference is \$21,047.

CY 2002

The total bank deposits for 2002 was \$9,493,821. The total amount accounted for in the batch collections data was \$9,385,622. The amount that was reported to the federal Administration for Children and Families Office of Child Support Enforcement for 2002 was \$9,624,087.

Because the total bank deposits in our analysis reflected 371 days in the year, we expected the bank deposits to be higher than the batch collections data by \$214,954. In this case, the bank deposits were more by \$108,199. The

collections reported to the federal government, however, was overstated by at least \$130,266.

These discrepancies further portray the need to reconcile APASI records with the bank statements on a monthly basis.

Interest Income

The Child Support Trust Account is an interest bearing account maintained by the Department of Administration (DOA). The interest income, however, is not deposited into the trust account, but is being redirected into the General Fund.

The Child Support Enforcement program is funded by a matching of federal grants and local funds at a ratio of 66:34. This federal grant is a reimbursement grant, whereby the General Fund initially absorbs all program expenses. The program expenditures are then reported to the federal government. Based on the expenditures, the federal government calculates the amount of the grant to be awarded. According to federal law, however, all income generated by the Child Support Enforcement program must be used to reduce the amount of expenditure reported to the federal government. Therefore, the 66% of the interest income generated by the Child Support Trust Account is actually being utilized to replace the federal grant and 34% of the interest income is utilized by the General Fund to match the federal grant.

We found that from October 2000 through March 2003, the Child Support Trust Account had generated \$330,070 in interest income; FY 2001 and FY 2002 interest income totaled to \$191,661 and \$108,657, respectively. FY 2003 interest income incurred up to March 2003 was \$29,752. Approximately \$201,378 of the interest income, however, was not recorded in the financial management system (AS400) due to DOA not receiving monthly account analysis statements. During the audit, DOA was able to request and obtain these documents. We therefore, recommend that DOA record these interest income transactions into the AS400.

Although the Child Support Trust Account is able to accumulate interest earnings for the benefit of operating the Child Support Enforcement Program, those earnings are the result of excessive undistributed collections. Because the majority of money accumulating in the trust account belongs to child support recipients (custodial parents and governments) and because it appears that the primary purpose of the account is to disseminate money to child support recipients, efforts must be directed towards disbursing collections within two days of collections as stipulated by law.

OAG and DOA Cooperative Agreement

The Department of Administration (DOA) is still involved in the Child Support Enforcement Program by playing a role in the disbursement and reconciliation of the child support payments. Because DOA is a separate agency from the OAG

Child Support Enforcement Division (CSED), the responsibilities of each agency should be documented in a formal cooperative agreement.

We obtained a total of three versions of the cooperative agreement. Two versions (original and an amended version) were obtained from the CSED and one version, which was not signed, from the Treasurer of Guam. The Division of Accounts at DOA did not have any copy of the agreement. The latest agreement contradicted current federal requirements with regards to the collection and disbursement of child support payments, which indicated its inapplicability. It also indicated that DOA is entitled to a reimbursement of costs incurred.

Based on our interviews and observation, the Treasurer of Guam is currently involved in the following Child Support Enforcement Program activities:

1. Collecting payments from NCPs together with the SDU (Chase Global)
2. Depositing all child support payments collected
3. Coordinating with the SDU regarding payments collected by the SDU
4. Posting cash deposits into the AS400 for use in the reconciliation by the Division of Accounts

As stated before, the Department of Administration's Division of Accounts had also been performing the reconciliation of the Child Support Trust Account. This is of concern because the lack of an updated cooperative agreement may prevent DOA from properly claiming cost reimbursements for the maintenance of the Child Support Trust Account. Because the Child Support Enforcement Program is partly federally funded, the maintenance of the Child Support Trust Account should also be partly federally funded.

The controller of DOA stated that they are not current in accounting for the amount of hours spent on the maintenance of the Child Support Trust Account, which also prevents them from charging fees to the OAG.

We recommend that an updated cooperative agreement be established between the OAG and DOA.

Finding 5: Child Support Enforcement Division Office Lease

Procurement of Child Support Office Lease

The OAG had relocated its Child Support Enforcement Division (CSED) office in FY 2001. Due to concerns brought about by the new CSED administration, we reviewed the procurement of the current CSED office lease. The following summarizes our findings:

- Incomplete documentation of lease procurement;
- Current lease is more expensive than previous lease;
- Non-competitive procurement of services, which include renovation, janitorial, security and monitoring, and other start-up services;
- Existence of related party transactions;

- New office layout was unsatisfactory to the needs of the Child Support Enforcement Division; and
- Contract allowed free office space to Chase Global Services.

Incomplete Documentation of Lease Procurement

Title 5 of the Guam Code Annotated §§5249 and 5250 state that each procurement officer shall maintain a complete record of each procurement. Further, no procurement award shall be made unless the responsible procurement officer certifies in writing under penalty of perjury that he has maintained the record required by §5249 and that it is complete and available for public inspection.

Neither the Office of the Attorney General nor the General Services Agency could provide complete procurement records for the transaction. The following were the only documents available for our review:

- Requisitions for new office space
- The specifications for the Invitation for Bids (IFB)
- A publication of the IFB

We were not able to find the following documents:

- Records of bids received
- Records of the bid opening
- Records of bid evaluation and award
- Written notice of award available to the public

The documents that were available for our review indicated that an invitation for bid was published in a newspaper. We were unable to verify whether the invitation for bids and the evaluation of the award were conducted according to regulations.

Current Lease More Expensive than Previous Lease

We conducted a comparative analysis of the current lease against the previous lease to determine whether the relocation of office was more economically feasible than renewing or extending the old lease agreement. The following table summarizes the comparison:

	Previous Lease	Current Lease	Variance
Space	10,500 sq. ft.	10,345 sq. ft.	(155)
Avg cost / month	\$25,908.75	\$28,739.25	(2,830.50)
Avg cost / year	\$310,905.00	\$344,870.98	(33,965.98)
Monthly cost / sq. ft.	\$2.47	\$2.78	(0.31)

As can be seen, the previous lease offered more space for less cost. The previous contract's cost per year is \$33,966 less than the current lease's cost.

Because the current lease is a contract for five years, this is an increase cost of \$169,830.

A more detailed cost schedule illustrated below revealed that the previous lease's annual cost was a fixed and constant rate of \$24,675 per month. The current lease's annual cost began with \$26,561.25 per month and increased by 10% every two years.

Previous Lease Cost Schedule			Current Lease Cost Schedule		
FY	cost / month	cost / year	FY	cost / month	cost / year
1998	\$24,675.00	\$296,100.00	2001	\$26,561.25	\$318,735.00
1999	\$24,675.00	\$296,100.00	2002	\$26,561.25	\$318,735.00
2000	\$24,675.00	\$296,100.00	2003	\$29,217.37	\$350,608.44
			2004	\$29,217.37	\$350,608.44
			2005	\$32,139.00	\$385,668.00
Old Average	\$24,675.00	\$296,100.00			
5% increase*	\$1,233.75	\$14,805.00			
New Average	\$25,908.75	\$310,905.00	Average	\$28,739.25	\$344,870.98

* The 5% increase is triggered if the landlord and tenant had agreed on a month-to-month basis lease after the contract had ended. We have incorporated this increase in rate in our comparative analysis.

Although we recognize that an option to renew the previous lease was not included in the original agreement, our analysis revealed that based on the material variance of the costs between the two lease agreements, the relocation to the new office space was not cost-beneficial.

Non-Competitive Procurement of Services

In addition to the increase in monthly rent, our review of the FY 2000 and FY 2001 records indicated that the Child Support Enforcement Division incurred \$271,857 in renovation costs and \$72,413 in other start-up costs. These were additional expenditures that were incurred as a result of the office relocation. Other expenses incurred were \$21,890 in security and monitoring fees, and \$9,064 in janitorial services (See **Appendix F**).

The OAG transacted all these expenditures with only one vendor, the new landlord. The renovation and start-up costs were charged to the lease contract, while the janitorial and security services were acquired through direct payments. Procurement regulations require competitive procurement for these acquisitions.¹⁵

Records indicated that the landlord arranged the renovation for the OAG. The Department of Administration had charged these transactions under the lease contract. The contract, however, did not contain any provisions to justify the additional expenditures for renovation and start-up costs. In fact, the contract stated "If during the term of this lease any additions, alterations, or improvements

¹⁵ 5 GCA §5210

in or to the premises, as distinguished from repairs, are required by any governmental authority or any law, ordinance, or governmental regulation because of the use to which the premises are put by tenant and not by reason of the character or structure of the building, they shall be *made* and paid for by tenant.”

The security and monitoring fees and janitorial services expenditures were also procured without contract or purchase order. These services were paid to the landlord through direct payment, which indicated that competitive procurement was not sought.

We found these transactions to be a violation of the procurement regulations. Allowing the landlord to procure services on OAG’s behalf circumvented competitive procurement. In addition, the OAG paid for services that were not agreed upon under the contract.

Related Party Transactions

During the audit, concerns were brought to our attention regarding the relationship of the former IV-D Director and the landlord. According to our interviews, the landlord is the brother-in-law of the former IV-D Director. This suggests the existence of related party transactions and potential conflict of interest.

Inefficiency of Layout of New Child Support Office

Based on our interview with the current Child Support Enforcement Division (CSED) administration, the current office space layout does not satisfactorily meet the needs of the CSED due to the configuration of the office. The entire office is split into three separate offices in the building; two are separated on the ground floor at the opposite ends and one is on the second floor. This arrangement provides for an inefficient work environment. Additionally, the office building is situated in a flood zone, which is significant because the child support office houses extensive computer equipment. According to the IV-D Director, after the devastation of Typhoon Pongsona in 2002, the CSED office was flooded knee-deep.

Contract Allowed Free Office Space to Chase Global

Based on our interviews with CSED personnel, Chase Global had established their office within the CSED office prior to 2003. Our review of the contract showed that the CSED was required to provide work space to Chase Global at no cost. We found this arrangement to be disadvantageous to the CSED. In addition, allowing Chase Global work space within the CSED office may have compromised the security of confidential information.

Finding 6: Notary Public Revolving Fund

Transfers from the Notary Public Revolving Fund

The Attorney General also requested that we review the transactions of the Notary Public Revolving Fund, a special revenue fund that was established for the administration of the notary program.

During our audit survey, we found that the transactions of the fund were mainly transfers to the General Fund mandated by legislation. We were able to identify several laws that authorized the Department of Administration or the Guam Legislature to transfer funds out of certain Special Revenue Funds; they are Public Laws 24-59, 25-03, 25-72, 25-164, and 26-155.

The following is a table summarizing the activities of the Notary Public Revolving Fund as reported in the General Purpose Financial Statements:

Notary Public Revolving Fund

	FY 1998	FY 1999	FY 2000	FY 2001
Beginning Balances	\$10,791	\$ 7,045	\$ -	\$ -
+ Revenues	\$ 7,983	\$ 8,135	\$ 9,124	\$ 9,171
- Expenditures	\$ 4,777	\$ 1,289	\$ -	
- Transfers out	\$ 6,952	\$13,891	\$ 9,124	\$ 9,171
Ending Balances	\$ 7,045	\$ -	\$ -	\$ -

Because the balance of the Notary Public Revolving Fund was constantly transferred to the General Fund, the purpose of the fund was defeated. None of the fund revenues are actually being used for the purposes of the notary program. In effect, the fund had become a supplementary source of income in addition to the annual budgetary appropriations to the OAG. The activity and the amounts processed through the fund, however, are small and any benefits achieved by having a separate fund may be minimal when compared to the costs for maintaining the fund. We recommend that the notary program be accounted for as a separate account under the General Fund rather than as a separate fund.

Recommendations

1. We recommend that the OAG initiate Request for Proposals (RFP) for competitive procurement of APASI development/maintenance and SDU services in FY 2004 when the contracts with Chase Global terminate. The RFPs should prohibit both functions from being awarded to the same vendor; the vendor selected for the APASI system development and maintenance should not be selected to perform the SDU services. In the interim, we recommend the OAG monitor and ensure that the operations of Chase Global's programming unit are strictly separated from the

operations of the State Disbursement Unit. APASI programming staff should refrain from performing any SDU responsibilities, specifically with the disbursement of support payments, the preparation of check printing, and the overriding of the APASI.

2. With regards to SDU responsibilities, we recommend that the collection of child support payments be assigned entirely to the Treasurer of Guam and that Chase Global not be permitted to receive any collections. This should be formally documented in a cooperative agreement between the OAG and DOA. We also recommend that the responsibility of reconciling APASI collection records with the Child Support Trust Account bank statements be shifted from DOA to the CSED, which should employ an accountant for the task. The following table summarizes our recommendation.

Entity	Responsibilities
Treasurer of Guam	-Collection of Child Support Payments -Signatory of Child Support Disbursements
SDU Contractors (Chase Global)	-Recording of Child Support Payments -Preparation of Child Support Checks
Child Support Enforcement Division	-Monitoring of the State Disbursement Unit -Reconciliation of APASI Records with Bank Statements

3. We recommend that the Attorney General assign a competent project manager capable of understanding the PRWORA requirements and the technical aspects of the APASI to manage the APASI and SDU projects and conduct appropriate reviews to confirm the reasonableness of deliverables, deadlines, and costs.
4. We recommend that the Child Support Enforcement Division revise and update its policies and procedures to include relevant control procedures, and, in particular, address the resolution of undistributed collections. The CSED should also coordinate with the State Disbursement Unit to identify and determine the source of the \$5.4 million in unreconciled, unknown, and undistributed amounts as discussed in this report.
5. We recommend that the SDU provide all child support payers with regular billing notices as stipulated in the contract. We also recommend that the Child Support Enforcement Division seek Master Receipt Documents (collections report) and a Daily Operational Report (daily deposit detail) from the SDU to facilitate proper monitoring of the SDU, reconciliation purposes, as well as for UDC monitoring.
6. Based on our observation, it appears that the former Attorney General who is employed by Chase Global may be in violation of certain ethical standards. We recommend the Attorney General conduct an investigation into this matter and determine whether legal action is warranted.

7. We recommend the Director of Administration in consultation with the Attorney General close the dormant child support bank account (Account 3) and transfer the balance to the General Fund, subsequent to a proper reconciliation. We also recommend that DOA record and account for all Child Support Trust Account interest income.
8. We recommend that DPHSS direct its efforts to resolve the problems associated with the AGUPA system involving the TANF program to facilitate the monitoring of welfare reimbursements disbursed by the SDU.
9. We recommend that the Legislature consider having the notary program's activities be accounted for under a separate account under the General Fund rather than as a separate special revenue fund.

Management Response

We provided a draft copy of our report to the Office of the Attorney General, the Department of Administration, and the Department of Public Health and Social Services for review and comment. Except as discussed below, the Attorney General generally concurred with the findings and recommendations of the report.

The Attorney General does not concur with our recommendation to segregate the collection and record keeping of child support payments from Chase Global's responsibilities. They believe this will create an operational disadvantage that will cause the child support payments to be processed untimely. As an alternative solution to address the finding, the Attorney General proposed to implement stringent policies and procedures in the operation of the SDU and facilitate proper monitoring. We concur with this proposal, however, we note that the Attorney General also acknowledged "the fact that Chase's programmers and SDU are both located in the same office and the lack of qualified and competent staff, i.e. accountant and technical staff, in the CSED prevents the CSED from detecting any misconduct." Furthermore, the Attorney General also acknowledged the difficulty of monitoring their employees due to the configuration of the Child Support Enforcement Office. These bring up concerns about the OAG's capability to effectively monitor their contractor.

The Director of Administration generally concurred with the findings and recommendations of the report, with the exception of transferring the bank reconciliation process from DOA's Division of Accounts to the OAG's Child Support Enforcement Division. Due to insufficient staff, DOA was unable to perform bank reconciliations timely; as of the issuance date of this report, bank reconciliations for FY 2003 have not yet been prepared. Therefore, we do not

agree with this exception and maintain that the bank reconciliation responsibility and process should be transferred to the Child Support Enforcement Division.

The Director of Department of Public Health and Social Services had not submitted a response to the draft report.

The letters of responses from the Attorney General and the Director of Administration are attached as **Appendix G** and **Appendix H**, respectively.

Limitations of Report

The period covered by our report was the 30-month period from October 1, 2000 through March 31, 2003. Our audit was conducted in accordance with *Generally Accepted Government Auditing Standards*.

This report has been released to the Governor of Guam, the Speaker and members of the 27th Guam Legislature, the Attorney General of Guam, the Director of the Department of Administration, the Director of the Department of Public Health and Social Services, the United States Attorney for Guam, and the Guam branch of the Office of Inspector General of the U.S. Department of Interior. This report is a matter of public record and its distribution is not limited.

This report does not provide conclusions involving legal determinations. This report contains only evidentiary conclusions based on documentation available during our review.

OFFICE OF THE PUBLIC AUDITOR



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendices

APPENDIX A: Child Support Enforcement Program Projects and Contracts

Child Support Enforcement Program Projects			
	APASI System and Enhancements	APASI Maintenance	State Disbursement Unit
2004	Chase Global	Chase Global	Chase Global
2003			
2002			
2001			
2000*			
1999*	Andersen Consulting	Andersen Consulting	Department of Law & Department of Administration
1998			
1997			
1996			
1995			
1994			

* From 4/1999 - 7/2000, we did not find any documents indicating that the APASI system underwent enhancement services.

APPENDIX B: Schedule of APASI System Contracts

	APASI Contracts	Terms	Purpose	Contract Cost	Amount Paid
Andersen Consulting	1	Effective 02/1994	Creation of APASI	\$2,262,741	\$1791,568 ^
	2	12/1996 - 02/1997 03/1997 - 12/1997	Enhancements, Maintenance, and Support	\$150,000 + \$450,000	\$500,000 ^^
	2A	01/1998 - 03/1998	Enhancements, Maintenance, and Support	+ \$150,000	\$248,950 ^^^
	2B	04/1998 - 06/1998	Enhancements, Maintenance, and Support	+ \$150,000	\$150,000
	2C	07/1998 - 12/1998	Enhancements, Maintenance, and Support	+ \$300,000	\$300,000
	2D	01/1999 - 03/1999	Enhancements, Maintenance, and Support	+ \$150,000	\$100,000 ^^^^
Total				\$3,612,741	\$3,090,518
Chase Global	3	08/2000 - 03/2001	Phase I Enhancement	\$1,875,031	\$1,875,031
	4	05/2001 - 09/2001	Phase II Enhancement ****	\$3,015,859	\$999,608 *
	5	10/2001 - 09/2002	Phase II Enhancement Extension and Maintenance		\$2,015,859 **
	6	10/2002 - 09/2004	Enhancement Extension and Maintenance	\$2,820,000	\$822,500 ***
Total				\$7,710,890	\$5,712,998
Grand Total				<u>\$11,323,631</u>	<u>\$8,803,516</u>

^ Amount was not fully paid as the APASI system was not fully implemented with federally certifiable functions.

^^ This contract ratified Andersen's work from 12/1996 - 02/1997 for payment of \$150,000. Additionally, it extended the contract to cover 03/1997 - 12/1997. Only \$500,000, however, was encumbered and paid for this contract. An excess payment for the subsequent period makes up for this shortage. See ^^^.

^^^ This was the 1st out of a series of 4 amendments. \$248,950 was paid for this amendment even though only \$150,000 was due. The excess \$100,000 paid makes up for the shortage of payment from the previous period.

^^^^ The original encumbrance was \$150,000, but \$50,000 was reversed on 10/2001. Currently, only \$100,000 had had been paid.

* Only a fraction of the contract cost was paid because this contract was modified by contract 3.

** Because contract 5 is a modification of contract 4, the previous payment of \$999,608 on contract 4 should be applied to the \$2,015,859 payment on contract 5. This should then satisfy the contract cost of contract 5. An unpaid balance of \$392, however, still remains.

*** This amount represents payments as of 6/10/2003.

**** APASI Contract 4 was consolidated with Contract 5 above. Therefore, the cost for both contracts is \$3,015,859.

APPENDIX C: Breakdown of APASI Cost used for Analysis

Expenditures for the APASI Project	Amounts Paid
<i>Andersen Consulting</i>	
Original APASI Contract 02/1994	\$1,791,568
APASI Enhancement and Maintenance Contract 03/1997 - 12/1997	\$500,000
APASI Enhancement and Maintenance Contract 03/1997 - 03/1998	\$248,950
APASI Enhancement and Maintenance Contracts 03/1997 - 06/1998 03/1997 - 12/1998	\$450,000
APASI Enhancement and Maintenance Contract 03/1997 - 03/1999	\$100,000
<i>Chase Global Services</i>	
Purchase Orders for Maintenance Services 04/1999 - 09/2001	\$1,730,983
Phase I APASI Enhancement Contract 08/2000 - 04/2001	\$1,875,031
Phase II APASI Enhancement Contract 05/2001 - 09/2001	\$999,608
Extended Phase II APASI Enhancement and Maintenance Contract 10/2001 - 09/2002	\$2,015,859
APASI Enhancement and Maintenance Contract 10/2002 - 09/2004	<u>\$2,820,000 *</u>
Total Cost for the APASI Project	<u><u>\$12,531,999</u></u>

* \$2,820,000 is the contractual cost.

APPENDIX D: Calculation of Estimated SDU Operational Costs

Salaries	Minimum	Maximum
5 Collectors	\$79,200	\$176,210
1 Accountant	\$24,656	\$65,728
1 Accounting Supervisor	\$33,811	\$71,541
Total Salaries	\$137,667	\$313,479
GovGuam Benefits*		
Retirement (20.81% of gross earnings)**	\$28,649	\$65,235
Medicare (1.45% of gross earnings)	\$1,996	\$4,545
Health Insurance (\$252.63 / pay period / person)	\$45,979	\$45,979
Dental Insurance (\$22.87 / pay period / person)	\$4,162	\$4,162
Life Insurance (\$11.72 / pay period / person)	\$2,133	\$2,133
Total Benefits	\$82,919	\$122,054
Total Salaries	\$137,667	\$313,479
Total Benefits	\$82,919	\$122,054
Total SDU Operational Cost	\$220,586	\$435,533

* The benefits contained herein were calculated with FY 2003 rates

** The retirement contribution rate increased from 18% to 20.81% in FY 2004.

APPENDIX E: Explanations of Undistributed Collections Components

Unidentified

Unidentified collections occur when non-custodial parents or their employers submit child support payments to the SDU, which lack sufficient information. The SDU is not able to reference the payment to the appropriate child support cases. Therefore, the payments are posted on the APASI unidentified account.

Suspense

The suspense account is similar to the unidentified account. According to the SDU, there are situations where child support payments are being submitted, but the case information have not been established in the APASI. Basically, the money collected does not yet have a case to be referenced to; therefore, the APASI will prevent any disbursement of that money. This money is then posted into the suspense account. The responsibility of posting case/court order information into APASI lies in the CSED and these instances are directly caused by their failure to post information on a timely basis.

According to Chase Global, the APASI suspense account is more favorable than the unidentified account because suspense accounts have child support case information, however minimal. Therefore, it is easier to resolve than the unidentified accounts. Chase Global indicated that since they became the SDU, efforts have been directed to eliminating and transferring the unidentified accounts into the suspense account. Chase Global stated that they have assigned a staff to resolve the suspense accounts.

Overages

Overages are over-collections that result due to the untimely closing of an expired case by CSED. In this situation, the APASI's records on a case have not been closed even though the court order has expired either through the child reaching the age of majority or through an amendment of the court order. Updating case information is also the responsibility of the CSED. Before the overages can be reimbursed back to the non-custodial parents, the CSED must close the case and authorize the SDU to process it.

Distribution Holds

Distribution holds are collections that are not being distributed due to a variety of reasons. One reason for withholding distributions is the lack of current address for the custodial parent. We observed instances where child support checks would be returned from the mail, unclaimed, because the addresses are not current.

Another reason for having a distribution hold is a recurrence of nonpayment by a non-custodial parent through non-sufficient fund checks. Because the distribution of child support payments ideally occurs two days after collection, there is little one can do to determine whether checks paid are honored. In a

case like this, money went out, but no money went in. If a pattern of consistent non-sufficient fund is detected, a distribution hold is placed on a case.

Collection Holds

Collection holds are similar to distribution holds. Collection holds occur when there is a suspension of the child support order or when a case warrants an investigation.

Unreleased and Identified

Chase Global stated that undistributed collections also occur because of system problems. These items are accounted for in the APASI as unreleased or identified collections.

Future Payments

A more temporary cause for an increase in the UDC balance is future payments. Future payments are child support payments for future obligations. According to the SDU supervisor, these amounts are not distributed and disbursed until the obligation becomes due. Therefore, these amounts contribute to the balance in the Child Support Trust Account. The SDU supervisor stated that future payments are discouraged, but allowed.

APPENDIX F: Other Child Support Enforcement Office Relocation Costs

Renovation Costs

Invoice Date	Invoice Amount
17-Nov-00	\$20,000.00
14-Nov-00	\$20,000.00
27-Nov-00	\$23,000.00
28-Dec-00	\$10,176.00
28-Dec-00	\$25,000.00
19-Jan-01	\$20,000.00
19-Jan-01	\$32,500.00
20-Dec-00	\$45,000.00
29-Jan-01	\$37,000.00
16-Feb-01	\$5,750.00
14-Feb-01	\$225.15
14-Feb-01	\$705.60
16-Feb-01	\$32,500.00
	<u>\$271,856.75</u>

Security and Monitoring Fees

Invoice Date	Invoice Amount
17-May-01	\$3,513.20
7-Jun-01	\$3,859.52
30-Jul-01	\$3,686.36
23-Aug-01	\$3,507.91
13-Sep-01	\$4,032.68
28-Sep-01	\$3,290.04
	<hr/> \$21,889.71

Janitorial Services

Invoice Date	Invoice Amount
30-Jul-01	\$1,000.00
30-Jul-01	\$1,306.68
30-Jul-01	\$1,330.00
28-Sep-01	\$5,427.45
	<hr/>
	\$9,064.13

Other Start-up Costs

Invoice Date	Invoice Amount
3-Jan-01	\$38,018.00
5-Jan-01	\$11,724.00
9-Jan-01	\$6,175.00
14-Feb-01	\$9,175.00
22-Mar-01	\$3,636.54
1-May-01	\$3,684.72
	<u>\$72,413.26</u>

APPENDIX G: Office of the Attorney General Management Response

Douglas B. Moylan
Attorney General



Barbara P. Cepeda
Deputy & IV-D Director,
Child Support Enforcement
Division

Received by Office of the
Public Auditor

11/12/03
4:45PM

Office of the Attorney General

November 12, 2003

Doris Flores Brooks
Public Auditor
Office of the Public Auditor
Suite 401 Pacific News Building
238 Archbishop Flores St.
Hagatna, Guam 976910

Re: Response to Investigative Report on the Office of the Attorney General,
Child Support Enforcement Program, October 1, 2000 through March 31, 2003,
OPA Report No. 03-09, October 2003

Dear Doris:

Below please find the Office of the Attorney General, Child Support Enforcement Division's response to the Investigative Report on the Office of the Attorney General, Child Support Enforcement Program, October 1, 2000 through March 31, 2003, OPA Report No. 03-09, October 2003. If you have any questions, please contact Barbara P. Cepeda, Deputy Attorney General/IV-D Director, at 475-3360, ext. 111.

Sincerely,

DOUGLAS B. MOYLAN
Attorney General of Guam

Scope Limitation, p. 4

OAG CSED refused access to OPA auditors due to concerns of confidentiality.
Management Response: OAG CSED relied on 5 G.C.A. Section 34103 and pursuant to advice from Guam's Region IX representative in San Francisco, California.

Prior Audit Coverage, p. 4

FY 2000

Management Response: OAG CSED responded to these Findings and noted Corrective Actions to be taken.

FY2001

Management Response: OAG CSED did not respond to the Findings for reasons unknown. However, further investigation reveals the following:

- 1) Payment of \$1,076. This case has since been closed.
- 2) Payment of \$22,500. This case is currently being worked on. The system is able to handle only 10 of the same CPs at any one time. This case was number 13 of the same CP, therefore the system was unable to handle it. By changing the CP, the system will then distribute the money on hold.

Federal Data Reliability Audit, p. 5

Year 2000

Management Response: The current IV-D Director is reviewing 2000 DRA findings.

Year 2001

Management Response: The current IV-D Director is reviewing 2001 DRA findings.

SPECIFIC FINDINGS AND CONCLUSION, p. 7

APASI System Procurement – Andersen Consulting, p. 7

No response.

Sole Source Procurement of APASI Maintenance Services – Chase Global, p. 9

No response.

Sole Source Procurement of APASI Enhancements – Chase Global, p. 10

No response.

APASI Contract 1, p. 12

Management Response: The contract was a 6-month contract from July 20, 2000 to February 28, 2001 for the price of \$1,875,031.00. The penalty for FY2002 was \$215,802. The penalty for FY 2001 was \$77,119. The total penalty for FY 2001 and FY2002 is \$292,921.

APASI Contract 2, p. 12

No response.

APASI Contract 3, p. 12

No response.

APASI Contract 4, p. 12

No response.

Former Attorney General, an Employee of Chase Global Services, p. 13

Management Response: The OAG concurs with this recommendation and will conduct an investigation into this matter.

APASI Cost Analysis, p. 14

No response.

Sole Source Procurement of State Disbursement Unit (SDU), p. 15

No response.

SDU Cost Analysis, p. 17

Management Response: OAG intends to seek State Disbursement Unit (SDU) services through competitive procurement.

State Disbursement Unit Internal Controls Deficiencies, p. 18

1. No separation of collection and record keeping duties

Management Response: OAG CSED does not concur with this recommendation which recommends that the collection and record keeping of child support payments be separated from Chase Global's responsibilities by assigning all collection duties to the Treasurer of Guam.

Although the Social Security Act, Section 454B(a)(2), states that "the State disbursement unit shall be operated: (A) directly by the State agency (or 2 or more State agencies under a regional cooperative agreement), or (to the extent appropriate) by a contractor responsible directly to the State agency," the OAG CSED believes that combining both, the state agency, (Treasurer of Guam) and contractor services (Chase Global Services, or any other future contractor) to provide SDU services, will create an operational disadvantage in the child support program, as well for Treasurer of Guam (TOG).

The following is a scenario based on collections received by SDU and TOG for the month of September 2003.

September 2003 Child Support Collections

Child Support Collections processed by SDU = 4,399

Child Support Collections processed by TOG = 379

4,778

Based on the September 2003 collections, if TOG is made responsible for receiving all child support collections, its impact will require TOG to process a total of 4,778 collections, which is approximately 92% increase from the amount they are currently processing. If staffing is not available to support this increase, then child support collections will not be processed in a timely manner, affecting child support disbursements and payment inquiries as well.

Another problem that will be encountered will be duplication of work and processing delays. TOG does not have accessibility to the child support automated system "APASI". Therefore, TOG must issue receipts for each collection received. The receipts are then picked up by

SDU staff and recorded into the APASI system the following workday, which creates a delay of at least one day in payment processing time.

If SDU continues its responsibility of receiving child support collections, collection payments will be entered into the APASI system at the time received, therefore, eliminating the duplication process where receipts are issued by TOG and then transposed by SDU for APASI input. Also, payment processing time will be reduced by at least one day.

These problems mentioned above affect the child support program in expediting child support payments as required by federally mandated timeframes where payments must be disbursed within 2 business days after payment is received.

Other Factors

Before Chase Global Services began their contractual services with CSED for SDU, the Treasurer of Guam was responsible for receiving and disbursing all child support payments. During this time, CSED encountered problems where child support payments were not disbursed within 2 business days of receipt as federally required. To compound the problem, CSED was at the mercy of TOG, and had no control over its priorities in daily operations, although a cooperative agreement was in place for collections and disbursements of child support payments.

On October 1, 2001, the CSED contracted Chase Global Services, a private vendor, to provide SDU services that would increase timely child support payment collections and disbursements. As OPA audit reports has indicated, payment collections and disbursements have significantly increased when these services were outsourced. However, the costs attributed for their services is rather high and the CSED will take necessary corrective actions to reduce the costs when feasible to do so.

In conclusion, the OAG CSED does not concur with OPA's recommendation that that the collection and record keeping of child support payments be separated from Chase Global's responsibilities by assigning all collection duties to the Treasurer of Guam as this recommendation is not favorable to the child support program.

However, to correct the deficiencies in OPA's findings, the CSED will implement stringent policy and procedures in the operation of the State Disbursement Unit; facilitate proper monitoring of SDU's duties; ensure that duties and responsibility include printing out billing notices to all NCPs; and ensure that Master Receipt Document and a Daily Operational Report are provided to CSED on a daily basis.

2. Pre-numbered receipts are not utilized and issued for collections, p. 18

Management Response: According to SDU Office Manager, there were discussions between Department of Administration, Treasurer of Guam (TOG), and SDU about having one central location for the receipt of child support payments. The discussions fell through and nothing materialized. TOG receives all types of payments including cash; SDU, however receives all types of payments, except for cash.

SDU is currently working to issue pre-numbered receipts for collections.

3. Check Payments are made Payable to Various Entities, p. 19

Management Response: In addition to the SDU informing all non-custodial parents and employers to make payments payable to the Treasurer of Guam, such instruction is also stated on the Findings and Order and on the Wage Assignments which are served on employers and non-custodial parents. Still, payors do not follow the directions given.

4. No Policy of Immediate Restrictive Endorsement of Check Payments, p. 19

Management Response: This deficiency was also pointed out by the IRS during its audit of the Child Support Enforcement Division earlier this year. SDU requested the TOG to be allowed to order a stamp for the purpose of restrictively endorsing checks, but said request was denied by the TOG.

5. APASI Programming Duties are Not Separated from SDU Duties, p. 19

Management Response: Agree. OAG is in the process of preparing Requests for Proposals for both the procurement of APASI system development and maintenance and SDU services.

Other Internal Control Deficiencies, p. 20

1. Deficiencies in Bank Reconciliation, p. 20

Management Response: This function is performed by the Department of Administration. OAG agrees that the responsibility for bank reconciliation should be with the Child Support Enforcement Division. However, additional staff must be hired as this is an added responsibility for the already over-burdened accounting technicians.

2. Other Bank Reconciliation Problems, p. 20

Management Response: This function is performed by the Department of Administration.

3. Outdated Operating Procedures for Child Support Enforcement, p. 21

Management Response: Standard Operating Procedures for the Child Support Enforcement Division is currently being updated. On January 22, 2003, the current IV-D Director first brought to light the fact that SOPs needed to be updated. The issue of SOPs came up again in March 2003. Due to other priorities, updating SOPs was set aside but continues to be on the agenda as one of the CSED's goals this year.

4. Lack of Contract Monitoring, p. 21

Management Response: A technical staff of CSED was working with CGS, however that employee resigned on November 2, 2001, leaving nobody who was familiar with the technical aspects of APASI. The former IV-D Director became the project manager and oversaw the work of CGS. When the current IV-D Director came in on January 2003, CSED still did not have a technical staff. By default, the current IV-D Director/Deputy Attorney General became the project manager, however, she is not trained in the technical aspects of APASI, and therefore lacks the competence to conduct reviews and monitor the APASI contract. The current IV-D Director has made requests regarding the hiring of at least one technical staff to monitor CGS to ensure they are complying with the terms of the contract.

Contract Compliance Review, p. 22

Management Response: The contract with CGS states: "NCP Billing. A monthly billing process that will generate one bill for each NCP with an active obligation. The bills will be mailed directly to the NCP if no wage assignment exists." The contract is silent as to where a bill is sent when a wage assignment exists. Is it sent to the NCP or the employer?

The contract further states: "Employer Billing. The employer billing process will create one bill per employer detailing all NCP's with orders for wage assignment that are listed on the APASI system as being currently employed with that organization."

It seems that if there is no employer, and hence no wage assignment, then NCPs are billed directly. But where there is a wage assignment, the employer is sent a list of all employees in their company who are wage assigned and the amount owed. So to send a separate bill to NCPs who have a wage assignment in place would cause confusion.

SDU's office manager stated that when bills are sent to NCPs who are wage assigned, the NCPs would call her office to complain about the billing since their employer is already withholding their child support payments from their paychecks.

OAG agrees that SDU does not provide CSED daily with a Master Receipt Document and a Daily Operational Report. Since these audit findings, SDU has complied with providing to CSED these documents on a daily basis.

OAG and DOA Cooperative Agreement, p. 22

Management Response: The CSED is currently in the process of updating its Cooperative Agreement with DOA. Again, like the SOPs, due to other priorities, updating the Cooperative Agreement with DOA was set aside but continues to be on the agenda as one of the CSED's goals this year.

Child Support Trust Account, p. 23

No response.

Multiple Bank Accounts, p. 24

Management Response: The OAG will be consulting with DOA on this matter as to its impact on the program.

Undistributed Collections (UDC), p. 24

Management Response: CSED has requested Chase Global to begin producing historical data reports for reconciliation purposes and to assist the CSED in monitoring UDC.

The Accounting Section has been tasked with working to reduce the amounts in UDC. All employees of the CSED have been advised, however, that reducing the UDC is a task of the entire CSED.

The majority of IV-D jurisdictions have determined that UDC amount should be no more than 3% of total collections.

Due to shortage of staff beginning with the early-out in 1999, and those employees having not been replaced, CSED continues to function with limited resources while trying to meet the demands of local and federal requirements.

Welfare Reimbursements, p. 26

Management Response: According to Chase Global, disbursement of welfare reimbursements is current. CSED is unable to find documents authorizing cessation of disbursement of welfare reimbursements in October 2000.

Disbursements of \$2 Million Welfare Reimbursement, p. 27

Management Response: CSED is unable to find documents authorizing release of four \$500,000 checks to the Treasurer of Guam for TANF reimbursement.

CSED, through Chase Global, has had difficulties receiving accurate, complete, and timely TANF information from the Department of Public Health and Social Services due to ineffectiveness of DPHSS' AGUPA system. This has caused CSED inconvenience and frustration in reconciling cases due to erroneous payments sometimes being issued by the system to CPs based on lack of information from DPHSS.

APASI Disbursement Transactions Overridden by Chase Global, p. 28

Management Response: Chase Global has been informed to cease the practice of overriding the system without proper written authority.

The CSED monitors the functions of Chase Global's programming and SDU activities to ensure no overlapping of responsibilities, however, the fact that Chase's programmers and SDU are both located in the same office and the lack of qualified and competent staff, i.e. accountant and technical staff, in the CSED prevents the CSED from detecting any misconduct.

Child Support Trust Account Balance Trends, p. 28

Management Response: The OAG CSED agrees with the OPA's recommendation and is working with SDU to identify and determine the source of the \$2 million.

The Department of Administration is tasked with reconciliation of CSED trust account and bank statements. The OAG CSED agrees with the OPA's recommendation of taking over this task.

Child Support Collections, p. 30

Management Response: The OAG CSED agrees with the OPA's finding of the need to reconcile APASI records with bank statements on a monthly basis.

Interest Income, p. 32

Management Response: On June 21, 2001, the former IV-D Director sent a memorandum to the Director of the Department of Administration regarding transfer of interest earned to Family Division account. In her memo, the IV-D Director requested that DOA identify

interest earned in the Child Support Trust Account from March 2000 to June 21, 2001 (date of memo) and post this amount in an established Family Division Account separate from the trust account. The IV-D Director cites that federal law requires CSED to report and exclude interest earned from quarterly expenditure reports.

Child Support Office Lease Procurement, p. 32

No response.

Incomplete Documentation of Lease Procurement, p. 33

Management Response: The OAG is consulting with GSA to compile the necessary procurement documents.

Current Lease More Expensive than Previous Lease, p. 33

Management Response: Although the OAG CSED entered into an escalating contract for rent, the current landlord has agreed not to escalate the monthly rental for 2003. The OAG CSED continues to pay \$26,561.25 per month, the amount CSED paid in 2001 and 2002.

Non-Competitive Procurement of Services, p. 34

Management Response: The OAG is consulting with GSA to compile the necessary procurement documents.

Related Party Transactions, p. 35

No response.

Inefficiency of Layout of New Child Support Office, p. 35

Management Response: CSED agrees that the layout of the new offices is inconvenient and ultimately inefficient for the employees. Attorneys are located in offices on the second floor along with other tenants to include Chase Global, an insurance company, an architect firm, and a nursing association. The administrative staff (secretaries and accounting technicians) are located in one office on the first floor, while the case management staff (investigators, paralegals, legal clerks) are located in another office on the first floor. The two first-floor offices are separated by a bank. Case files are located on the first floor. Case files are brought upstairs daily for the attorneys to review. These files are then brought downstairs for caseworkers to work on. Files are constantly being transported up and down the stairs several times a day by the messenger. These files also need to be transported to court for hearings.

The building is not equipped with an elevator.

It is almost impossible to supervise employees when they are situated in three different areas. It is difficult to monitor employee time in the morning, during breaks, lunchtime, and after work. Employees have a sign in/out sheet and CSED employees rely on the honor system.

After Super typhoon Pongsona in December 2002, the offices were uninhabitable due to flooding. The carpets had to be replaced. The offices were not fully repaired until March 2003. This resulted in loss of work time, inefficiency, and inconvenience. All employees on

the first floor were crammed into one office, so the other office could be repaired. Once that office was repaired, all the employees were relocated to the repaired office, so work could begin on the other office. CSED had to build makeshift offices and work areas. There were not enough computer hookups in one office so some employees were left without computers. Most CSED work, from locating a file to accessing information by process servers to entering notes of a telephone conversation and payment information, entails use of a computer.

Free Office Space for Chase Global Services, p. 35

No response.

Notary Public Revolving Fund, p. 36

Management Response: The OAG is currently working with the Department of Administration in resolving this issue.

RECOMMENDATIONS

OPA Recommendation 1

We recommend that the OAG initiate Request for Proposals (RFP) for competitive procurement of APASI development/maintenance and SDU services in FY 2004 when the contracts with Chase Global terminate. The RFPs should prohibit both functions from being awarded to the same vendor; the vendor selected for the APASI system development and maintenance should not be selected to perform the SDU services. In the interim, we recommend the OAG monitor and ensure that the operations of Chase Global's programming unit are strictly separated from the operations of the State Disbursement Unit at the interim. APASI programming staff should refrain from performing any SDU responsibilities, specifically with the disbursement of support payments, the preparation of check printing, and the overriding of the APASI.

OAG Response 1

The OAG concurs with this recommendation. The OAG intends to initiate Request for Proposals (RFP) for the APASI development and maintenance and the State Disbursement Unit (SDU). The OAG will continue to monitor Chase Global to ensure that programming activities are separate from operations of the SDU, however, CSED suffers from shortage of staff and lack of staff with technical knowledge in computers. Chase Global has been informed to separate responsibilities between its technical staff and SDU and to refrain from having programming staff perform SDU functions.

OPA Recommendation 2

With regards to SDU responsibilities, we recommend that the collection of child support payments be assigned entirely to the Treasurer of Guam and that Chase Global not be permitted to receive any collections. This should be formally documented in a cooperative agreement between the OAG and DOA. We also recommend that the responsibility of reconciling APASI collection records with the Child Support Trust Account bank statements be shifted from DOA to the CSED, who should employ an accountant. The following table summarizes our recommendation.

Entity	Responsibilities
Treasurer of Guam	Collection of Child Support Payments Approval of Child Support Disbursements
SDU Contractors (Chase Global)	Recording of Child Support Payments Preparation of Child Support Checks
Child Support Enforcement Division	Monitoring of the State Disbursement Unit Reconciliation of APASI Records with Bank Statements

OAG Response 2

The OAG does not concur with the first part of this recommendation that collection of child support payments be assigned entirely to the Treasurer of Guam and that Chase Global not be permitted to receive any collections. See pages 3 to 4, above, for a more detailed explanation.

In its 2000 audit, Deloitte and Touche found that “there appears to be weak internal controls over ensuring that collections are sent to the family within the required time frames.” The auditors recommended that “the grantee should strengthen internal controls to ensure that income tax refund offsets are sent to the custodial parent within the required time frame. The grantee should consider outsourcing the function of collecting and distributing income tax refund offsets.” As part of its corrective action plan, the OAG CSED outsourced this function to SDU. Since SDU has taken over collection and disbursement in 2001, the CSED has improved in this area and continues to meet federally-mandated time frames for distributing payments.

The OAG concurs with the recommendation that responsibility for reconciling APASI collection records with the Child Support Trust Account bank statements be shifted from DOA to the OAG CSED. The OAG CSED will request that an accountant be hired as recommended by OPA.

OPA Recommendation 3

We recommend that the Attorney General assign a competent project manager capable of understanding the PRWORA requirements and the technical aspects of the APASI to manage the APASI and SDU projects and conduct appropriate reviews to confirm the reasonableness of deliverables, deadlines, and costs.

OAG Response 3

The OAG concurs with this recommendation. The OAG CSED will request that a technical staff be hired who will serve as project manager, one who is capable of understanding the PRWORA requirements and the technical aspects of the APASI, to manage the APASI and SDU projects and conduct appropriate reviews to confirm the reasonableness of deliverables, deadlines, and costs.

OPA Recommendation 4

We recommend that the Child Support Enforcement Division revise and update its policies and procedures to include relevant control procedures, and in particular address the resolution of undistributed collections. The CSED should also coordinate with the State Disbursement Unit to identify and determine the source of the \$2.1 million in unreconciled amounts discussed in this report.

OAG Response 4

The OAG concurs with this recommendation. The OAG CSED is currently in the process of updating its SOP to include relevant control procedures and the resolution of undistributed collections. The CSED will coordinate with DOA and SDU to identify and determine the source of the \$2.1 million in unreconciled amounts.

OPA Recommendation 5

We recommend that the SDU provide all child support payers with regular billing notices as stipulated in the contract. We also recommend that the Child Support Enforcement Division seek Master Receipt Documents (collections report) and a Daily Operational Report (daily deposit detail) from the SDU to facilitate proper monitoring of the SDU, reconciliation purposes, as well as for UDC monitoring.

OAG Response 5

The OAG concurs with this recommendation. However, billing notices to NCPs who are employed should be footnoted with a message that if their wages are already being deducted from their paychecks, they need not pay the bill. The SDU is already complying by providing the CSED on a daily basis copies of the Master Receipt Documents (collections report) and a Daily Operational Report (daily deposit detail). These documents will assist the CSED in monitoring the SDU and UDC, and in reconciling statements and accounts.

OPA Recommendation 6

Based on our observation, it appears that the former Attorney General who is employed by Chase Global may be in violation of certain ethical standards. We recommend the Attorney General conduct an investigation into this matter and determine whether legal action is warranted.

OAG Response 6

The OAG concurs with this recommendation and will conduct an investigation into this matter.

OPA Recommendation 7

We recommend the Director of Administration in consultation with the Attorney General close the dormant child support bank account (Account 3) and transfer the balance to the General Fund, subsequent to a proper reconciliation. We also recommend that DOA record and account for all Child Support Trust Account interest income.

OAG Response 7

With regard to the dormant child support bank account (Account 3), the OAG will be consulting with DOA on this matter as to its impact on the program taking into consideration that the Child Support Program is 66% federally-funded

The OAG concurs with the recommendation that DOA record and account for all Child Support Trust Account interest income. This request was made by the former IV-D Director in a memorandum to the Director of the Department of Administration dated June 21, 2001.

OPA Recommendation 8

We recommend that DPHSS direct its efforts to resolve the problems associated with the AGUPA system involving the TANF program to facilitate the monitoring of welfare reimbursements disbursed by the SDU.

OAG Response 8

The OAG concurs with the recommendation that DPHSS resolve the problems with the AGUPA system.

OPA Recommendation 9

We recommend that the Legislature consider having the notary program's activities be accounted for under a separate account under the General Fund rather than as a separate special revenue fund.

OAG Response 9

The OAG is currently working with the Department of Administration in resolving this issue.

APPENDIX H: Department of Administration Management Response



Felix P. Camacho
Governor
Kaleo S. Moylan
Lieutenant Governor

Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
DIRECTOR'S OFFICE
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Lourdes M. Perez
Director

October 31, 2003

Received by Office of the
Public Auditor

10/31/03
2:05 PM

Doris Flores Brooks, CPA, CGFM
Public Auditor
Office of the Public Auditor
Suite 401, Pacific News Building
238 Archbishop Flores Street
Hagatna, GU 96910

Dear Ms. Brooks:

Re: OPA Report No. 03-09, Investigative Audit on the Child Support Enforcement Program

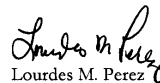
We have reviewed a draft copy of the referenced investigative report and are providing comments herewith. Our comments are specific to those OPA recommendations that concern the Department of Administration.

Finding No. 2 DOA agrees with the OPA's recommendation that the collection of child support payments and the approval of Child Support Disbursement be assigned entirely to the Treasurer of Guam. DOA agrees with the recommendation that the responsibility of reconciling APASI collection records with the Child Support Trust Account bank statements be shifted from DOA to the CSED, however the actual bank reconciliation process should remain with DOA's Division of Accounts. Lastly, DOA concurs that the cooperative agreement between the Office of Attorney General and DOA be updated and formalized specifying the responsibilities of each in the administration of the Child Support Enforcement Program.

Finding No. 7 DOA would like to close the dormant child support bank account (Account 3) upon consultation with the Attorney General, and in accordance with DOA's standard operating procedures, a copy of which is attached.

Thank you for this opportunity to provide comments. We look forward to implementing the OPA recommendations, except where noted

Sincerely,


Lourdes M. Perez

Attachment