

**ECONOMIC SERVICES ADMIN
DCS Non-Collectible Receivables**



2016 SUPPLEMENTAL BUDGET

Request	FY16	FY17	15-17
FTE	0.0	0.0	0.0
GF-State	\$614,000	\$614,000	\$1,228,000
Total	\$614,000	\$614,000	\$1,228,000

DECISION PACKAGE SUMMARY

The Economic Services Administration (ESA) requests \$1,228,000 GF-State funding in order to manage non-collectible receivables related to child support enforcement. Dishonored checks, IRS payment adjustments, and misapplied payments result in an amount owed to the ESA Division of Child Support (DCS). These receivables reduce the balance of the DCS local bank account where child support enforcement collections are deposited and paid out. By funding this request, ESA expects to maintain a sustainable fund balance, avoid overdraft charges and penalties, and adhere to the federal requirement for disbursing payments within two days.

PROBLEM STATEMENT

Each month, DCS collects and quickly disburses between \$50 and \$67 million dollars pursuant to federal requirements. Each day, collections are deposited in a DCS local bank account at the Bank of America, known as "Fund 753." Federal regulations require these collections be distributed to custodial parents within two business days of collection. DCS is not allowed to hold payments longer than two business days except in certain limited circumstances.

Because of this quick turnaround, receivables can be created. Receivables are created when a support collection is distributed to a custodial parent and one of the following occurs:

- Collected support payments are returned by the bank as having non-sufficient funds (NSFs), 15% of all receivables.
- The collection is Federal Tax Refund Offset (FTRO) from the Internal Revenue Service (IRS) and later the IRS adjusts the amount of the FTRO and withholds the difference from the next disbursement to DCS (38% of all receivables). IRS adjustments arise from appeals by spouses of the non-custodial parent for a share of the refunds, errors in the IRS intercept, and amended tax returns.
- The case involves a misapplied payment or debt error (47% of all receivables). Misapplied and debt errors occur when a custodial parent (CP) receives a payment in error or for which they are not eligible. Misapplied payments can be due to an input error, erroneous information received from the sender, or illegible



DSHS VISION
People are healthy • People are safe • People are supported • Taxpayer resources are guarded

DSHS MISSION
To transform lives

DSHS VALUES
Honesty and Integrity • Pursuit of Excellence • Open Communication • Diversity and Inclusion • Commitment to Service

handwriting. Debt errors occur if circumstances have changed making the CP ineligible for the payment such as emancipation, custody changes, court order modifications, invalid orders, and statute of limitations.

The depleted account balance is masked by a “bank float,” which occurs between the time the child support collection is deposited to the bank account and the time that DCS distributes the payment to the CP. Eventually, however, the receivables will be greater than the float and the account will not have sufficient funds available to distribute current collections.

During the period from Fiscal Year 2013 to Fiscal Year 2015, DCS added an average of approximately \$269,400 in new receivables each month. As of July 2015, DCS had a net receivable balance of \$5.6 million, an amount that has accumulated over the past 18 years.

PROPOSED SOLUTION

DCS has taken measures to mitigate receivables, but the limited collection remedies available cannot totally eliminate receivables. DCS staff work to minimize the creation of receivables and maximize the collection of receivables.

In July 2014, DCS completed a review of all open receivable cases to determine the percentage of receivables that are collectible. Based on that review, DCS estimates 81 percent of the outstanding receivables are potentially collectible and 19 percent are likely to be non-collectible. Based on an average of \$269,400 in new receivables established per month over the past three state fiscal years, DCS estimates it will be unable to collect \$51,200 per month or \$1,228,000 per biennium.

Maintaining a positive balance in the DCS local bank account is expected to require an ongoing appropriation. DCS requests an ongoing appropriation of \$1,228,000 GF-State per biennium. The federal government precludes federal funding to be used for losses from uncollectible accounts so the funds requested are GF-State.

EXPECTED RESULTS

ESA expects to maintain a sustainable fund balances, avoid overdraft charges and penalties, and adhere to the federal requirements for disbursing payments within two days.

STAKEHOLDER IMPACT

The State Plan under Title IV-D of the Social Security Act requires DCS to disburse funds collected on behalf of CPs within two days of receipt. In order to comply with this two-day rule, the Fund 753 balance must stay positive so that the funds are available to meet this disbursement requirement. Failure to comply with the DCS State Plan could jeopardize federal funding for the child support program. A federally-approved child support program is a requirement of the federal TANF program. Any loss of child support and TANF funding would significantly impact families needing these services.