

INSIGHTS FROM NEW REPORTS ON STATE DISBURSEMENT UNITS

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The Department of Health and Human Services Office of Inspector General (HHS/OIG) has issued two new reports on states progress in establishing State Disbursement Units (SDUs). These reports are extremely helpful in assessing where we are and what more needs to be done to make SDUs a functioning reality in every state. These reports are titled “*Child Support Enforcement State Disbursement Units-State Implementation Progress*” (August 2000) and “*Child Support Enforcement State Disbursement Units: Sharing the Implementation Experiences of Six States*” (August 2000). They can be obtained by calling the Dallas Regional Office at 214-767-3310 or going to the following web address: <http://www.dhhs.gov/progorg/oei>. The contents are summarized below.

Background: The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) required states to centralize the collection and disbursement of child support payments in all IVD cases and in non-IVD cases in which the order was issued on or after January 1, 1994 and which are being enforced through income withholding. 42 USC Section 654b. (States have the option to go even further and include all non-IVD cases.) To do this, each state was required to establish a State Disbursement Unit (SDU) by October 1, 1999.

The functions of the State Disbursement Units include the following:

- Receiving, properly identifying, posting and depositing child support payments.
- Printing and mailing payments to the proper party.
- Responding to parents who request payment information.

The primary objectives of the SDUs are to 1) facilitate enforcement through income withholding by providing employers with a *single* location in each state to send the withheld payments; and 2) make payment processing more efficient and economical.

SDUs may be operated by Child Support Agencies or private contractors. Private contractors may then use sub-contractors to perform various functions. All payments are to be processed within two business days.

OIG Findings: Critical points in the OIG reports include:

- As of August 2000, 38 states have fully implemented their SDUs. Three States received waivers of the requirement, and 12 have failed to meet the implementation deadline.
- The vast majority (32) of those that have an SDU in place have opted to include *all* child support cases—not just those required by Federal law to be in the SDU.

- The states experiencing the fewest problems implementing their SDUs took an incremental approach. This allowed managers to test procedures and equipment in small pilot projects before using the new procedures on a large number of payments.
- Many states experienced initial start-up problems. However, the severity of most problems diminished over time.

Many of the problems encountered were the result of changing payment processing from a local to a state-level function. They were mainly the result of difficulties in coordination between local staff and local clerks of court and state child support staff. This lack of coordination caused numerous difficulties such as:

- Employer payments mailed to the local agency rather than the SDU. In some cases this was because the employer/payer ignored a notice to redirect payments, in others it was because the employer/payer was not properly notified.
- Poorly labeled payments. Payments from employers/payers did not contain the information needed to credit them to the proper accounts.
- Problems with conversion from local databases to SDU databases.
- Misapplied payments due to human or system errors. Of particular concern are cases in which 1) a non-custodial parent has two support cases and the SDU attributes the entire payment to one case and 2) a non-custodial parent is paying on both a public assistance and non-public assistance case and the payment is not properly allocated.

Other difficulties included increased customer service demands resulting from aforementioned problems and difficulty in securing, training and retaining staff. After the initial period, most of these problems were reduced. However, adequate funding remains a problem.

States that successfully completed the transition to an SDU acknowledge several lessons learned in the process.

- Planning workgroups made up of state legislators, local and state child support staff, and front-line staff who process payments (e.g., clerks of court) are essential. These workgroups can help draft necessary State legislation, design the new processing structure and determine the logistics of transition.
- It is advantageous to include all child support cases (not just those mandated by federal law) in the SDU. Failure to include pre-1994 non-IVD cases and non-IVD cases not subject to income withholding in the SDU, complicates its implementation and operation. It also adds a level of complication for employers who must still identify which payment go to which collection point. Moreover, because such cases are often still administered through the local clerks of court, there are, essentially, two systems doing the work that one disbursement center could complete.

- Performance expectations and measures must be clearly communicated and documented at the beginning of the process. This is especially critical when dealing with private contractors. Contracts should include performance standards, incentives and penalties, as well as contract or payment terms.
- It is very important to keep parents informed of account balances and monthly obligations. This can be done by mailing regular statements, setting up an automated telephone system and/or providing a call center with staff ready to answer questions.
- Special attention should be paid to the proper crediting and disbursement of payments for non-custodial parents with multiple child support cases.
- Maintaining consistent contact with local child support staff and clerks of court is critical for a smooth transition to a centralized child support payment system.

The HHS/OIG concludes by recommending the following:

1. States should centralize pre-1994 income withholding cases, providing employers with a single location for sending payments.
2. States should consider using pilot programs and other incremental approaches to full implementation.
3. States should promote use of Electronic Funds Transfer (EFT) by employers and other payers when practical.