

2016

Domestic Relations Office Revenue Contracts



Travis County Auditor's Office

Risk Evaluation & Consulting Division

11/14/2016

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From: Nicki Riley, CPA
Travis County Auditor

Date: November 14, 2016

Subject: DRO Revenue Contract Review

The Risk Evaluation and Consulting (REC) Division of the Travis County Auditor's Office has completed a review of the revenue contracts between the Texas Office of the Attorney General (OAG) and the Travis County Domestic Relations Office (DRO). We conducted our review in accordance with the applicable statutes governing the County Auditor's Office and those relating to County financial and accounting protocols. As a result of our review, we are providing this report on our findings and recommendations.

BACKGROUND

DRO provides child support enforcement, visitation enforcement, and family court services to families with court orders enforceable in Travis County, primarily for the OAG. This division of the Travis County Juvenile Probation Department serves Travis County judges in family law cases brought before the court, helping the parties in these cases become compliant with the courts' orders. DRO has three primary programs: Customer Service Operations, Legal Services, and Family Court Services.

OBJECTIVE AND SCOPE OF REVIEW

The primary objective of this review was to assess the adequacy and effectiveness of the overall system of internal controls in place for DRO's revenue contracts with the OAG. The period under review was April 1, 2015 through March 31, 2016.

REVIEW METHODOLOGY

Our work was based on applying sampling procedures to DRO's records and on verbal and written representations from DRO personnel. Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques would not necessarily disclose all matters related to these revenue contracts that might be material weaknesses or misstatements. In regard to the written and verbal representations made by DRO personnel, unless otherwise noted in this report, division management maintains that the assertions we relied upon in the review were correct to the best of their knowledge.

SUMMARY OF FINDINGS

During our review, we noted the following:

1. We sampled 58 child support cases in which the non-custodial parent was placed on community supervision. In 14 (24%) of these cases, DRO was not notified by the OAG that supervision monitoring by DRO had been ordered by the court. Because of this, the parents did not receive the benefit of DRO's monitoring, and the County incurred an indeterminate loss of funds under the applicable revenue contract with the OAG.
2. DRO is responsible for reviewing and collecting upon monthly billings for services rendered under the Customer Service revenue contract. We noted that this did not occur for a monthly billing from 2013 and two billings from 2014; these three items totaled \$1,140.
3. We sampled 70 child support cases from the Travis County District Clerk's caseload for which DRO was required to provide enforcement services. Of these, three (4%) were not added to DRO's tracking system, thus enforcement services were neither rendered on nor billed for these three cases.

EXAMINATION TEAM

Joanne Englund, CPA, Senior Auditor

CLOSING

This report is intended solely for the information and use of your office and the Commissioners Court. We greatly appreciate the cooperation and assistance received from the management and staff of the Domestic Relations Office during this examination. Please contact us if you have any questions or concerns regarding this report.

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BACKGROUND

TITLE IV-D

Federal welfare funding provided to states under Title IV-D of the Social Security Act is tied to the state's establishment and operation of a child support enforcement program; hence, the program is referred to as "IV-D". In 1985, the OAG became responsible for these state programs. The OAG receives IV-D cases when qualifying custodial parents elect to apply for IV-D services. In addition, child support cases are automatically referred to the OAG when a custodial parent applies for public assistance or Medicaid.

The Travis County District Judges signed a Standing Order stating that starting on July 1, 2009, any cases involving a Suit Affecting Parent-Child Relationship (SAPCR) may qualify as a Title IV-D case. As a result of this order, the OAG contracts with DRO to record, monitor, and enforce all Travis County child and medical support orders that qualify as IV-D cases.

UTILIZATION OF REVENUE CONTRACTS

Section 231.002 of the Texas Family Code authorizes the OAG to enter into agreements for the purpose of obtaining assistance in administering Title IV-D services. Accordingly, the OAG contracts with several counties (including Travis County) to provide IV-D services for all divorce cases in those counties, usually through their local Domestic Relations Office. These OAG contracts have a term of two years and run from September 1st through August 31st in accordance with the State's fiscal year.

With the exception of federal incentive sharing, the OAG disburses the federal share of contract revenues to counties with which it has contracts. The federal share is equal to the percentage of child support enforcement expenditures reimbursed by the Federal Office of Child Support Enforcement to the states. The current federal share is 66% of qualifying expenditures.

REVENUE CONTRACTS

1. INTEGRATED CHILD SUPPORT SYSTEM CONTRACT

The Integrated Child Support System (ICSS) contract is the legal framework through which the OAG and Travis County work together to provide “comprehensive, effective, and efficient child support enforcement services for the Qualifying Caseload”. The contract defines qualifying caseload as all County child support orders deemed to have made an application for Title IV-D services pursuant to the County’s local rules.

Revenue Streams

The three sources of revenue for this contract are described below:

1. Per-Case Reimbursement - Obligated cases are those for which the child/medical support start date, dollar amount, payment frequency, and end date have been entered on the OAG computer system. DRO currently earns a monthly fee of \$17.42 for each obligated case that is active on the last day of the month, subject to DRO maintaining certain collection percentages.
2. Quality and Efficiency Incentives - DRO can qualify to receive additional monies based on their ability to meet or exceed the contract’s “Quality and Efficiency Exceptional Standards”. These standards include the following 12 measurement criteria:
 - Case Initiation and Order Entry
 - Case Transfer
 - Case Closure
 - Review and Adjustment
 - Locate Resources
 - Administrative Income Withholding Order
 - Enforcement
 - Expedited Processes – Six Months
 - Expedited Processes – Twelve Months
 - After Court Entry
 - Successful Disposition
 - Service Rate

If DRO meets all of these standards, it qualifies to receive \$0.40 per active case. If it meets or exceeds at least ten of the standards, the rate is \$0.35 per active case, and for at least eight, the rate is \$0.30 per active case.

3. Federal Incentive Sharing

DRO is eligible to receive a proportionate share of federal incentive revenues collected by the OAG for the following incentive measures: Collections on Current Support, Collections on Arrears, and Collections to Expense Ratio.

Performance Highlights¹

DRO achieved the following for the ICSS contract during the three contract years ending August 31, 2015:

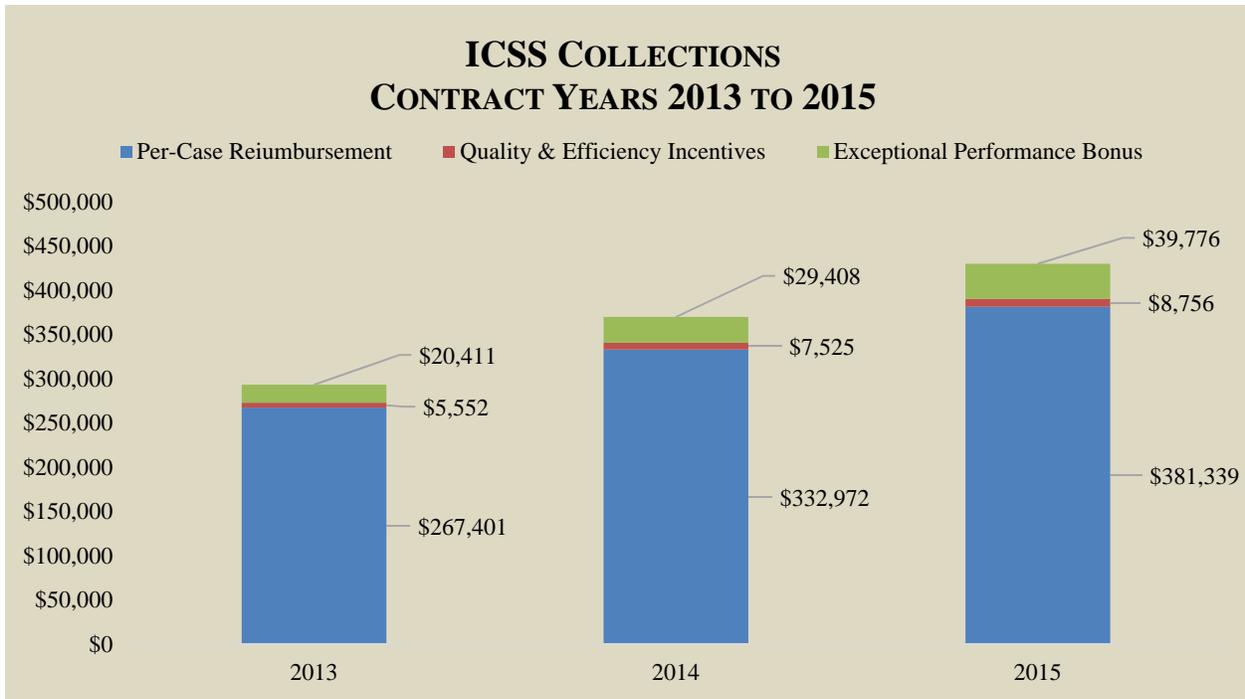
- DRO received the highest exceptional performance rating for meeting or exceeding each of the 12 quality and efficiency standards 97% of the time.

¹ Performance highlights were provided by DRO.

- DRO met or exceeded the contract’s disbursement goal 97% of the time and the medical support disbursement goal 86% of the time.
- DRO exceeded the contract-designated statewide percentages for both collections on current support and collection of balances in arrears 100% of the time.

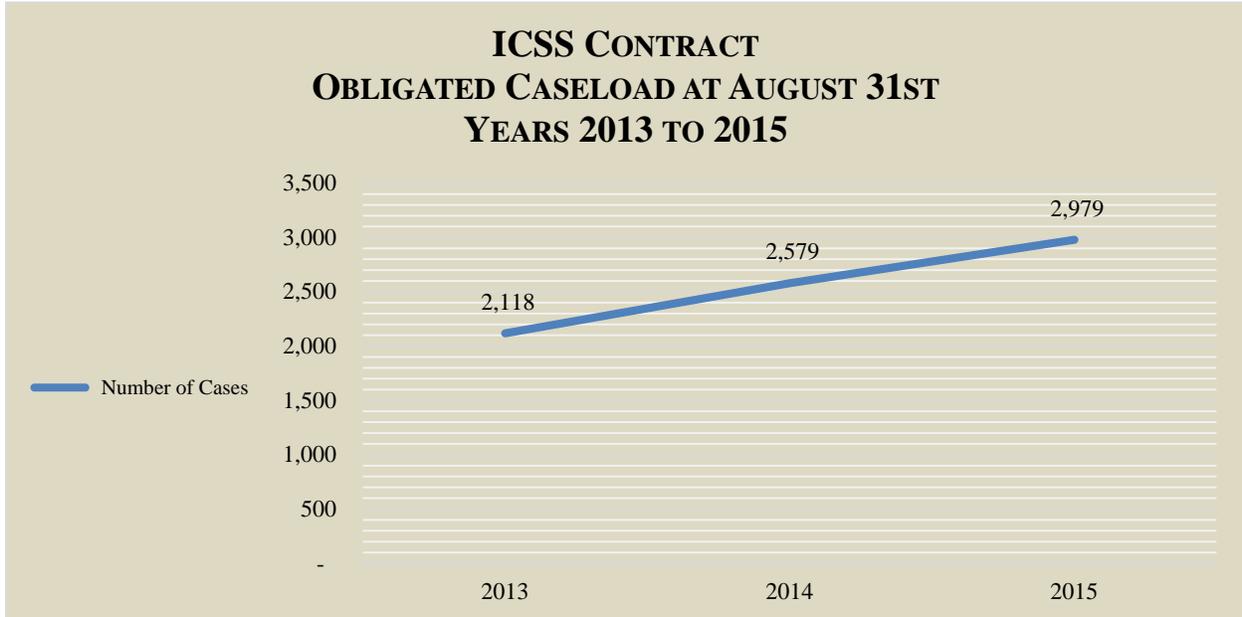
Contract Revenue and Caseload Graphs

Annual ICSS collections are broken down by revenue type and contract year below:



Data provided by DRO

The ICSS August 31st Obligated Caseload for years 2013 through 2015 are provided below:



Data provided by DRO

2. COMMUNITY SUPERVISION CONTRACT

DRO has entered into a contract with the OAG to provide community supervision monitoring services for Title IV-D cases for the purpose of enforcing child support and medical support orders. Only the cases requiring the non-custodial parent (NCP) to report to DRO for respondent monitoring (supervision) are covered by this contract. DRO begins community supervision monitoring services once an Order Suspending Commitment has been entered on the case.

This community supervision contract lists and defines “acceptable activities” for DRO to perform while providing monitoring and collection services, including, but not limited to, intake activities, NCP reports, phone calls, correspondence, field visits, and violation reports. The contract states which activities should be performed by DRO based on the status of the NCP (e.g., the payment percentage the NCP is achieving).

Contract Revenue Streams

The two sources of revenue for the Community Supervision contract are described below:

1. Per-Case Reimbursement - DRO currently earns a monthly fee of \$45 for each active case they administer, as long as the County maintains a monthly “collection-to-obligation” ratio of at least 55% and an “annual collection ratio” of at least 65%.
2. Exceptional Performance Incentives - When DRO meets the “Exceptional Performance Standards” stipulated in the contract, this division is entitled to additional monies on each active case. The Exceptional Performance Incentives are based on the number of consecutive

months DRO maintains an active caseload that makes payment on 75% or more of the total monthly obligation. Funds received are computed using tiers based on the number of months of compliance, capped at \$6 per case.

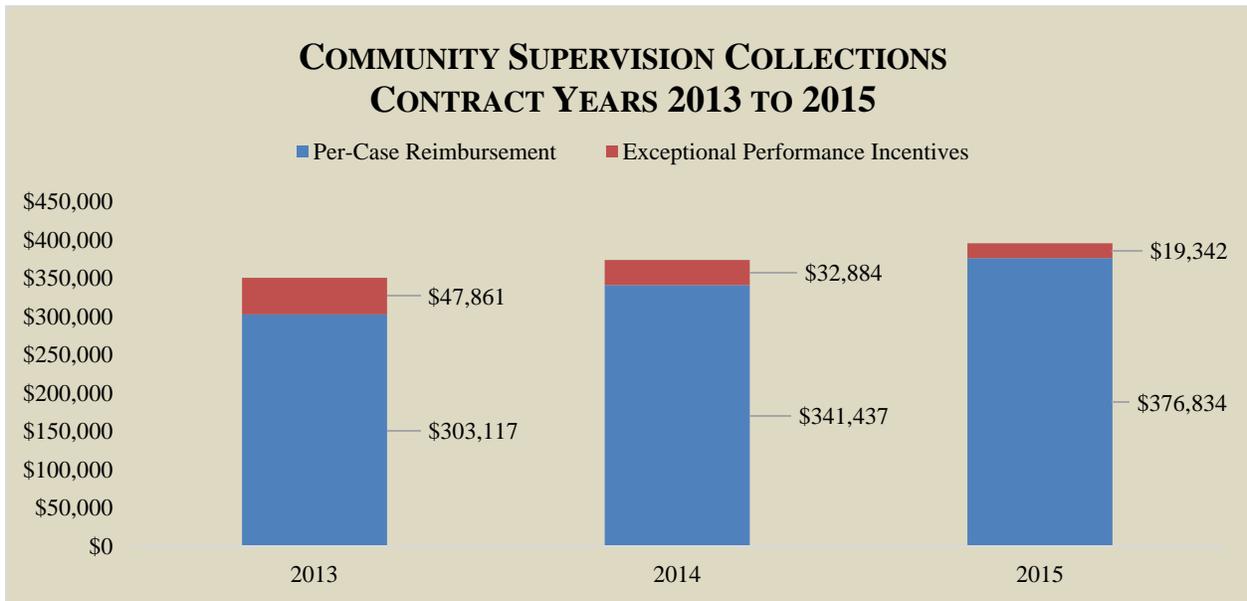
Performance Highlights²

DRO achieved the following for the Community Supervision contract during the three contract years ending August 31, 2015:

- DRO met the Exceptional Performance Standards every month of this three year period.
- DRO’s monthly collections ratio averaged 85% over the three years when the minimum required by the contract was 55%.
- Of the six Texas counties with community supervision contracts, DRO had the highest annual collections ratio for 2014 and was second in 2015.

Contract Revenue and Caseload Summaries

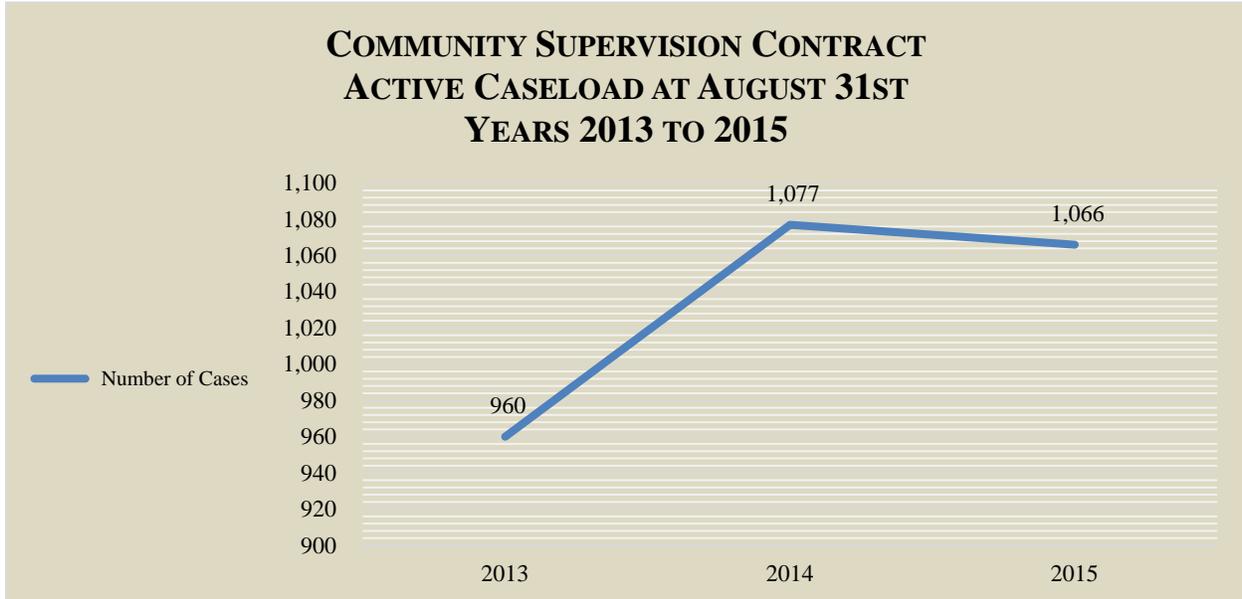
Community Supervision collections are broken down by revenue type and contract year below. Note that the contract fee structure changed during 2014, resulting in lower Exceptional Performance Incentive collections and higher Per-Case Reimbursements during that year and in subsequent years.



Data provided by DRO

² Performance highlights were provided by DRO.

The active caseload on August 31st for the years 2013 through 2015 is provided below:



Data provided by DRO

3. STATE CASE REGISTRY AND LOCAL CUSTOMER SERVICE CONTRACT

When a custodial parent has not applied for public assistance or Medicaid, and they exercise their right to decline IV-D services, their case falls under the purview of the State Case Registry and Local Customer Service contract (Customer Service contract). The purpose of the contract is multifaceted, as it requires DRO and the OAG to work together to provide the following:

- Create or update Registry-Only Case(s) on the OAG Case Management System with child support court order and family violence information.
- Gather and enter sufficient information on the OAG Case Management System to satisfy the requirements for State Case Registry.
- Provide quality local customer service as described in the contract.

Contract Revenue Streams

The four sources of revenue for the Customer Service contract are described below:

1. State Case Registry Complete Fee - The County currently earns a per-case activity fee of \$12.77 for each child support case DRO enters on the OAG Case Management System which contains sufficient data to be deemed "State Case Registry Complete".
2. State Case Registry Complete Update Fee - The County currently earns a per-case activity fee of \$4.06 for each update of State Case Registry Complete data or entry of additional information on the OAG Case Management System.

3. Local Customer Service - Full Service

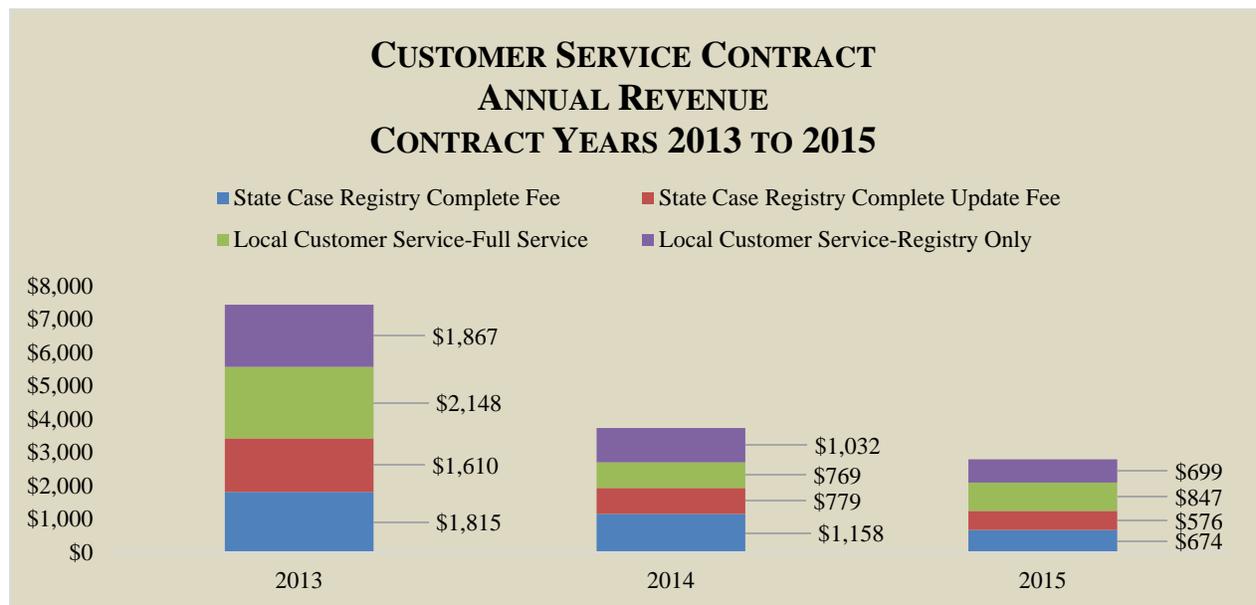
The County currently earns a fee of \$4.18 per inquiry on Full-Service Child Support Cases handled by DRO each month. The contract defines Full-Service Child Support Cases as “a case where an individual has applied for child support services from OAG, has not declined child support services from a local rule office, or is on public assistance and an automated referral has been received from the Health and Human Services Commission”.

4. Local Customer Service – Registry-Only³

The County currently earns a fee of \$4.18 per inquiry on Registry-Only Child Support Cases handled by DRO during the month. According to the contract, a Registry-Only case is created when “the Texas State Disbursement Unit records and processes child support payments, but the OAG does not monitor or enforce the obligation”.

Contract Revenue and Activities

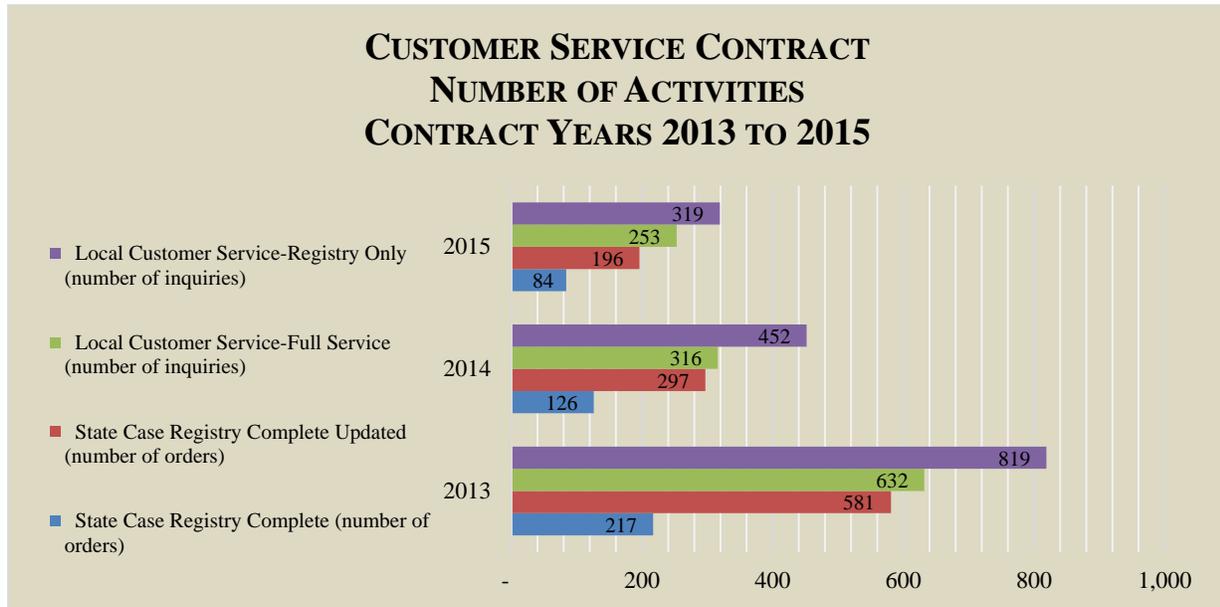
Customer Service contract collections are broken down by revenue type and contract year below:



Data provided by DRO

³ DRO is not entitled to this fee when the inquiry is made on a case that does not have wage withholding in effect.

The number of court orders and customer service inquiries processed by DRO for contract years 2013 to 2015 are provided below:



Data provided by DRO

AREAS OF CONCERN

1. COMMUNITY SUPERVISION CASES NOT MONITORED

Our review included verifying that DRO consistently provided community supervision monitoring (monitoring) services as directed by the court. This review included a comparison of the family cases with an Order Suspending Commitment rendered by a Travis County District Court Judge to the community supervision cases entered on DRO's Community Supervision Monitoring System (CSMS).

Specifically, we compared the cases in CSMS to the 546 cases in the Travis County court tracking system (FACTS) to which the 8269 event code had been posted in the period (FACTS event code 8269 denotes a court order suspending a jail commitment, which is often, but not always, followed by the NCP being placed on community supervision monitoring). During this comparison, we noted that 261 of the 546 FACTS cases were in CSMS, but 285 were not. We tested a random sample of 58 (20%) of the 285 cases that were in FACTS but not CSMS. During this review, we noted 14 (24%) cases for which the supporting documentation in FACTS indicated that DRO should have been providing community supervision monitoring for those cases.

DRO personnel stated that they were not notified of the existence of these cases by the OAG, but upon learning about them, immediately opened ten of the cases in CSMS and began NCP monitoring. DRO explained they could not open four of the cases due to pending legal actions and other issues; however, we were unable to obtain documentation to verify these statements due to federal confidentiality requirements.

To extrapolate the results of our testing, we applied the sample error rate of 24 % (14/58) to the number of items in the pool from which we selected our sample (285 FACTS cases not entered in CSMS) and arrived at an estimate of 69 monitoring cases for which DRO may not have been notified of by the OAG. The 69 case estimate only relates to cases incurring the 8269 FACTS event code during the 12 months ending March 31, 2016. With further extrapolation, we estimate the overall error rate for the 546 cases in FACTS to be 13% (69/546).

Significance:

Section 3.3 of the Community Supervision contract states the following in regard to the OAG's responsibility for notifying and providing DRO with court orders related to the community supervision cases:

3.3.1. The OAG is solely responsible for obtaining the requisite court order that requires the RESPONDENT to participate in the County Community Supervision program and for filing any subsequent motions to revoke or modify the RESPONDENT'S Community Supervision status.

3.3.2. For each case in the ACTIVE CASELOAD, the OAG will:

3.3.2.1. Direct the RESPONDENT to meet with County upon conclusion of the court proceeding that requires the RESPONDENT to participate in the County Community Supervision program;

3.3.2.2. Provide County with a copy of the court order requiring the RESPONDENT to participate in the County Community Supervision program;

3.3.2.3. Provide County with a copy of any court orders which modify or terminate the terms and conditions of the RESPONDENT'S Community Supervision obligations;

3.3.2.4. Notify County whenever the OAG has filed a motion to revoke, modify or terminate the terms and conditions of the RESPONDENT'S Community Supervision;

As previously mentioned, based on the testing performed, we estimate DRO is not being notified of 13% of the supervision monitoring cases. This is indicative of a significant problem with the OAG process for notifying DRO of these cases and providing the applicable court documents. The consequences for OAG's failure to meet their contractual obligations are as follows:

- These custodial parents are not receiving the benefit of DRO's monitoring activities such as NCP phone calls, correspondence, field visits, violation reports, etc. As a result, the custodial parent may not receive their child and/or medical support payments in a timely manner, if ever.
- The County incurs financial losses as the result of DRO not receiving notification and having the opportunity to monitor IV-D community supervision cases. It should be noted the estimates provided in this report are for the community supervision cases from the exam period only. NCPs are most often placed on community supervision for 10 years with the possibility of additional time, so it is reasonable to assume the losses would build over time. Estimates of the loss of County funds based on the audit findings are provided below:
 - DRO currently earns a monthly fee of \$45 for each active case they handle as long as they maintain collection ratios within the parameters specified in the contract. The OAG pays DRO the 66% federal share of these fees. DRO could be losing as much as \$24,592 (69 cases x \$45 x 12 months x 66%) on an annual basis if they are not notified of the estimated 69 cases mention above.
 - DRO is entitled to additional monies of up to \$6 per active case for which they meet the "Exceptional Performance Standards" described in the contract. Because the additional monies are based on the performance of contract activities, we are unable to estimate the loss.

Recommendations:

DRO should communicate the results of this examination to the OAG and work with them to determine where the breakdown is occurring in the OAG's process of notifying DRO of the community supervision cases DRO is required to monitor.

The findings in this report only relate to the new community supervision cases from the exam period (April 1, 2015 through March 16, 2016). NCPs are most often placed on community

supervision for an initial period of 10 years, and we only reviewed one year. Because of this, there may be a significant number of cases from prior periods of which DRO is unaware and is therefore not monitoring. It is important that DRO make a diligent effort to identify these cases. This would involve determining an appropriate period of time in the past to review, selecting the cases incurring FACTS event code 8269 activity, and verifying that the cases are in CSMS.

Going forward, we recommend that DRO implement controls to verify they are receiving notification of all of the community supervision cases they are required to monitor. For example, DRO could compare the applicable cases in FACTS to CSMS as suggested in the previous paragraph, but on a more frequent basis, such as weekly or monthly.

Management Response:

Based on the recommendations contained in the community supervision audit, the Community Supervision Unit will take or has taken the following steps:

- DRO will communicate the results of the examination to the OAG and will set a meeting with the OAG Regional Administrator to discuss audit findings and recommendations.
- On June 24, 2016 the Community Supervision Unit began a project to go back and review orders on FACTS/DMS with event code 8269. It is the intent of the project to review all orders for the time period of April 1, 2015 to date. As of July 15, 2016, all orders for the time period November 1, 2015 to July 18, 2016 have been reviewed by the Casework Manager. Any cases not on CSMS that should have been were immediately entered on CSMS and monitoring activities were begun by the Community Supervision Officers.
- The Community Supervision Unit now has access to and runs all 8269 FACTS event code files on a daily basis so any orders not sent by the OAG to DRO are immediately captured and placed on CSMS. The task of running the files and the review of the orders is the responsibility of the Casework Manager.

2. CONTRACT PAYMENTS NOT COLLECTED

We examined the ICSS, Community Supervision, and Customer Service contract billings for the three contract years ending August 31, 2015. During this review, we noted some OAG payments were never received and several payments were not collected in a timely manner. We extended this review through the end of the examination period, March 31, 2016 (a period of 43 months), noting similar findings. Specifically, there were three (7%) contract invoices totaling \$1,140 that the OAG had not paid. The billing dates and amounts are provided below:

<u>Billing Month</u>	<u>Amount</u>
May 2013	\$470
January 2014	\$248
July 2014	\$422
Total	<u>\$1,140</u>

Subsequently, DRO submitted these invoices to the OAG for payment. While it appears that the OAG will pay the January and July 2014 invoices, they will not be able to pay the May 2013 invoice. The OAG stated that they are only able to pay invoices from the current fiscal year plus the two prior fiscal years. Since the OAG will not be paying the May 2013 invoice, the County has incurred a loss of \$470.

In addition to not receiving payment on the above invoices, DRO did not collect payments on several invoices in a timely manner, as detailed below:

- There were nine (21%) Community Supervision invoices totaling \$306,932 for which payment was received from two to five months after the billing period ended.
- There were eight (19%) Customer Service invoices totaling \$3,181 for which payment was received from two to seven months after the billing period ended.
- There were eight (19%) ICSS invoices totaling \$182,045 for which payment was received from two to five months after the billing period ended.

DRO stated that some of the late collections were caused by delays in finalizing the contracts with the OAG. While DRO continued to provide services without active contracts in place, the OAG was unable to pay for these services until the contracts were completed.

Significance:

County employees have a fiduciary responsibility to safeguard County funds. This extends to the duty to pursue the collection of all monies owed to the County. In addition, contracts may contain terms limiting the County's ability to collect payment to a specified timeframe. For example, Section 5.4.2 of the Customer Service contract states the following in regard to the limitations of the OAG's liability:

OAG may decline to reimburse costs which are submitted for reimbursement more than sixty (60) calendar days after the State Fiscal Year calendar quarter in which such costs are incurred.

Recommendation:

We recommend that DRO implement policies and procedures for collecting on revenue contract billings, ensuring sufficient management review and proper segregation of incompatible duties. In addition, DRO should follow up with the OAG to ensure payment is received on the January and July 2014 invoices.

We also recommend that DRO work with the OAG to (1) determine what can be done to finalize these revenue contracts in a timely manner and (2) develop a procedure to help ensure that DRO continues to receive timely payments for contract services rendered, even when there are delays in finalizing the contracts.

Management Response:

Effective immediately, the Domestic Relations Office (DRO) will implement the recommendations as advised by making the following changes and/or improvements:

- The DRO will review and update policies and procedures for collecting on revenue contract billings, taking care to ensure proper segregation of duties and management involvement.
- The DRO received payment for the January and July 2014 invoices on August 2, 2016 and forwarded the checks to the County Auditor's Office for processing.
- The DRO will work with the OAG to (1) determine what can be done to get the child support contracts finalized in a timelier fashion, and (2) develop a procedure for making sure DRO continues to receive timely payments for contract services rendered.

3. CHILD SUPPORT ENFORCEMENT SERVICES NOT PROVIDED

Our review included verifying DRO has been providing monitoring and enforcement services for all of the cases they were contractually obligated to administer. To do this, we compared Travis County's Suits Affecting the Parent-Child Relationship (SAPCR) cases adjudicated during the examination period (April 1, 2015 through March 31, 2016) to the Texas Child Support Enforcement System (TXCSES).

Specifically, we obtained a list of the 2,050 cases in the Travis County court tracking system (FACTS) to which SAPCR event codes (8207, 8287, 8600, and 8680) were applied. We compared this list to the corresponding cases tracked in TXCSES, noting that 561 of the cases were in TXCSES, but 1,489 were not. It should be noted that child support is not always ordered on SAPCR cases and there are other valid reasons why the cases would not be in TXCSES.

We tested a random sample of 70 (5%) of the 1,489 cases found in FACTS but not in TXCSES, noting three (4%) cases for which the supporting documentation in FACTS indicated that DRO should be tracking the case in TXCSES and providing enforcement services. DRO personnel stated that they were not aware of these cases because they did not receive court documents for them in the daily FACTS download of the cases heard in Family Court.

Significance:

DRO is not fulfilling their ICSS contractual obligations when they fail to timely identify qualifying cases and perform the required duties. The contract defines qualifying caseload as "all County child support orders deemed to have made an application for Title IV-D services pursuant to the County local rule". Section 3.1 of the agreement states the following in regard to DRO's responsibilities, exclusive of the performance standards and measures:

3.1.1.1. Provide physical facilities for county personnel as necessary to timely process the Qualifying Caseload and to accommodate information system needs, including but not limited to related utility services and physical support.

3.1.1.2. Provide county personnel as necessary to effectively and efficiently administer, including administrative and judicial enforcement of, the Qualifying Case load in compliance with federal and OAG-CSD performance measures and requirements and federal Data Reliability standards.

3.1.1.3. Comply with federal and OAG requirements, policy and procedures (unless OAG-CSD specifically excludes a certain policy or procedure) regarding case initiation, record retention, reporting, confidentiality, case processing, administrative enforcement, judicial enforcement and money handling.

3.1.1.4. Provide quality customer service;

When DRO does not identify a qualifying child support order, the case is not entered in TXCSES and DRO does not provide enforcement services. As a result, the custodial parent may not receive their child and/or medical support payments in a timely manner, if ever. In addition, the County incurs financial losses when DRO does not identify qualifying cases and fulfill their contractual obligations. DRO is entitled to the following contractual fees:

- Monthly reimbursement of “certain allowable costs” which is calculated as follows: Number of active cases x \$17.42 x 66% (the federal share percentage).
- Monthly federal incentive payments which are based on DRO’s performance.
- Annual federal incentive payments which are based on meeting the previous year’s performance measures.

Recommendation:

We recommend that DRO review its process for identifying child support cases that require DRO enforcement services. DRO personnel should determine why the three cases noted were not identified. Processes and/or controls should be implemented or improved to help ensure this situation does not recur going forward.

The findings in this report only relate to the child support orders rendered during the exam period of April 1, 2015 through March 16, 2016. DRO personnel should make a diligent effort to identify child support orders overlooked during previous periods. This would involve determining an appropriate period of time in the past to review, obtaining a list of cases with FACTS event code 8207, 8287, 8600 and/or 8680 activity, and matching this list to a TXCSES list of active enforcement cases. Although only 4% of the cases in the sample were not entered in TXCSES, a relatively low percentage, DRO has a fiduciary duty to handle all of their cases.

Going forward, DRO should implement controls to verify they are receiving notification of all of the cases for which they are required to provide enforcement services. For example, an independent supervisor/manager-level employee could obtain a list of FACTS cases containing the applicable event code activity, comparing it to a list of active cases in TXCSES. For any cases that are in FACTS but not TXCSES, the reviewer would review the court transactions in FACTS to determine if the case should have been entered into TXCSES.

Management Response:

Effective immediately, the Domestic Relations Office (DRO) will implement the recommendations as advised by making the following changes and/or improvements:

- The DRO will review its process for timely identifying all qualifying cases to fulfill its contractual obligations and will look at ways to improve the automated case delivery system by conferring with the District Clerks Office regarding all court orders rendered by the District Judges in the Family Courts.
- The DRO will make a diligent effort in identifying child support orders that may have been overlooked during previous periods as additional staff and resources become available.
- The DRO will implement controls to verify that all notifications of cases are received that will include conducting independent reconciliations of FACTS cases to cases in TXCSES.