Final Report

Study of the Implementation of the Performance-Based Incentive System

Prepared for:
Office of Child Support Enforcement

Prepared by:
The Lewin Group
Karen N. Gardiner
Michael E. Fishman
Asaph Glosser

and

ECONorthwest
John Tapogna

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EXECUTIVE SUMMARY

A. Purpose of the Study

Since 1975, the federal government has paid incentives to state child support enforcement (CSE) programs to encourage improved collections through efficient establishment and enforcement techniques. These incentive payments are a key source of funding for state programs. The method for calculating incentive payments changed with the adoption of the Child Support Performance and Incentive Act (CSPIA) in 1998. Prior to CSPIA, the incentive amount was determined by the cost-effectiveness of each state's program—that is, total collections divided by total administrative expenditures. CSPIA changed the incentive process in multiple ways. Key elements of the new system include:

- Incentive payments are linked to performance in five areas: paternity establishment, order establishment, collections on current support due, cases paying toward past-due support, and cost-effectiveness.

- Data must be reliable and complete, as determined by data reliability audits.

- Incentives are based on state child support collections and performance. Each state's collection base is determined by the sum of (1) collections for current and former assistance cases and Medicaid-only cases multiplied by two and (2) collections for cases never on public assistance.[1] The state collection base is then multiplied by a specified percentage, depending on performance.

- States are paid from a capped incentive pool. The pool increases from $422 million in Fiscal Year 2000 to $483 million in Fiscal Year 2008.

- Penalties are associated with failure to meet or improve performance for three of the measures: paternity establishment, order establishment, and current collections.

- Incentives must be reinvested into state CSE programs; they must supplement, and not supplant, other funds used by the states to carry out CSE activities.

The 1998 law requires the Department of Health and Human Services to produce interim and final reports that detail the implementation of this new system and offer recommendations for changes in the system that would improve operation of the program. The *Interim Report*[2] provided background on the new incentive system, including its structure; described the incentive calculation and payment processes, including data collection and data reliability audits; and provided information on audit results and incentive payments for Fiscal Years (FYs) 1999 to 2001, including trends in incentive payments. This report first updates trends in state performance. Next, it explores state CSE programs' experiences with the implementation of the

[1] Assistance cases are those receiving Temporary Assistance for Needy Families or Foster Care services.

[2] K. Gardiner, M. Fishman, A. Glosser, and J. Tapogna. *Study of the Implementation of the Performance-Based Incentive System: Interim Report.* Prepared for the Office of Child Support Enforcement, U.S. Department of Health and Human Services, Washington, D.C. October 2003.

new system and their perceptions of the system's problems, successes, advantages, and disadvantages.

B. Key Findings

State and local CSE staff expressed near universal support for the new incentive system. While almost every state and local official interviewed recommended refinements, nearly all agreed the performance-based incentive system focused state and local energies on the important core functions of the CSE program.

New system measures the appropriate areas. The majority of state and local CSE respondents believed that appropriate performance measures were selected and weighted correctly. Specifically, they expressed strong support for the measures that are most directly associated with the core CSE mission of getting support to families: paternity establishment, order establishment, and collections on current support due. Most respondents said the five measures were adequate and that adding new ones would be premature.

Performance thresholds are reasonable. Most respondents agreed that the performance thresholds associated with incentive payments were about right (e.g., states that establish 80 percent of paternities receive 100 percent of the payment).

Reporting system shows performance has improved in most areas. Analysis of OCSE administrative data shows state performance in most incentive areas improved between FYs 2000 and 2002. Median scores for states with reliable data increased for CSE paternity establishment (from 70 percent to 87 percent), cases with orders (from 67 percent to 73 percent), cases paying toward past-due support (from 57 percent to 61 percent), percent of current support collected (55 percent to 59 percent), and cost-effectiveness (from $4.13 to $4.49). The median state score for the statewide paternity establishment measure remained over 90 percent.

Data reliability improved during the three-year implementation period. In addition to improving performance, states also improved data reliability. Between FYs 2001 and 2002, the number of states failing a data reliability audit for at least one measure decreased by half, from 25 to 12. Discussions with CSE officials indicated that states have devoted considerable resources to improve data reliability, such as revisions to their automated systems (e.g., automating key forms used in the audit and creating safeguards to catch human errors); extensive data clean-up projects, often in response to issues identified by federal auditors; and assessment of performance of local offices. In general, states suggested that the increased importance the new system places on data reliability has had a positive effect on the overall effectiveness of their programs.

State CSE programs have taken steps to ensure that all staff is working toward performance improvement. States have gone to significant lengths to disseminate the information on the federal performance measures. States reported that child support staff is aware of the performance measures, their importance to the program's mission, and their fiscal implications. Activities include:

- Providing education and training in multiple forums, including statewide and regional CSE conferences, monthly office meetings, newsletters, emails, and presentations.

- Creating specialized training teams that review regional and office-level performance and tailor training activities to address observed deficiencies.

- Developing automated systems to track performance at regional and office levels.

- Using some or all federal measures in workers' performance evaluations.

State CSE programs adopted a number of policy changes to affect measures. States report that performance improvement is factored into almost every initiative that child support agencies undertake. Policy changes include:

- Reviewing cases that are appropriate for closure under federal guidelines. Under the previous incentive system, keeping inactive cases on the system did not affect state performance. Under the new incentive system, these cases are included in the universe of open cases and can negatively affect state performance on the paternity establishment and cases with orders measures.

- Emphasizing the creation of "payable" child support orders. State policies include an attempt to lower the rate of default orders (i.e., those entered when a non-custodial parent does not respond to requests for financial information or requests to appear at an administrative forum or court) that are often based on imputed income, or by adding a self-sufficiency reserve to child support guidelines that allows the non-custodial parent to maintain a minimal subsistence level. The policies are not intended to absolve the non-custodial parents of their responsibilities to their children, but aim to increase the likelihood that they will provide consistent support to their children over the long term.

- Increasing reliance on administrative processes to establish orders in an attempt to expedite establishment and improve performance on the order establishment measure.

- Encouraging payment of current and past-due support orders by offering non-custodial parents amnesty from interest payments if they negotiate an arrearage payment plan or extending current support collections when a child reaches the age of majority if the non-custodial parent owes arrears.

Change in incentive payments to individual states—relative to what they would have received under the old system—is related to performance and the nature of the state's caseload. Empirical analysis indicates that change in any given state's incentive payments—relative to what it would have earned under the old system—could be largely explained by the following: (1) state performance and reliable data are strongly and positively associated with higher payments under the new system, and (2) the proportion of a states' collections that come from current assistance cases is strongly and negatively associated with the change in incentive payments under the new system.

State CSE officials do not want OCSE to adjust incentive payments for state socio-economic conditions. Child support officials were asked if the new system favors states with certain profiles, such as affluent populations, and, if so, whether states should be compensated for factors beyond their control. Most respondents agreed that CSE programs operate in different socio-economic environments. However, the majority opposed adjusting incentive payments to

account for those differences, because such adjustments would add complexity and uncertainty to an already complicated payment system and gaining consensus on an appropriate list of adjustment factors would be extremely challenging.

State CSE officials recommended refinements to the new incentive system.

- *The capped incentive pool raised concerns*. State officials noted that the cap makes estimating incentive payments very difficult. Because states are competing for a fixed pool of incentive dollars, a state must anticipate not only its own performance and data reliability, but also that of every other state, in order to forecast its own incentive payments. Moreover, they expressed concern that the cap creates a dynamic in which better performance is not always matched by higher payments. Because incentive payments are a function of both performance and state collections, a state could improve performance but receive a lower payment if other states with larger collection bases also improved their performance or data reliability. For these reasons, officials from all study states voiced support for removing the cap. Although states strongly supported the cap's removal, the interview protocol did not explore how the federal government would pay for incentive payments that exceeded the amount currently authorized.
- *The audit schedule does not allow for a full corrective action period*. A state faces a penalty if OCSE auditors find its data to be unreliable or incomplete and the state fails to correct the deficiencies. OCSE grants a one-year corrective action period before assessing the penalty. State officials reported that the current audit schedule provides insufficient time to correct errors. In the past two years, OCSE has released its audit findings between March and July, which has left states with as little as three months to correct any errors before they must submit data for the next fiscal year (October 30th, with corrections permissible through the end of December). States receive informal feedback from the auditors when they are on site—after the start of the calendar year. However, even with the early feedback, states still have less than a full corrective action year.
- *Less frequent data reliability audits would be sufficient***.** The majority of state officials suggested that once a state has passed the audit for all measures for a number of years, OCSE should move to a less frequent audit process—perhaps every two or three years.

I. INTRODUCTION

A. Background

States finance their child support enforcement (CSE) programs through a variety of funding streams. The largest stream of program revenue is Federal Financial Participation, in which the federal government reimburses states for 66 percent of allowable child support costs. States finance the remaining 34 percent (or the state share) of CSE expenditures with state or local general fund appropriations and some combination of the following revenue sources:

- State share of retained Temporary Assistance for Needy Families (TANF) collections
- User charges and fees
- Federal incentive payments

Federal incentive payments are the subject of this study. An earlier study found that in Fiscal Year (FY) 1997, incentives funded 25 percent of state CSE programs.[3] Directed by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the Department of Health and Human Services (DHHS), in consultation with state CSE directors, developed a performance-based incentive funding system. In 1998, Congress enacted the Child Support Performance and Incentive Act (CSPIA).

The 1998 law requires DHHS to produce interim and final reports that detail the implementation of this new system and offer recommendations for changes in the system that would improve operation of the child support program. The *Interim Report*[4] provided background on the new incentive system, including its structure; described the incentive calculation and payment processes, including data collection and data reliability audits; and provided information on audit results and incentive payments for FYs 1999 to 2001, including trends in incentive payments. This report first updates trends in state performance. Next, it explores state CSE programs' experiences with the implementation of the new system and their perceptions of the system's problems, successes, advantages, and disadvantages.

1. Original Incentive System

The federal government has paid incentives to state programs since the inception of the child support enforcement program (Title IV-D of the Social Security Act) in 1975. The initial rationale was to encourage improved collections. Originally, incentives were calculated by determining each state's cost-effectiveness—defined as total collections divided by total administrative expenditures. Depending upon a state's cost effectiveness, the federal

[3] M. Fishman, K. Dybdal, and J. Tapogna (1999). *State Financing of Child Support Enforcement Programs*. Prepared for the Assistant Secretary for Planning and Evaluation and the Office of Child Support Enforcement, U.S. Department of Health and Human Services, Washington, D.C.

[4] K. Gardiner, M. Fishman, A. Glosser, and J. Tapogna. *Study of the Implementation of the Performance-Based Incentive System: Interim Report.* Prepared for the Office of Child Support Enforcement, U.S. Department of Health and Human Services, Washington, D.C. October 2003.

government paid an incentive ranging from 6 to 10 percent of the state's collections.[5] Incentive payments were not contingent upon any measure of data reliability.[6]

Federal and state policymakers believed this incentive payment structure had two shortcomings. First, the difference between minimum and maximum incentive payments was only 4 percentage points, and the system guaranteed states a minimum of 6 percent of total collections, regardless of their performance. To a degree, these conditions acted as a disincentive for states to actively attempt to improve the quality of their child support programs. Second, the system focused only on cost-effectiveness, ignoring other important aspects of state CSE programs, such as paternity establishment and order establishment.

2. Performance-Based Incentive System

PRWORA required the DHHS Secretary to develop a performance-based, revenue-neutral incentive system in collaboration with state CSE directors. In response, the Office of Child Support Enforcement (OCSE) convened the Incentive Funding Work Group (Work Group), which consisted of 26 representatives from state and local IV-D programs, DHHS regional offices, and the OCSE central office. The Work Group's final report recommended to the Secretary of DHHS the structure and components of the new incentive system.

In 1998, Congress enacted CSPIA, which adopted many—but not all—of the Work Group's recommendations. CSPIA changed the incentive process in multiple ways. Key elements of the new system include:

Incentive payments are linked to state performance in five areas. States are assessed on the percent of paternities established, the percent of orders established, the percent of current support collected, the percent of cases paying toward past-due support, and cost-effectiveness.

Data must be reliable and complete. OCSE conducts annual data reliability audits for each state. If an audit finds that a state's data is not complete and reliable for a given measure, the state receives zero payments for that measure.

Incentives are based on state collections and performance. The incentive calculation process begins with the calculation of each state's collection base, which is the sum of (1) collections for current and former assistance cases and Medicaid-only cases multiplied by two and (2) collections for cases never on public assistance. Collections from current and former TANF, Foster Care, and Medicaid-only cases are doubled to encourage states to continue to work what are often difficult cases and to collect support for families working toward self-sufficiency.

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[5] Between 1975 and 1984, incentive payments applied only to collections for families on public assistance. Starting in 1984, incentive payments were extended to non-welfare collections. However, as an inducement to retaining a focus on welfare-related collections, Congress limited non-welfare collections to a percentage of welfare collections (115 percent).

[6] Audits of state IV-D programs were conducted at least once every three years to ensure compliance with federal IV-D requirements. The primary focus of the audits was on administrative procedures and processes as opposed to performance outcomes and results.

The collection base for the paternity establishment, cases with orders, and current collections measures are weighted higher (at 100%) than the other two measures (at 75%).

Once the collection bases are calculated, they are multiplied by a specified incentive percentage, depending on state performance (e.g., a state establishing an order for 80% of its cases is eligible for 100% of the incentive payment). The Work Group recommended the percentages based on established standards of performance.

OCSE pays incentives from a capped incentive payment pool. Congress limited incentive payments to the levels projected by the Congressional Budget Office (CBO) at the time Congress was considering the legislation. By capping the amount of incentives paid, Congress ensured total payments would not exceed those anticipated under the old system, and thus would have no effect on the federal budget.

States must reinvest incentives into state CSE programs. Incentives must supplement, and not supplant, other funds used by the state to carry out child support enforcement activities.

Penalties are associated with failure to meet or improve performance. Penalties are assessed for three measures: paternity establishment, order establishment, and current collections.

B. Methodology

Project work for the final report included data analysis, in-depth interviews with CSE officials in nine states, and conference calls facilitated by the National Council of Child Support Directors.

1. Data Analysis

The *Interim Report* included state performance trend analysis for FYs 1999 to 2001. This report updates the analysis. In addition, we conducted empirical research to help us understand the factors that affect state performance under the new incentive system and to inform the state selection process. We developed a statistical model to explain changes in state incentive payments during the transition to the new system. Underlying this work is a multivariate regression analysis that predicts the percentage difference in incentive payments received under the new and old incentive systems based on a number of factors, including:

- State's share of the national collection base;
- Share of the state's collections associated with current- and former-assistance cases;
- State performance on the five measures; and
- Other economic and demographic characteristics.

2. In-depth Interviews

The primary method of data collection was in-depth interviews with IV-D staff from nine states. In selecting states, we took into account a number of factors:

Incentive funding under the new system. We selected states that received more funding under the new system as well as those that received less funding.

Experience with audits. The data reliability audits are a key step in the new incentive system and can have a large effect on incentive payments. We selected states that had multiple audit failures as well as those that passed all of their audits.

Change in performance. Some of the states selected performed poorly during the initial year of the new incentive system and subsequently improved. We wanted to learn what specific steps these states took to improve their performance.

Percent of collections for current and former public assistance recipients. Collections associated with current and former public assistance cases and Medicaid-only cases are doubled when determining a state's collection base. Interviews conducted for the *Interim Report* suggested that the proportion of collections associated with the welfare system would have an effect on incentive payments. We included states with a high proportion of public assistance-related collections and states with lower proportions of such collections.

State characteristics. We selected states that were diverse in terms of geography, size, urbanicity, and structure of the CSE program (e.g., state versus county administered). States were selected in consultation with the federal project officer. The nine study states were:

- California
- Maine
- Maryland
- New Jersey
- North Carolina
- South Dakota
- Texas
- Virginia
- Washington

In each state, we interviewed a range of child support officials at both the state and local level (see ***Exhibit I.1***).

Exhibit I.1: Staff Interviews

State-Level Staff	Local-Level Staff	County-Level Staff (if appropriate)
• IV-D director • Policy director • Budget director • Systems or data director	• Office-level supervisors selected by the central office • Office-level caseworkers	• County-level IV-D director

We developed detailed interview guides that were divided into six sections: structure of the new incentive system, the incentive implementation process, data collection and audit processes, state activities to improve performance, budget ramifications of the new incentive system, and state assessments of the new system. The guides were tailored to the staff person

interviewed (e.g., state-level staff guides contained more questions about data reliability audits than the caseworker guides).

3. Conference Calls Facilitated by the National Council of Child Support Directors

Finally, the National Council of Child Support Directors notified us that a number of states—beyond the nine selected for the study—were interested in providing input into the study. The chair of the Council offered to coordinate voluntary conference calls with interested state staff—typically IV-D directors. Topics discussed included the structure of the new system (e.g., whether the correct areas are measured and, if not, what should be included or excluded); whether the new system favors states with certain profiles and, if so, whether states should be compensated for factors beyond their control; and general perceptions about the data reliability audit. These comments are incorporated into the report where appropriate.

C. Structure of Report

The remainder of this report is divided into six sections.

- **Section II** details recent trends in state performance and the empirical research findings.
- **Section III** describes state perceptions about the structure of the new incentive system, including the five performance measures, the performance standards, the factors that affect state performance, the cap, and the implementation time frame.
- **Section IV** explores views about the data reliability audit and describes state data quality control efforts.
- **Section V** describes state CSE efforts to improve performance on the incentive measures, including staff education, tracking the performance of line workers, and policy changes.
- **Section VI** explores budget issues, including state CSE efforts to predict incentive payments.
- **Section VII** provides conclusions.

II. STATE PERFORMANCE

A. Introduction

In FY 2002, state CSE programs had three years of experience with the new incentive system.[7] As states' familiarity with the new system grows and they adopt policies and practices to improve their programs, one would expect them to exhibit stronger performance in each of the five measures and produce more reliable data. This section reviews trend data for the five performance measures from FYs 2000 to 2002; describes state performance on the data reliability audits; and explores factors that are associated with strong performance under the new system.

B. Trends

The trend analysis explored performance for FYs 2000 and 2002 in six areas: the two paternity establishment measures (states have the option of calculating paternity establishment for the IV-D caseload or statewide), cases with orders, collections on current support due, cases paying toward past-due support, and cost-effectiveness. As ***Exhibit II.1*** indicates, for states that passed data reliability audits, performance improved in most areas.

Exhibit II.1: Trends in State Performance
Median State Scores, FYs 2000 and 2002*

Measure	FY 2000 Median Score	FY 2002 Median Score	Percent Change FY 00-02
Paternity—IV-D	69.93	86.64	24%
Paternity—Statewide	91.92	90.14	(2%)
Cases with Orders	67.09	73.10	9%
Current Support Collected	54.60	58.50	7%
Cases Paying Arrears	57.41	61.03	6%
Cost-Effectiveness	$4.13	$4.49	9%

* States that did not pass data reliability audits in FYs 2000 or 2002 are excluded from the calculations of the measure for which they failed.

The median state score on each of the five performance measures increased. Improvements were especially pronounced for states that use the IV-D paternity establishment measure. The median state increased its performance by 24 percent, from about 70 percent of paternities established to over 86 percent. States increased the percent of cases with orders by almost 10 percent, from 67 percent of cases to 73 percent. There was also improvement in the areas of current support collected, cases paying toward past-due support (arrears), and cost-effectiveness. Performance decreased slightly for states that used the statewide paternity establishment measure, but remained above 90 percent.

These calculations do not include states that did not pass data reliability audits. As will be discussed further in **Section IV**, each performance measure is audited for completeness and

[7] Incentive payments were based, at least in part, on the new system starting in FY 2000. However, states were first exposed to the new system in FY 1999, the first year that data was audited. The audit results were not factored into the incentive payments that year.

accuracy. A state that does not pass a data reliability audit for a measure does not receive an incentive payment for that measure.

State data accuracy improved markedly between FYs 2000 and 2002. In FY 2000, 21 states failed an audit on at least one measure. In FY 2002, only 12 states did so, despite the increased standard that needed to be met to pass the audit. No states failed the audit for the current collections and cost-effectiveness measures, and less than 5 percent of all states failed the statewide paternity establishment, order establishment, and arrears measures. However, states that use the IV-D paternity establishment measure continued to experience data problems. In FY 2000, over 40 percent of states using this measure failed their data reliability audits; 35 percent did so in FY 2002.

C. Empirical Analysis

Our final data analysis task explored factors that affect state payments under the new system relative to payments earned had the old incentive system remained in place. State officials advanced many theories about how the new incentive system is either an advantage or disadvantage to states with certain characteristics. For example, some officials believe that "universal states," those with large non-assistance caseloads, have an advantage under the new system. Under prior rules, OCSE capped incentives for non-assistance collections. The new system continues to emphasize assistance-related collections by double-weighting current- and former-assistance collections. However, CSPIA also removes the cap on never-assistance collections. Observers also note that states with large shares of never-assistance cases should—holding other factors constant—exhibit better performance because the cases consist of higher-income clients with more stable economic profiles.

Others counter that the mix of collections matters less than overall size of the state's caseload and its collection base because incentive payments for each performance measure are a function of a state's collection base. Under the previous system, incentive payments were based on collections, too. But under the new system, a state's share of the incentive pool is its collections as a proportion of the national incentive base, or the sum of all state collection bases. Although this system is designed so that a state's share of the incentive pool is proportional to the size of its collection base, some believe that states with a very small share of the national collection base are inherently disadvantaged under the new system.

Finally, other observers point to demographic and economic conditions and suggest that states with traditionally high rates of unemployment and poverty, and urban populations are inherently disadvantaged by factors that are largely outside the control of the IV-D agency.

Given the variety of observations and theories advanced, we analyzed the states that performed better under the new system and those that received fewer incentive dollars in the transition between incentive systems. To conduct such an analysis, we reviewed two components of incentive calculations in FY 2001:

- FY 2001 incentive payments if the new incentive system had been fully phased in; and
- FY 2001 incentives payment if the old system were still fully in place.

In FY 2001, OCSE based actual incentive payments on the weighted average of the two amounts, with two-thirds of the actual payment based on the new system and one-third based on the old one. By focusing on the constituent parts of this calculation, a clearer picture of states that benefited and those that lost under the new system emerges.

The analysis found the average state would receive 13 percent more incentive dollars under a fully phased-in new system than under the old system. The average state payment would have been $8.3 million under a fully phased-in new system compared with $7.4 million under the old system. The change in incentive payments between the new and old systems ranged from a 186 percent increase in payments in one state to an 88 percent decline in another. Data reliability played a key role in payments. The 33 states that would have earned more incentives under a fully phased-in new system combined for a total of 14 audit failures, or an average of 0.42 failures per state. The 18 states that would have earned fewer incentive dollars under a fully phased-in new system combined for 19 audit failures, or an average of 1.05 failures per state.

Although state performance and data accuracy and completeness are critical elements of the new system, we noted examples of states that had solid performance and few or zero audit failures that still lost incentive funding relative to the old system. To gain a better understanding of the factors that affect payment outcomes in the transition from one incentive system to the other, we conducted regression analyses. The data lend themselves to an application of ordinary least squares regression analysis. This statistical technique allows an exploration of the independent relationships between the change in incentive payments and each of the factors that we hypothesize affect that change.[8] For example, we would like to know whether collections associated with current- and former-assistance cases continue to exhibit a relationship with the change in incentives payments—after holding constant other important factors. In this analysis, we used the following independent variables:

- **State performance under new incentive system**. This variable is a weighted sum of state performance on each measure. It is possible, for instance, that a state passed all its audits but received low incentive payments because of poor performance (e.g., 45 percent of orders established). *The variable also takes into account audit failures* (i.e., a state receives zero payments for any measure in which it fails an audit). No state received 100 percent of its potential payment in FY 2001. The proportion of potential incentives earned ranged from 7 percent (in a state that failed data reliability audits for four measures) to 91 percent.

- **State's share of the national collection base**. Several IV-D officials speculated that states with a larger share of the collection base are advantaged under the new system. State share of the national collection base ranged from 0.002 percent to 12 percent.

- **Percent of state collections for current and former public-assistance recipients.** Under the previous incentive system, states received a payment that was based largely on public assistance-related collections. Those for former-assistance cases and never-assistance cases were capped at 115 percent of public-assistance collections. The new incentive system

[8] The relationship between the change in incentive payments Y and the explanatory variables X is assumed to be of the form $Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + ... + \beta_n X_{ni} + \varepsilon_i$. Regression analysis provides estimates of the values of the ß terms.

removes the cap from collections for former- and never-assistance cases. However, to encourage states to make extra efforts to collect support for families that are receiving public assistance or Medicaid or those that left and are working toward self-sufficiency, collections for current- and former-assistance cases are doubled. State proportion of collections for current- and former-assistance cases ranged from 17 percent to 86 percent.

- **Share of state population living in urban areas.** An earlier study found strong, negative associations between the percent of population living in urban areas and four performance indicators.[9] Thus, states with large shares of their populations living in urban areas should fare worse—holding other factors constant—under the new system. The proportion of state population residing in urban areas ranged from 17 percent to 100 percent.

- **Share of state's population that lived in the same house in 1999 and 2000**. A forthcoming study for OCSE[10] found a positive relationship between this variable and several performance measures. The share of the state's population residing in the same home ranged from 76 percent to 89 percent.

- **Three year state poverty rate (2000)**. The same study found that the state poverty rate had a significant and negative relationship to state performance in three out of the five measures. The three-year state poverty rate ranged from 7 percent to 19 percent.

We used two models in our analysis. The only difference between the models is the variables used to represent current- and former-assistance collections as a share of total collections. CSPIA combines current- and former-assistance collections in the determination of each state's collection base. As such, the first regression model combined the percent of collections for current- and former-assistance cases in one variable. The second model separates the two variables. An analysis indicated that current-assistance collections were strongly and negatively associated with the change in incentive payments.[11] That is, an increase in the proportion of a state's collections that are from current-assistance cases is associated with a decrease in incentive payments. The state's share of collections from former-assistance cases is not significantly associated with the change in payments. Separating these variables allowed us to explore the individual effect of each on incentive payments.

Exhibit II.2 depicts the results of the first model.[12] Two variables had statistically significant coefficients, both in the expected direction. The variable measuring current- and former-assistance collections is negative and statistically significant at the 1 percent level, indicating that an increase in the proportion of collections that are assistance-related is associated with lower payments under the new system. The coefficient for the state performance variable is

[9] M. Fishman, J. Tapogna, K. Dybdal, and S. Laud. (2000). *Preliminary Assessment of the Associations between State Child Support Enforcement Performance and Financing Structure.* Prepared for the Assistant Secretary for Planning and Evaluation and the Office of Child Support Enforcement, U.S. Department of Health and Human Services, Washington, D.C.

[10] J. Tapogna, K. Gardiner, B. Barnow, M. Fishman, and P. Nikolov. August 2003. *Study of State Demographic and Economic Variables and their Impact on the Performance-Based Child Support Incentive System.* Prepared for the Office of Child Support Enforcement, U.S. Department of Health and Human Services, Washington, D.C.

[11] The variable correlation coefficient was -0.67 and was significant at the 1 percent level.

[12] The variables in the model explain 32 percent of the variation in the dependent variable.

positive and significant at the 1 percent level. This suggests that as state performance increases, so, too, will incentive payments.

Exhibit II.2: Model 1 Multivariate Regression to Predict Changes in FY 2001 Incentives

Factor	Estimated Relationship with Change in Incentive Payment
State Share of National Collection Base	Not significant
Current and Former Assistance Collections as a Share of Total	Negative, significant at the 1 percent level
State Performance (weighted)	Positive, significant at the 1 percent level
Percent Population in Urban Area	Not significant
Population Stability	Not significant
Three Year State Poverty Rate	Not significant

Source: The Lewin Group

Exhibit II.3 summarizes the second regression model, in which current-assistance and former-assistance collections were separate variables.[13] Three variables show relationships that are statistically different from zero. The current-assistance collections variable is negative and statistically significant at the 1 percent level. The former-assistance collection variable is not statistically significant. State performance continues to have a strong positive affect on the change in incentive payments. Finally, a stable population—measured as the share of population that lived in the same house in 1999 and 2000—also is positively associated with incentive payments.

Exhibit II.3: Model 2 Multivariate Regression to Predict Changes in FY 2001 Incentives

Factor	Estimated Relationship with Change in Incentive Payment
State Share of National Collection Base	Not significant
Current Assistance Collections as a Share of Total	Negative, significant at the 1 percent level
Former Assistance Collections as a Share of Total	Not significant
State Performance (weighted)	Positive, significant at the 1 percent level
Percent Population in Urban Area	Not significant
Population Stability	Positive, significant at the 5 percent level
Three Year State Poverty Rate	Not significant

Source: The Lewin Group

Although it was mentioned as a possible factor in incentive payments by a number of state officials, state share of the national collection base was not statistically significant. In addition, the proportion of the population residing in urban areas and state poverty rates were not significant.

D. Conclusion

Trend data from FYs 2000 and 2002 indicate that states continue to improve performance in the majority of the five measured areas. In addition, states' data reliability improved, even in light of the more stringent audit requirements that went into effect in FY 2001.

[13] Overall, the variables explain 73 percent of the variation in the dependent variable.

The empirical analysis indicates that the change in incentive payments in the transition to the new system can be largely explained by two factors. First, state performance is associated with higher payments under the new system. That is, states that earn a large share of their maximum incentive for each measure and fail zero or few data reliability audits receive larger incentive payments under the new system. This finding supports the design of the new incentive system, which rewards states for the performance of their programs and the accuracy of their data. Second, the proportion of collections for current-assistance cases is strongly and negatively associated with the change in incentive payments under the new system. That is, states do not do as well if a large share of their collections is assistance-related. The association remains when former-assistance collections are included.

Under the previous incentive system, payments were linked to current-assistance collections. CSPIA double-weights these collections, along with those for former-assistance cases. The rationale for double-weighting these collections was to ensure that states were not penalized for pursuing collections on cases that may help reduce custodial parents' dependence on public assistance. Although the double-weighting of collections for current- and former-assistance cases may lessen the burden on states with higher assistance-related caseloads, the current formula may not fully compensate for the lifting of the ceiling on never-assistance collections.

III. STATE INTERVIEWS: STRUCTURE OF THE INCENTIVE SYSTEM

The remaining sections of this *Final Report* describe states' perception of the new system. This section focuses on the structure of the new system. Specifically, we asked CSE respondents from the nine study states to assess the following issues:

- The performance measures;
- The performance standards;
- Whether characteristics predisposed some states to perform better than others;
- The capped incentive pool; and
- The adequacy of the phase-in period.

State responses to questions about each of these issues are summarized below.

A. Assessment of the Performance Measures

The new incentive system assesses performance in five areas: paternity establishment, order establishment, collections on current support due, cases paying toward past-due support (arrears), and cost-effectiveness. The first three are weighted more heavily when calculating incentive payments.

We asked IV-D directors, other CSE state-level staff, and local office staff to reflect on the five current performance measures and their weighting. We explored whether states agreed that the correct areas were measured and whether they are defined appropriately, whether any of the current measures should be discarded, and whether new measures should be added.

1. Current Measures

The majority of the respondents in the nine study states said that the new incentive system measures the correct performance areas. Specifically, there was strong support for the first three measures—paternity establishment, order establishment, and current collections—because they are directly associated with the core child support mission of getting support to families. As one state noted, "The measures represent the type of work that CSE agencies do. It makes sense to weigh those associated with collections higher." Due to the importance of these functions, states agreed that they should be weighted more heavily than either cases paying toward arrears or cost-effectiveness. This sentiment was echoed during the calls facilitated by the National Council of Child Support Directors.

Cost effectiveness was the only measure that received less than unanimous support. Eight of the nine states provided a number of justifications for de-emphasizing or dropping the measure: it is a remnant of the old system; unlike the other indicators, it does not directly measure CSE efforts to get support to families; and it is short-sighted in that it penalizes investments that could improve the program in the long run (e.g., purchasing new technology). Despite these concerns, officials in only one state recommended dropping the measure entirely.

The others agreed that it is appropriate to weight cost-effectiveness less than paternity establishment, order establishment, and current collections.

Respondents in one state, however, disagreed with the prevailing sentiment and argued that cost-effectiveness should remain in the formula because it demonstrates to legislators and taxpayers that the program is operating efficiently.

2. Definitional Issues

Conversations with officials in the nine study states indicated general support for the way in which the measures are defined. No issues were raised for three of the measures—cases with orders, current collections, and cost-effectiveness. Some state officials discussed specific issues related to the definitions of paternity establishment and cases paying toward arrears.

Paternity Establishment. States have the option of using one of two paternity establishment definitions: IV-D or statewide. This is the only measure that was legislated prior to CSPIA.

- The IV-D definition measures the number of *children in the IV-D caseload* in the fiscal year (or at state option as of the end of the fiscal year) who were born out of wedlock who have paternity established divided by the total number of children in the IV-D caseload born out of wedlock in the prior fiscal year.

- The statewide definition measures the number of *minor children in the state* born out of wedlock and have paternity established during the fiscal year by the total number of children in the state born out of wedlock in the prior fiscal year.

The majority of IV-D directors agreed that states should have a choice of paternity definitions. As one director noted, states need to work toward a 90 percent paternity establishment percentage to avoid penalties.[14] Thus, having multiple ways to measure paternity is helpful.

Most of the comments about the paternity definition surrounded the statewide measure. Some questioned the legitimacy of a statewide measure, arguing that incentives should reward states for performance on their cases, not for paternity established for children outside of the IV-D program's domain. Proponents of the statewide measure, however, noted that child support staff do paternity establishment work in the hospitals irrespective of a child's IV-D status.

The treatment of interstate cases differs under the statewide measure. Unlike the IV-D definition, the statewide definition does not give states credit for establishing paternity for children born in another state.[15] Thus, a state could do the work to establish paternity for a

[14] According to PRWORA, states that score below 90 percent on the paternity measure must have improved their performance from the previous year by a specified amount (dependent on their performance) to avoid a penalty to the TANF block grant. For instance, a state that had a paternity establishment percentage between 75 percent and 89 percent would need to meet the 90 percent threshold or improve 2 percentage points to avoid a 1-2 percent decrease in the TANF block grant. A state that had a score of 39 percent or less would need to improve 6 percentage points. See **Section III.B**.

[15] OCSE's instructions for the statewide definition specify that a state may only count children for whom paternity was established *if the child was born in the state*.

child and not be able to count the case. Directors and staff noted that this can be especially problematic in big metropolitan areas that border state lines (e.g., New York City).

Arrears. Officials also commented on the definition of the arrears measure. The measure divides the *number of IV-D cases making at least one payment* toward arrears by the number of cases with arrears due.

Some thought that a definition more similar to the current collections measure—the *dollar amount* of arrears collected divided by the total amount due—would be more appropriate. Under the current arrears definition, a state could get the same credit for a case paying once toward arrears as a case that pays multiple times, and for a case that pays $1 as a case that pays $5,000. One staff person stated, "Counting one payment on a case per year does not set the bar very high" and will not result in the reduction of arrears. However, the majority of officials opposed a change in definition, noting that treatment of arrears varies considerably across states (e.g., states that cannot "write off" arrears after a period of time will be greatly disadvantaged by a definition that considers the total dollar amount of arrears due).

While there was disagreement among the states in terms of the arrears unit of analysis (case versus dollar amount), CSE officials from all states agreed that they should get credit for all cases that make arrears payments via federal tax return intercepts, rather than only those cases in which there was a payment to the former assistance family. They noted that some non-custodial parents purposely do not make payments because they know CSE agencies will intercept their tax refunds. In many instances, CSE agencies work cases and get no performance credit because of rules that dictate which collections can and cannot be counted.[16]

3. Additional Measures

CSPIA requires the Secretary of DHHS, in consultation with state IV-D directors, to develop a performance measure based on state effectiveness in establishing and enforcing medical support obligations. The Secretary and IV-D directors also will make recommendations for the incorporation of a medical support measure into the incentive payment system in a revenue neutral manner. Additionally, CSPIA requires that IV-D agencies use the National Medical Support Notice to report on medical support enforcement beginning in FY 2002.

We asked the IV-D officials in the nine study states if they thought medical support, or any other measure, should be adopted. The majority of state officials said the current five measures were sufficient and that adding new measures would be premature.

[16] The general rule regarding the counting of cases for the arrearage measure is as follows: Cases can be counted if (1) all of the past-due support was disbursed to the family because all support was owed to the family, as would be the situation with never-assistance cases; or (2) All of the past-due support was retained by the state because all support was assigned to the state, as would be the situation with current assistance cases. But for former assistance cases, states can only count the cases if some past-due support was owed to the family and was paid to the family. When collections for families no longer on welfare are made through tax intercepts, they are retained by the state and applied to arrearages that are owed to the state. Thus, these payments do not count toward the arrearage incentive measure.

All of the respondents addressed the issue of medical support. Officials in three of the nine study states noted that CSE agencies are already doing work in the medical support area and they should be compensated for it. However, these states mentioned two caveats. First, if OCSE adds a sixth measure, the national incentive pool should increase proportionately. Second, developing a workable definition would be key to the successful adoption of the measure. Officials from the other six states had serious reservations about a medical support measure. Their concerns generally fell into the following categories:

- Officials questioned whether it is CSE's role to ensure that children receive medical coverage.

- Non-custodial parents have limited incomes and would have difficulty providing both cash support and medical support.

- Performance on medical support would vary widely across states. The measure would be difficult to define in a way that ensures a level playing field. A number of state officials indicated that, given the structure of their economies (e.g., seasonal workers, farming) it is hard to insure the general population, not to mention low-income, non-custodial parents. Moreover, the availability of health insurance for an employee's dependents varies based on employer practices and often state law. CSE programs have no control over whether a non-custodial parent's employer provides medical coverage.

- No reliable data exits to formulate a viable measure.

Representatives from the nine states on the conference calls generally agreed with these sentiments. The majority opposed a new medical support measure but said that, if there was a new measure, Congress should add funds to the incentive pool.

B. Assessment of Performance Standards

State performance on each of the five incentive measures corresponds to a specified percentage of the payment, which is defined in CSPIA. For each measure, there is an upper threshold at which the state is eligible for the maximum payment, and a lower threshold below which performance is not rewarded unless the state can demonstrate substantial improvement. For four of the measures—paternity establishment, cases with orders, current collections, and cases paying toward arrears—states must meet an 80 percent performance threshold to receive 100 percent of the payment. States that establish less than 50 percent of paternities or orders receive no incentive payment; the corresponding lower-bound threshold for current collections and cases paying toward arrears is 40 percent. For the fifth measure, a cost-effectiveness ratio of $5.00 corresponds to 100 percent of the payment. A ratio under $2.00 receives no payment.

In addition to performance standards, states face possible *penalties* for failure to reach specified thresholds for three measures: paternity establishment, cases with orders, and current collections. The penalties associated with paternity establishment performance were created by PRWORA, thus prior to the adoption of CSPIA. Congress did not set the penalty thresholds for the cases with orders and current collections measures. Instead, the state and Federal Incentives

Work Group used historical data to determine penalty thresholds.[17] The recommendations were submitted to OCSE, which adopted them through a standard rule-making process.[18]

- Paternity: States must achieve a score of 90 percent or higher or improve their performance by at least 2 to 6 percentage points over the previous FY, depending on their performance.[19]

- Cases with orders: States that fail to establish child support orders for at least 40 percent of open cases must improve their performance by 5 percentage points over the previous FY.

- Current collections: States that fail to collect 35 percent of current support due must improve by 5 percentage points over the previous FY.

Penalties are assessed to the state's adjusted TANF block grant.[20] CSPIA grants states an automatic corrective action period of one fiscal year immediately succeeding the performance year before imposing any penalties.

1. Performance Thresholds

The majority of respondents in the study states thought the performance levels associated with incentive payments were about right. In a number of instances, IV-D directors made reference to their participation in the Work Group and the role it played in the development of the new performance measures. Respondents from two states thought the performance standards were too high. They pointed to current collections and cases paying toward arrears as measures where very few states could reach the top-performance threshold. During each conference call, at least one or two IV-D representatives echoed this sentiment. They were especially concerned that the recession would make it difficult to perform at a high standard for current collections. Several directors thought an upper threshold of 75 percent would be more realistic. However, others cautioned against lowering the standard because it would signal to lawmakers and the public that the program could not operate at a high level.

2. Penalties

Although the majority of respondents agreed with the established performance standards, most had reservations about the penalties associated with the paternity measure. First, states expressed concern that a 90 percent penalty threshold for paternity establishment is too high and that some states, particularly those with large urban centers, will never reach it. Others noted that the 90 percent threshold, once achieved, can be difficult to maintain.

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[17] Under Section 409(a)(8)(A) of Title IV-A of the Social Security Act, the Secretary of DHHS may establish penalties for additional performance measures.

[18] OCSE AT-99-12, dated October 12, 1999.

[19] States must improve by a specified percentage each year until they reach 90 percent. For instance, a state that had a paternity establishment percentage between 75 percent and 89 percent would need to improve 2 percentage points each year. A state that established only 39 percent of paternities would need to improve 6 percentage points.

[20] The first time a state fails the penalty threshold for a particular measure, it may be penalized between 1 and 2 percent of its TANF funds. For the second failure on a particular measure, the penalty increases to 2 to 3 percent of TANF funds, and so forth, up to a maximum of 5 percent of TANF funds for each measure.

A second issue was the incongruity between performance standards and penalty thresholds. Officials from four states noted that it was possible for a state to get 100 percent of incentives for the paternity establishment measure and still face a penalty. A popular suggestion during the conference calls was to lower the penalty threshold to 80 percent.

Finally, states commented on the penalty to the TANF block grant. Some respondents thought it was unfair to penalize the TANF program for the child support agency's performance.

C. Factors that Affect Performance

We asked CSE staff from each of the nine study states two questions relating to possible factors that affect performance under the new incentive system. First, does the new system favor states with certain profiles (e.g., large states)? Second, should OCSE alter the incentive system to compensate states for economic or demographic factors beyond their control?

With respect to the first question, officials in seven of the nine states agreed that some states are predisposed to performing better under the new incentive system. Some directors believe states that serve a large share of cases that were never associated with the welfare program are advantaged under the new system (e.g., non-custodial parents associated with never-assistance cases are generally better off economically, thus are better able to pay support). CSE staff, particularly those from the smaller states, indicated that states with larger populations do better under the new system because their collection bases comprise a large proportion of the national incentive base, thus the capped incentive pool.[21] As such, improved performance by smaller states does not necessarily translate into increased incentives if the larger states also increase their collection bases.

The other two states, however, said that all states are disadvantaged in some way. Because every state has poverty, unemployment, rural populations, and urban pockets, the system does not predispose some states to stronger performance.

In response to the second question, few officials supported the idea of compensating states for factors beyond their control. Officials in six of the nine states thought there should be no adjustments to the formula to take into account economic, demographic, or other factors. Some expressed concern that adding additional steps to the incentive determination process would delay the payment of incentives and increase the complexity of the new system. Others argued that there is no way to accurately measure economic and demographic factors. For one, the data used would not be audited. Further, there would be a lag between the program year and the availability of statistics (e.g., final poverty statistics for FY 2001 might not be available until FY 2002). Still others contended that many economic and demographic characteristics are not outside the state's control but rather are the outcomes of public policy decisions. The majority of representatives on the National Council of Child Support Directors calls agreed that every state faces some challenges and expressed concern about the logistics of trying to control for specific economic or demographic factors.

[21] A step in the incentive calculation process involves totaling all of the state collection bases to create a national incentive base. A state's collection base divided by the national incentive base determines its share of the capped incentive pool.

Officials in three states, however, thought adjustments were merited. They argued that a number of "social ills" (e.g., unemployment rates, non-marital birth rates) increase during economic downturns and that states with large urban centers are particularly affected.

Finally, one IV-D Director believed OCSE should consider economic and demographic characteristics in the incentive system but suggested any related adjustments should be made during the penalty phase. That is, OCSE would take into account circumstances beyond a state's control only when determining a penalty (e.g., if a state's performance on paternity establishment fell below 90 percent). This idea was shared by a number of representatives during the conference calls, as well.

D. Assessment of the Cap

Unlike the previous incentive system, CSPIA caps the incentive payment pool for each fiscal year (see ***Exhibit III.1***).

Exhibit III.1: Incentive Payment Pool

Fiscal Year	Pool Amount	Change from Previous FY
2000	$422,000,000	n/a
2001	$429,000,000	2%
2002	$450,000,000	5%
2003	$461,000,000	2%
2004	$454,000,000	(2%)
2005	$446,000,000	(2%)
2006	$458,000,000	3%
2007	$471,000,000	3%
2008	$483,000,000	3%
Succeeding FYs	Amount of pool from previous FY multiplied by percentage (if any) by which the Consumer Price Index[22] for the preceding FY exceeds the CPI for the second preceding FY.	

The capped system creates an interactive effect. That is, an increased payment to one state must be matched by a decreased payment to another. Congress based the levels of the incentive payment pool on CBO projections of incentive payments at the time CSPIA was passed.[23]

In addition to acting as a payment ceiling, the cap serves as a floor. That is, OCSE distributes the full amount of the pool each year.

The interview protocol asked state-level staff about their perception of the cap and its consequences. Many respondents noted that their states experienced substantial increases in incentive payments under the new system. In addition, the officials were unanimous in their opinion that the cap should be removed. However, interview protocol did not ask respondents

[22] CPI for a FY is the average CPI for the 12-month period ending 9/30. For example, for fiscal year 2009, if the CPI increases by 1 percent between FYs 2007 and 2008, then the incentive pool for FY 2009 will be a 1 percent increase over the $483,000,000 incentive payment pool for FY 2008, or $487,830,000.

[23] At that time, CBO predicted declines in public assistance caseloads and associated collections during FYs 2004-2005, explaining the pool's decline in those years.

how, in the absence of a cap, the federal government would pay for incentives that exceeded the authorized amount. Respondents' concerns generally fell into two areas:

- **Cap as a disincentive.** The majority of officials suggested that the cap acts as a disincentive to improve performance because improvements in performance are not always rewarded. Under the new system, a state can improve its performance and because of the interactive nature of the cap, get a smaller incentive payment. Respondents seemed particularly worried that, if the states with the largest collection bases improve their performance, smaller states will face sizable reductions in their incentive amounts no matter how well they perform. One recommendation that received support during the conference calls was a "hold-harmless" provision that would prevent a reduction in a state's incentive payment over the previous year if the state maintained or improved its performance. Another official suggested OCSE establish a maximum incentive amount for which each state is eligible (i.e., instead of capping incentive payments to states as a whole, OCSE caps payments to individual states). If a state qualifies for the full payment, it would receive the total amount allotted to it, irrespective of other states' performance. If a particular state underperforms, its unearned incentives would be distributed to the higher performing states. The means by which the federal government would pay for any additional incentives, if needed, was not explored.

- **Estimating incentive payments.** ***Section VI*** describes the difficulties state officials have encountered in estimating incentive payments. The majority of respondents said the cap was a main factor contributing to the difficulties. Because of the interactive nature of the cap, states need to estimate their own performance as well as the performance of others.

As noted above, the interview protocol did not ask explicitly how the federal government would pay for incentive payments that exceed the amount currently authorized, should the cap be lifted. A number of states, however, did note that the cap was not necessary to preserve budget neutrality. They suggested that performance serves as a natural cap (i.e., not all states will receive 100 percent of the payment for all five incentive areas).

E. Assessment of Phase-in Period

OCSE implemented the new incentive formula over three years, from FYs 2000 to 2002. States reported information on the OCSE 157 in FY 1999, but state performance did not factor into the incentive payment calculation. In FY 2000, OCSE used the new incentive formula to calculate one-third of states' incentive payment and the old incentive system for the remaining two-thirds. In FY 2001, OCSE based two-thirds of states' incentive payments on the new system. The new system became the sole determinant of incentive payments in FY 2002.

Most officials said three years was sufficient to revise internal management structures, familiarize staff with the new performance measures and budgetary policies, update their computer systems, and implement procedures to ensure data reliability. The phase-in period allowed states to take corrective actions on performance and data reliability before the new system became the sole determinant of incentive payments. Similarly, the staff from states whose incentive payments decreased under the new system said that the phase-in period eased the impact of the new system on their budgets. Even officials in states that benefited financially

under the new system said that the phase-in period was necessary in order for staff to make the necessary adjustments and to identify any potential problems that might emerge.

IV. STATE INTERVIEWS: DATA RELIABILITY ISSUES

Annual data reliability audits (DRAs) determine if a state's data and the system that produces it are accurate, complete, reliable, and secure. The multi-step process begins with the state's submission of the OCSE 157 report, which is used to calculate four of the five performance measures.[24] The report is due October 30th; states can make corrections through December 31st.[25]

The interview protocol included a number of questions about the DRA, including the parameters of the audit (e.g., sample size) and data quality control efforts.

A. Data Reliability Audit Parameters

IV-D officials commented extensively on the DRA process. Specifically, staff responded to questions about the number of cases audited, the efficiency rate, the timing of the audit, and possible improvements to the process.

1. Sample Size

The OCSE auditors need at least 120 open cases to conduct the audit. Thus, they select a minimum of 150 cases from the state's universe, which consists of both open and closed cases. The size of the sample depends on the differential between the size of each state's universe and the number of open cases.[26] If the universe and number of open cases are equal, the sample size would be 150. If the universe was twice as large as the number of open cases, the sample would be 300 (150 * 2.0 differential).

Officials in six of the nine study states commented directly on the sample size. The majority said that the sample size was adequate. One respondent noted that the size is acceptable so long as it is statistically valid. Another remarked that a small sample is good because it reduces the time that staff need to spend pulling individual cases for auditing. Officials in two other states, however, thought that 150 or 200 cases out of a universe of several hundred thousand were too few, even if statistically valid. They noted that they routinely pull several thousand cases for their annual self-assessments. They also expressed concern that the actual number of cases audited for some measures (e.g., cases paying toward arrears) would be so small that one or two problem cases would cause the state to fail the audit for the measure.

Representatives on the conference calls were divided, with a slight majority arguing that the sample size was too small. One suggested that OCSE use a "focus sample" method for the DRA. This process, used by states for self-assessments, involves pulling a specific sample of cases for each measure, thus ensuring an adequate sample size.[27]

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[24] Paternity establishment, order establishment, current collections, and cases paying toward arrears.

[25] States use two other forms—the OCSE 34A and 396A—to report information used to calculate the cost-effectiveness ratio; states submit these quarterly.

[26] Reported on Line 1 of the OCSE 157.

[27] OCSE notes that auditors pull random statistically valid samples.

2. Efficiency Rate

In order to pass the audit for each measure, states must achieve an "efficiency rate" of 95 percent.[28] The rate is determined by dividing the number of sampled cases reported correctly by the number of sampled cases reviewed for a particular line item. The upper and lower confidence limits of the efficiency rate are calculated at the 95 percent confidence level.[29] For example, if a state had 87 cases reviewed for a measure, and 68 of the cases were reported correctly, the efficiency rate for the measure would be 78 percent.[30] Using the confidence interval, OCSE would determine that the actual efficiency rate was between 68 percent and 86 percent—below the 95 percent threshold.

The majority of officials thought a 95 percent efficiency rate was too high and left too little room for error. Interviewees from the nine study states and conference call participants expressed support for some type of sliding scale in which a state that failed to meet the 95 percent efficiency rate would lose some proportion of the incentive payment but would not fail.

3. Timing

The audit process begins when states submit finalized OCSE 157 forms at the end of the calendar year. Audits begin in January and are conducted by OCSE. The OCSE auditors begin with an entrance conference, at which time the audit process is explained to the key state stakeholders. The OCSE auditors present their results to state CSE staff at an exit conference. If the auditors uncover problems while on site, they will notify the state immediately. Following the audit, the state receives a report summarizing the auditors' findings, including data that was deemed incomplete or unreliable. Audit reports are completed in early summer. Once all state data have been audited, OCSE calculates the incentive payments. Incentive payments generally are finalized later in the summer.

CSE officials in almost all of the study states thought the audit process was too slow. As a result, it created difficult situations in terms of estimating incentive payments and avoiding penalties. As noted above, a state faces penalties if the DRA finds its data to be unreliable or incomplete and it fails to correct the deficiencies. The law grants states an automatic corrective action period of one fiscal year immediately succeeding the performance year before OCSE imposes any penalties. For example, a state that had problems with its paternity data in FY 2002 would have until FY 2003 to correct the problem or face a penalty. States reported that results from the audit are not received in time to address issues during the corrective action year. They argue that often audit results are not available until near the end of the fiscal year,

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[28] In FY 2000, the first year of the new incentive system, the efficiency rate was set at 90 percent. Federal regulation set the efficiency rate to increase to its current level of 95 percent in FY 2001 and all future years.

[29] States only fail audits when the upper bound of the 95 percent confidence interval for the percent of cases within the sample for which the data is unreliable exceeds the current data reliability standard—95 percent. The confidence interval is a statistical method employed to reduce the chance that a value is the result of random chance as opposed to being representative of the universe in question. The size of the confidence interval is dependent on the sample size. Because there is less room for error the larger the sample, the upper and lower bounds of the confidence interval are much smaller for large samples. The confidence interval counteracts any potential error that could otherwise result from a smaller sample.

[30] 68 cases divided by 87 cases.

giving them very little time to correct any problems. Even if auditors identify and relay problems while on site (generally in the late winter or spring), states still would not have a full corrective action year.

4. Suggested Audit Process Improvements

CSE staff in the study states suggested a number of improvements OCSE could make to the audit process.

Conduct audits less frequently. The majority of CSE officials said that OCSE should eliminate annual audits once a state has passed all of its measures for a specified number of years (e.g., three consecutive years). At that point, audits should occur no more than every two or three years. States that experience data problems with one or more measures, however, should continue to be audited annually. IV-D directors expressed similar sentiments during the conference calls.

A small number of directors on the calls, however, expressed concern about reducing the frequency of audits, noting that there is a learning curve associated with the audit process and that staff might need to be re-educated every three years. Moreover, states might focus less attention on data quality if they are not audited annually. One director suggested that instead of tri-annual audits, a state that passes its audits for a few consecutive years should be placed in a pool from which OCSE would randomly select states to audit each year. Another official noted that annual audits could be combined with the self-assessment process. That is, an annual data reliability check-up could be included in the self-assessment, and the more formal DRA could be conducted every three years.[31]

Institute a delay period. One suggestion that received support was the institution of a delay period in the incentive process so that IV-D directors would have audit information available when estimating their budgets. For example, the FY 2003 incentives would be paid in FY 2004. When developing their FY 2004 budgets, directors would be able to refer to the FY 2003 audit results. The audit would be pre-estimate, rather than post-estimate.

Increase audit staff. Officials in two states suggested increasing the number of audit staff so that audits would be completed earlier in the year.

Establish a clear appeals process. Some state officials noted that the new system does not include a formal process for states to appeal findings or decisions made by the auditors or OCSE. They suggested that a formal appeal mechanism be inserted into the audit process prior to the calculation of incentive payments. However, states can appeal an audit finding to the Commissioner of OCSE.

B. Quality Control Efforts

In addition to questions regarding the DRA process, we asked state and local IV-D staff about data quality control efforts. We found that the study states devoted considerable resources to

[31] OCSE is currently considering policies to reduce the frequency of the audits.

improving data reliability, including changes to automated systems, extensive case cleanup exercises, and assessing the performance of local offices.

1. Revisions to Automated Systems

Staff from most of the study states indicated that the OCSE 157 forms are fully automated, making the audit process easier. They also changed their systems to catch human errors. One created fire walls so that a case cannot leave the establishment mode and move to enforcement without a line worker completing a checklist (e.g., ensures the non-custodial parent's Social Security Number (SSN) is in the system, paternity is established). Another state's automated fact-checking programs look for odd patterns in data and flag cases for attention. State officials note that these automated fail-safes have forced workers to better evaluate their cases.

One state added a new field to its system—state of birth. The state failed the paternity establishment audit in part because the automated system did not capture state of birth, but instead attributed a state based on the first three digits of the SSN. New entrants into the program are now asked about the child's state of birth.

2. Data Clean-up Projects

A number of respondents said their states undertook data clean-up projects in response to the new incentive system—often focusing on paternity data. One state took a sample of paternity establishment cases and went to the local offices to check that the staff had properly documented the cases. Another state uncovered problems with its paternity data when it switched to a new automated system. The state found that about 30,000 children had incorrect paternity information in the new system due to a combination of data entry errors and incorrect data definitions. An 18-month data clean-up effort ensued. The state ran automated paternity checks on a monthly basis to ensure that local offices were working to correct inaccuracies. The state's automated system generated case lists for each office. After the clean-up effort, less than 500 cases had incorrect information.

State officials also use ad hoc reports to identify data problems. For example, in one state, staff coded the order establishment measure incorrectly by coding cases where a court's decision was still pending. Cases are sent to local offices for corrective action.

3. Assessing Local Offices

Several states created state-level or regional auditing teams that randomly check data quality on elements specific to the OCSE 157. When these auditing teams identify consistent errors across offices, they typically offer worker-training sessions to expedite corrections. Office supervisors also have been trained to conduct audits of a random sample of cases and to take corrective actions.

V. STATE INTERVIEWS: EFFORTS TO IMPROVE PERFORMANCE

The goal of the new incentive system is to provide a financial reward to states that find innovative, cost-effective means to improve child support performance in the five measured areas. During our interviews with state officials, we explored in detail the means by which they attempted to affect performance during the first three years of the new system. These include staff education and training, assessment of staff performance, and major policy changes that were implemented in an effort to improve performance. We found numerous examples of innovative efforts to adapt to the requirements of the new incentive system.

A. Staff Education and Assessment

IV-D officials in every state interviewed reported that they have made substantial efforts to ensure that all staff are working toward the common goal of improving performance in the five designated areas. As indicated earlier, respondents agreed that the performance measures in the new system largely align with the central goals of CSE programs. As such, CSE programs were quick to integrate these standards into staff assessment procedures and provide the necessary staff training.

1. Education and Training

According to IV-D staff, education and training regarding the new incentive system occurs during conferences and monthly meetings. Some IV-D agencies have created special training teams to visit local offices when problems arise. The new system also is described in revised policy manuals. Each is discussed below.

The new incentive system, and its effect on CSE programs' business models and fiscal positions, has been a prominent, standing topic of statewide and regional IV-D conferences. Moreover, local staff indicated that office- and worker-level performance on the indicators is an on-going focus of office meetings (usually monthly) and training sessions. Finally, IV-D officials reported that their states' performance on the federal indicators and the quality of their data were frequently covered in agency newsletters, emails, and presentations (many states make this information available for staff on their intranet). In short, officials from all nine study states reported that CSE staff are aware of the performance measures, their importance to the programs' missions, and their fiscal implications.

Officials in several states noted that CSE programs have developed specialized training teams that review regional or office-level performance and tailor training activities to address observed deficiencies. Typically, the teams monitor office or regional performance and notify relevant supervisors of downward trends in performance or if staff are not adhering to particular procedures (e.g., automatically requesting a wage withholding when verifying an employer address for a case with an order). If the poor performance persists after notification, these roving teams develop a training workshop and implement it in relevant offices.

Several states also indicated that they have updated and revised IV-D policy manuals to explicitly highlight the importance of the performance measures and emphasize tasks or processes deemed important to enhancing performance on the five measures.

2. Assessment

In addition to on-going education and training opportunities at conferences and staff meetings, IV-D officials report that they assess the performance by region, county, local office, and, in some cases, staff member.

IV-D officials in all of the study states reported they follow trends on the federal performance measures very closely and that automated systems were enhanced to track performance at multiple levels. At the state level, policy directors review performance trends at the regional, county, or—depending on the size of the state—office levels. Interviews with local office supervisors indicated that many of them track the performance of individual workers on a monthly basis for all relevant indicators. One state, for instance, uses a "traffic light" system to rank offices by each incentive measure: Red indicates below the minimum standard for payment; Yellow indicates below state goals but above the minimum; and Green indicates above the state goal. The officials hope this will create friendly competition among the local offices.

Officials in a minority of states indicated that relevant performance indicators are explicitly considered in annual performance reviews of staff. While most officials indicated that performance did not directly influence office-level funding or the salaries of individual staff, a number of respondents indicated that their IV-D agency takes into account performance on the federal indicators when selecting staff for promotions. In most states, the IV-D agency rewards strong performance on the federal indicators with award lunches, plaques, and certificates. Budget enhancements (for offices) or merit bonuses (for individuals) are less common, particularly given states' difficult fiscal positions.

Interviews indicated that the periodic performance reports often lead to competition between jurisdictions (e.g., between counties across the state or between offices within a county). On balance, IV-D officials viewed the competition as positive. Moreover, officials indicated the process did not damage inter-office relations or hamper the sharing of best practices. However, some individual caseworkers interviewed said that open reporting of caseworker-level performance was not productive. As they put it, "nobody likes to be singled out."

In addition to office and staff tracking, several states—particularly those with county-administered programs—have called on regional and local offices to develop detailed business plans that establish performance benchmarks, as well as step-by-step actions that offices will take to achieve the benchmarks. Several officials reported that the act of developing and updating the plans strengthened localities' understanding of their current performance, as well as the key barriers to improving it. Moreover, plan development actively engages local supervisors and workers in the details of performance improvement.

B. Policy Changes

As part of this study, OCSE was interested in learning about significant policy changes enacted by states to affect one or more of the performance measures. According to IV-D directors, performance improvement is factored into almost every initiative their agencies undertake. Rather than discuss the full range of policy changes implemented in recent years, we asked

respondents to highlight significant changes that, in their views, had sizable, short-term impacts on one or more of the measures. Those changes include:

Closing appropriate cases. Most states indicated that they carefully reviewed their caseloads to find cases that are eligible for closure according to published federal guidelines.[32] The regulations do not mandate that cases be closed. Specified closure criteria protect client families by clarifying conditions under which cases can be closed. One example is cases in which there is a failure to locate the non-custodial parent despite legitimate and repeated attempts, due to inadequate identifying or location information.[33]

Under the prior incentive system, states could hold cases open for long periods of time with little or no consequence. However, under the new system, an inactive case, with no likelihood for a change in status, weakens the state's performance—particularly on the cases with orders measure—because the inactive cases remain in the universe of open cases against which the number of orders established is assessed.

Emphasizing payable orders. All states use guidelines to determine child support orders. They generally take into consideration the needs of the child, other dependents, and the ability of the parents to pay. States expressed concern that guidelines may set orders too high for low-income parents, resulting in the failure to pay support and the accumulation of arrearages. The officials suggested that orders more in line with a parent's ability to pay would result in a higher percentage of collections.

Examples of policies to create payable orders include addition of a self-sufficiency reserve to state child support guidelines. A reserve allows the non-custodial parent to maintain a minimum subsistence level regardless of the number of children he or she is obligated to support. State officials generally believe the reserves strengthen performance on the current support and arrears measures. These policies are not intended to absolve non-custodial parents of their responsibilities to their children. Rather, state officials believe that these policies will facilitate self-sufficiency for non-custodial parents and increase the likelihood that they will be able to provide consistent support to their children over the long term.

Reducing the rate of default orders. Default orders are entered when a non-custodial parent does not respond to requests for financial information, or does not respond to requests to appear in court or at a IV-D agency meeting. Often, the order is based on imputed income levels. States use a variety of methods to impute income, such as minimum wage for a 40 hour week, the average wage for workers in the state, and median income for non-custodial parents

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[32] In recent years, OCSE has released a number of documents that provide guidance to states on proper case closure procedures.

- AT-99-04, "Case Closure Criteria Final Rule, 45 CFR Part 303" explains the legislation dictating case closure policy and responds to the comments of representatives from state and local IV-D programs and other interested parties. Available on-line: http://www.acf.hhs.gov/programs/cse/pol/AT/at-9904.htm.
- PIQ-00-02, "Interstate Case Closure When Custodial Parent Location Is Unknown" addresses two specific questions related to case closures raised by states. Available on-line: http://www.acf.dhhs.gov/programs/cse/pol/PIQ/piq-00-02.htm.

[33] According to the guidance, "Decisions to close cases are linked with notice to recipients of the intent to close the case and an opportunity to respond with information or a request that the case be kept open."

on the IV-D caseload. There is concern that default orders are often unpayable. IV-D officials were near unanimous in their opinions that default orders ultimately weaken performance on the collection-related measures—current collections and cases paying toward arrears.

State and local officials reported a number of initiatives designed to reduce the number of default orders and instead create orders that have a higher likelihood of resulting in regular payments. In some states, IV-D agencies have developed special order establishment teams that permit more upfront interactions with the non-custodial parent and his or her employer. Another state offers group establishment interviews for non-custodial parents, which are designed to disseminate information about the child support enforcement process and the importance of collaborating with requests for financial information.

Expediting order establishment. Respondents in two states pointed to an increased reliance on administrative processes in order establishment as the key to improving their performance on the cases with orders measure. State officials credited the moves with reducing case backlogs in the court system and improving establishment timeframes.

Offering arrearage amnesty. In an attempt to boost collections on arrears, some officials noted that their states have offered non-custodial parents amnesty from interest payments if the parent negotiates an arrearage payment plan during a specified time period.

Extending current support when child reaches majority age for cases with arrears. To boost performance in cases paying toward arrears, a few respondents said their states now automatically extend the child support order—at current support levels—beyond the age of majority if arrears are outstanding. After a child reaches majority status and child support technically ends, the non-custodial parent continues to make payments at the current support level until the arrears are paid in full. The policy saves caseworkers the step of making an upward modification to the arrears-only order.

Examining staff caseloads. Staff from one surveyed state said that the performance-based incentive system was the impetus to conduct a staffing standard study; it is looking to other states for evidence of the optimal number of cases per caseworker.

VI. STATE INTERVIEWS: BUDGET ISSUES

Incentives under the new system play a critical role in the development of IV-D agency budgets. Unlike the system prior to CSPIA, the federal government now requires states to reinvest incentives in the IV-D program. Because the reinvested incentive dollars are eligible for federal matching funds, each additional dollar in incentives supports three dollars in total program funding. Similarly, the loss of an incentive dollar implies a three-dollar loss in total program funding if not replaced.

OCSE essentially pays incentives on an on-going basis using state *forecasts* of what their incentives will be for a particular year. For example, if a state expects $8 million in incentives for fiscal year 2003, it would draw $2 million each quarter during the federal fiscal year.[34] Once the audited performance data become available, OCSE reconciles the amount actually earned with the amount previously estimated and retained by states. For example, if OCSE determines actual incentives for the fiscal year totaled $10 million, the state would draw an additional $2 million. If, on the other hand, OCSE determines the state actually earned only $6 million, the state would have to pay $2 million.

The mechanics of the payment process puts a premium on an accurate forecast of incentives. However, the complexity of the incentive calculation, as well as the inherent payment interdependency created by the cap, makes accurate incentives forecasts very challenging.

A. Forecasting Payments

State officials unanimously agreed that the new incentive system makes it very difficult to estimate incentive payments. Under the old system, they had to estimate only their cost-effectiveness, public assistance collections, and non-assistance collections. Under the new system, they must predict cost-effectiveness and collections, as before, but additionally must estimate their performance in three other areas. Furthermore, even with perfect information about their own collections and performance, state IV-D officials cannot accurately predict their own payments because they are influenced by the collections, performance, and data reliability of the other states. Respondents from the nine study states offered a number of observations about forecasting incentive payments under the new system.

First, state methods to predict incentive payments vary in their sophistication. A number of officials said they simply have held their quarterly incentive draws from the federal government unchanged for a number of years and make no formal attempt to pinpoint a particular year's incentives. Officials from two states calculate incentives using a spreadsheet model that incorporates assumptions about own-state performance, collections, and data reliability, the national collection base, and trends in performance and data reliability for other

[34] In practice, the states receive their incentives by reducing the amount of retained public assistance collections they send to the federal government. For example, in a given quarter, a state may have retained $20 million in public assistance collections—with one half of the total owed to the state and the other half owed to the federal government. Rather than sending the full $10 million to the federal government, the state might send $8 million and hold $2 million in anticipated incentive payments.

states. Individual IV-D agencies have developed and shared the spreadsheet models with colleagues in other states.

IV-D officials in the nine study states indicated that there would be severe consequences if they overestimate their incentive payments. Most officials believed their programs would suffer layoffs and the loss of special programs. Given incentive earmarking to IV-D programs, the loss of each incentive dollar translates to a loss of three dollars in total program funding. Budget officials noted that in the event of an overestimate, the agency would unexpectedly have to pay back OCSE over a period of time. The majority of states suggested that a required payback would result in a temporary or permanent disruption to the program.[35]

Given payment uncertainties and harmful potential consequences of overestimating payments, state officials said they are conservative in their forecasts; many intentionally underestimated incentives.[36] When OCSE announces the actual incentive award, the surplus (or amount over the forecast) does not typically result in a windfall to the agency. More often it is the case that legislative appropriators advance monies to the IV-D agencies based on the directors' demonstrated need, keeping the potential for incentive payments in mind. If the incentive award is higher than assumed in the IV-D budget, the excess incentive amount reimburses the state general fund. In short, most program directors reported that—as long as the state has met its reinvestment requirements—higher than expected incentives do not automatically translate into a windfall for the agency.

State officials suggested several changes to aid predictability of incentives**.** Some suggested OCSE could distribute the estimated *national collection base* in advance of the audit findings on performance.[37] All recommended eliminating the cap on incentive payments. Because the effect of the cap was raised within the context of payment forecasting, respondents were not asked to comment on the issue of maintaining budget neutrality.

B. Reinvestment of Incentives

As noted above, states must reinvest incentive payments into their CSE programs. OCSE enforces the reinvestment requirement as follows. OCSE calculated a "base" child support expenditure for each state, which equaled the state's total expenditures in FY 1998 *minus* the amount of incentive funds that it received and reinvested during the same year. Additionally, OCSE allows states to substitute an alternate three-year average for the FY 1998 amount.[38]

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[35] Among the states interviewed as part of this study, only one overestimated incentives—and did so only the first year the new system was implemented. In that case, the IV-D agency repaid the federal government over a four-quarter period and revised its budget to reflect the unanticipated shortfall.

[36] Some noted that there is a downside to being overly conservative with estimates. One state noted that conservative incentive estimates can weaken trust with appropriators. Legislative appropriators, who may be only vaguely aware of the mechanics of the new incentive system, may view conservative incentive forecasts as short-term attempts to secure larger general-fund appropriations.

[37] OCSE releases preliminary data early in the year in an effort to assist states with their estimates.

[38] OCSE allows states to use the three-year average because officials believe it may more closely approximate the amount a state has been spending on its IV-D program and will not give undue weight to any extraordinary or non-recurring expenditures the state may have made in FY 1998.

Going forward, OCSE requires states to maintain the base expenditure. Moreover, the incentive payments must be in addition to, and not in lieu of, the base amount.

Six of the nine states interviewed earmarked some or all of their federal incentives to the IV-D agency *prior* to CSPIA.[39] Consequently, the federal requirement to reinvest incentives in the IV-D program affected only a minority of states. In states that required a change in policy, budget officials created earmarked accounts and implemented special regulations to allow the IV-D agency to accept and spend the monies. In one state that did not previously earmark incentives to the IV-D agency, the reinvestment rule eliminated the agency's short-term need to request a general appropriation.

One area explored with regard to reinvestments was the use of an alternate three-year average base amount. Most of the interview states selected the method that resulted in the lowest base amount. However, in one state, the executive branch of the government, representing the IV-D agency, attempted to implement the highest base amount. Later a legislative oversight committee discovered the lower options and required the agency to adopt the lowest base amount. Officials from that state believe the resulting tensions over the agency's budget could have been avoided if OCSE had provided states more guidance on how to adopt the base amount.

[39] Nationally, 42 of 51 states did so in FY 1997. See Fishman et al. (1999).

VII. CONCLUSIONS

The 1998 Child Support Performance and Incentive Act created a new incentive system to reward states that operate effective child support enforcement programs. The new system assesses state performance in five areas—paternity establishment, order establishment, percent of current support paid, cases paying toward past-due support, and cost-effectiveness. The *Interim Report* provides background on the new incentive system, including its structure; describes the incentive calculation and payment processes; and provides information on initial program results and incentive payments. This final report explored state experiences implementing the new system, including perceptions of its successes, problems, advantages, and disadvantages. Project work included analysis of state performance trend data, research on factors that affect performance, and discussions with child support officials in nine states.

Key findings are:

State and local CSE staff expressed near universal support for the new incentive system. While almost every state and local official interviewed recommended refinements, nearly all agreed the performance-based incentive system focused state and local energies on the important core functions of the IV-D program.

New system measures the appropriate areas. The majority of respondents believed that the appropriate performance measures were selected and weighted correctly. Specifically, they expressed strong support for the measures that are most directly associated with the core IV-D mission of getting support to families: paternity establishment, order establishment, and collections on current support due. Most respondents said the five measures were adequate and that adding new ones would be premature.

Performance thresholds are reasonable. Most respondents agreed that the performance thresholds associated with incentive payments were about right (e.g., states that establish 80 percent of paternities receive 100 percent of the payment).

Reporting system shows performance has improved in most areas. Analysis of OCSE administrative data shows state performance in most incentive areas improved between FYs 2000 and 2002. Median scores for states with reliable data increased for IV-D paternity establishment (from 70% to 87%), cases with orders (from 67% to 73%), cases paying toward past-due support (from 57% to 61%), percent of current support collected (55% to 59%), and cost-effectiveness (from $4.13 to $4.49). The median state score for the statewide paternity establishment measure remained over 90 percent.

Data reliability improved during the three-year implementation period. In addition to improving performance, states also improved data reliability. Between FYs 2001 and 2002, the number of states failing a data reliability audit for at least one measure decreased by half, from 25 to 12. Discussions with IV-D officials indicated that states have devoted considerable resources to improve data reliability, such as: revisions to their automated systems (e.g., automating key forms used in the audit and creating safeguards to catch human errors); extensive data clean-up projects, often in response to issues identified by federal auditors; and assessment of performance of offices. In general, states suggested that the increased importance

the new system places on data reliability has had a positive effect on the overall effectiveness of their programs.

State CSE programs have taken steps to ensure that all staff are working toward performance improvement. States have gone to significant lengths to disseminate the information on the federal performance measures. States reported that child support staff are aware of the performance measures, their importance to the program's mission, and their fiscal implications. Activities include:

- Providing education and training in multiple forums, including statewide and regional IV-D conferences, monthly office meetings, newsletters, emails, and presentations;

- Creating specialized training teams that review regional and office-level performance and tailor training activities to address observed deficiencies;

- Developing automated systems to track performance at regional and office levels; and

- Using some or all federal measures in workers' performance evaluations.

State CSE programs adopted a number of policy changes to affect measures. States report that performance improvement is factored into almost every initiative that child support agencies undertake. Policy changes include:

- Making a concerted effort to review cases that are appropriate for closure under federal guidelines. Under the previous incentive system, keeping inactive cases on the system did not affect state performance. Under the new incentive system, these cases are included in the universe of open cases and can negatively affect state performance on the paternity establishment and cases with orders measures.

- Emphasizing the creation of "payable" child support orders. State policies include an attempt to lower the rate of default orders (i.e., orders that are entered when a non-custodial parent does not respond to requests for financial information or requests to appear at an administrative forum or court), which are often based on imputed income, or by adding a self-sufficiency reserve to child support guidelines that allows the non-custodial parent to maintain a minimal subsistence level. The policies are not intended to absolve the non-custodial parents of their responsibilities to their children, but aim to increase the likelihood that they will provide consistent support to their children over the long term.

- Increasing reliance on administrative processes to establish orders in an attempt to expedite establishment and improve performance on the order establishment measure.

- Encouraging payment of current and past-due support orders by offering non-custodial parents amnesty from interest payments if they negotiate an arrearage payment plan or extending current support collections when a child reaches the age of majority if the non-custodial parent owes arrears.

Change in incentive payments to individual states—relative to what they would have received under the old system —is related to performance and the nature of the state's

caseload. Empirical analysis indicates that change in any given state's incentive payments—relative to what it would have earned under the old system--could be largely explained by the following factors: (1) state performance and reliable data are strongly and positively associated with higher payments under the new system; (2) the proportion of a states' collections that come from current assistance cases is strongly and negatively associated with the change in incentive payments under the new system.

State CSE officials do not want OCSE to adjust incentive payments for state socio-economic conditions. Child support officials were asked if the new system favors states with certain profiles, such as stable or affluent populations, and, if so, whether states should be compensated for factors beyond their control. Most respondents agreed that IV-D programs operate in different socio-economic environments. However, the majority of state representatives opposed adjusting incentive payments to account for those differences because such adjustments would add complexity and uncertainty to an already complicated payment system and that gaining consensus on an appropriate list of adjustment factors would be extremely challenging.

State CSE officials recommended refinements to the new incentive system.

- *The capped incentive pool raised concerns*. State officials noted that the cap makes estimating incentive payments very difficult. Because states are competing for a fixed pool of incentive dollars, a state must anticipate not only its own performance and data reliability, but also that of every other state, in order to forecast its own incentive payments. Moreover, they expressed concern that the cap creates a dynamic in which better performance is not always matched by higher payments. Because incentive payments are a function of both performance and state collections, a state could improve performance but receive a lower payment if other states with larger collection bases also improved their performance or data reliability. For these reasons, officials from all study states voiced support for removing the cap. Although states strongly supported the cap's removal, the interview protocol did not explore how the federal government would pay for incentive payments that exceeded the amount currently authorized.
- *The audit schedule does not allow for a full corrective action period*. A state faces a penalty if OCSE auditors find its data to be unreliable or incomplete and the state fails to correct the deficiencies. OCSE grants a one-year corrective action period before assessing the penalty. State officials reported that the current audit schedule provides insufficient time to correct errors. In the past two years, OCSE has released its audit findings between March and July, which has left states with as little as three months to correct any errors before they must submit data for the next fiscal year (October 30th, with corrections permissible through the end of December). States receive informal feedback from the auditors when they are on site—after the start of the calendar year. However, even with the early feedback, states still have less than a full corrective action year. OCSE is aware of the concerns related to the timing of the corrective action year and is working with Congress to address.
- *Less frequent data reliability audits would be sufficient***.** The majority of state officials suggested that once a state has passed the audit for all measures for a number of years, OCSE should move to a less frequent audit process—perhaps every two or three years.