

**Michigan IV-D Child Support Manual**  
**Michigan Department of Health and Human Services**

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[Exhibit 6.21E1: Federal Pre-Offset Notice](#)

[Exhibit 6.21E2: Information About Your One-Time Payment Under the American Recovery and Reinvestment Act](#)

[Exhibit 6.21E3: BFS Offset Notice](#)

[Exhibit 6.21E4: This Is Not a Bill – Please Retain for Your Records](#)

[Exhibit 6.21E5: Notice of Income Tax Refund Used for Debts](#)

## 1. Background

### 1.1 Federal Offset Program

The federal Office of Child Support Enforcement (OCSE) uses one submission process to administer the entire Federal Offset Program. The Federal Offset Program consists of:

- Federal income tax refund offset (known in Michigan as Federal Tax Refund Offset or FTRO);

- Federal Administrative Offset (FAO);
- Passport Denial;
- Multistate Financial Institution Data Match (MSFIDM); and
- Federal insurance match (known in Michigan as Insurance Claims Data Match or ICDM).

This manual section addresses FTRO and FAO. Information on passport denial can be found in [Section 6.24, “Passport Denial/Restriction,”](#) of the *Michigan IV-D Child Support Manual*. Information on MSFIDM can be found in [Section 6.27, “Liens – FIDM/MSFIDM,”](#) and information on ICDM can be found in [Section 6.30, “Liens – Insurance.”](#)

OCSE administers both FTRO and FAO through the Bureau of the Fiscal Service (BFS),<sup>1</sup> a bureau of the federal Department of Treasury. BFS operates the Treasury Offset Program, which maintains a national Master Debtor File. This file contains a list of taxpayers who owe debts, including child support debts, to various agencies. Funds that are offset through FTRO and FAO are forwarded to the state on behalf of OCSE.

## 1.2 State Tax Refund Offset (STRO)

This manual section also addresses State Tax Refund Offset (STRO). The STRO process offsets a non-custodial parent’s (NCP’s) state tax refund via Michigan’s Department of Treasury and sends the offset to the Office of Child Support (OCS).

## 2. Legal Summary

The Federal Offset Program became law<sup>2</sup> in 1981. Initially, this program was only applicable to cases where support arrears had been assigned to the state.<sup>3</sup> Delinquent support obligations were enforced by intercepting part or all of the obligor’s federal income tax refund. The Federal Offset Program was expanded in 1984<sup>4</sup> for use in cases where the arrears had not been assigned to the state.

The Debt Collection Improvement Act (DCIA)<sup>5</sup> became law on April 26, 1996. The primary purpose of the DCIA is to increase the collection of non-tax debt owed to the federal government. On September 26, 1998, Executive Order 13019 – Supporting Families: Collecting Delinquent Child Support Obligations, further strengthened the

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<sup>1</sup> BFS was previously known as the Financial Management Service (FMS); prior to that, it was known as the Fiscal Management Service. FMS was consolidated with another federal agency and is now known as the Bureau of the Fiscal Service (BFS). BFS, OCSE, and the Internal Revenue Service (IRS) administer the FTRO program.

<sup>2</sup> Public Law (PL) 97-35, Section 2331

<sup>3</sup> Ref: [Section 5.15, “Assignment of Support \(Certification/Decertification\),”](#) of the *Michigan IV-D Child Support Manual*.

<sup>4</sup> PL 98-378

<sup>5</sup> PL 104-134

DCIA by implementing procedures necessary to collect support debts by administrative offsets.

The Deficit Reduction Act (DRA),<sup>6</sup> enacted February 8, 2006, required the following changes:

- Effective October 1, 2007, the DRA considers non-TANF<sup>7</sup> arrears for children older than 18 years of age as qualifying arrears for FTRO; and
- Effective October 1, 2009, the DRA removes the distinction in priority for FTRO between TANF arrears and non-TANF arrears. Any support arrears, regardless of assignment,<sup>8</sup> are first priority for offset after paying past-due federal tax debt.<sup>9</sup>

The American Recovery and Reinvestment Act of 2009 (the Act) became law on February 17, 2009. The Act, in part, provided one-time Economic Recovery Payments (ERPs) of \$250 to an estimated 60 million recipients of Social Security, Supplemental Security Income (SSI), Railroad Retirement Benefits (RRB), and Veterans' Disability Compensation or Pension (VA) Benefits. Treasury's BFS certified and issued the payments.

Under the normal administrative offset process, certain types of federal payments are, by law, exempt from intercept, such as VA disability and pension benefits, SSI benefits, and Tier II Railroad benefits. There also are similar exemptions for garnishment of federal payments such as SSI and certain Social Security and VA benefits. However, under Title II, Subtitle C, Section 2201 of the Act – Economic Recovery Payments to Certain Individuals – ERPs are not considered benefit payments or cash benefits, and all amounts paid are subject to offset for the purpose of collecting delinquent debts.

Participation in FAO is optional for states. Michigan does not currently participate in FAO,<sup>10</sup> with the exception of intercepting ERPs<sup>11</sup> between June 2009 and December 2010.<sup>12</sup>

STRO is required by federal law,<sup>13</sup> and federal rules outline the basic requirements of the STRO process.<sup>14</sup> Michigan law<sup>15</sup> gives Michigan's Department of Treasury the

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<sup>6</sup> PL 109-171

<sup>7</sup> TANF is Temporary Assistance for Needy Families.

<sup>8</sup> Ref: Section 5.15 of the *Michigan IV-D Child Support Manual*.

<sup>9</sup> Prior to October 1, 2009, FTRO would have first paid federal taxes, then TANF arrears, then other federal and governmental debts, then non-TANF arrears.

<sup>10</sup> Help Desk ticket IT 19473 requests Michigan's participation in FAO.

<sup>11</sup> Ref: Subsections 2, 3.2, 4.3, 8.2, 9.1.2, and 9.5 of this manual section for more information on ERPs.

<sup>12</sup> In 2016, OCSE sent Michigan a new administrative offset payment type of "MPY" (manual payment) in the IRS Collection and Adjustment file. Help Desk ticket 495528 was entered to request the creation of a Michigan Child Support Enforcement System (MiCSES) process to manage administrative offset payments.

<sup>13</sup> 42 United States Code (USC) Section 666(a)(3)

<sup>14</sup> 45 Code of Federal Regulations (CFR) 302.70 and 45 CFR 303.102

<sup>15</sup> Michigan Compiled Law (MCL) 205.30a

authority to apply tax refunds to child support liabilities of taxpayers and requires that OCS submit requests for STRO to Michigan's Department of Treasury no later than November 15 of each year.<sup>16</sup>

MiCSES screens and reports, as well as the federal Child Support Portal,<sup>17</sup> contain taxpayer-specific information; therefore, they are subject to the safeguarding and security requirements of the Internal Revenue Code Section 6103. IRS [Publication 1075, Tax Information Security Guidelines for Federal, State and Local Agencies](#), outlines the safeguarding and security requirements for handling taxpayer information. Further information on security requirements for MiCSES and other IV-D systems can be found in [Section 1.10, "Confidentiality/Security," of the Michigan IV-D Child Support Manual](#).

### 3. Types of Payments Offset

#### 3.1 Federal Tax Refund Offset (FTRO)

The FTRO process offsets (intercepts) an NCP's federal income tax refund, redirecting the funds from the IRS to the state child support agency through OCSE.

#### 3.2 Federal Administrative Offset (FAO)<sup>18</sup>

FAO offsets payments from federal agencies. These payments include:

- Money due to private vendors who perform work for a government agency;
- Federal retirement payments;
- ERPs;
- Relocation and travel reimbursements owed to federal employees; and
- United States Department of Agriculture (USDA) payments.

#### 3.3 STRO

In addition to offsetting state tax refunds, Michigan's Department of Treasury uses the STRO file to intercept income from the following sources:

- Property tax credit;
- Farm land preservation; and
- Lottery winnings over \$1,000.<sup>19</sup>

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<sup>16</sup> MCL 400.233

<sup>17</sup> The federal Child Support Portal was formerly known as the State Services Portal. For more information on the Portal, reference [Section 3.06, "Federal Child Support Portal," of the Michigan IV-D Child Support Manual](#).

<sup>18</sup> Michigan does not currently participate in FAO, with the exception of intercepting ERPs between June 2009 and December 2010. Ref: Subsection 2 of this manual section.

<sup>19</sup> MCL 432.32

## 4. Eligibility Criteria

Each year, Michigan's IV-D director must certify to the OCSE that the arrears submitted by the Michigan IV-D program for the Federal Offset Program meet all statutory and other requirements and have been verified for accuracy.

The certification of an NCP's arrears indicates (s)he is eligible for FTRO<sup>20</sup> and STRO. The submission process in MiCSES sums all qualifying TANF arrears on multiple cases for a single NCP as one submission to FTRO and STRO. Likewise, the process sums all qualifying non-TANF arrears on multiple cases for a single NCP as one submission to FTRO and STRO. If the sum total of qualifying arrears meets or exceeds the defined tax refund offset threshold, the NCP is submitted for FTRO and/or STRO.

An NCP's unpaid current support amount at the time of submission is not part of the calculation when determining qualified arrears.

Non-IV-D cases do not qualify for FTRO or STRO. Additionally, non-IV-D debts,<sup>21</sup> even non-IV-D debts on IV-D cases, are not eligible for FTRO or STRO.<sup>22</sup>

### 4.1 Social Security Number (SSN)

MiCSES validates the format of all Social Security numbers (SSNs) before submitting for FTRO or STRO by ensuring the SSN is greater than zero and consists of nine digits (0-9). For these submissions, MiCSES combines all qualifying arrears for NCPs with different member IDs but with the same SSN. These NCPs are considered "duplicate members." For duplicate members, the member ID with the highest qualifying arrears is the "primary member"; (s)he is the member submitted. MiCSES submits the combined qualifying debt for all duplicate members under the primary member's case and county, using the primary member's address.<sup>23</sup>

### 4.2 FTRO Submission Criteria

TANF and non-TANF arrears submitted for FTRO must:

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<sup>20</sup> OCSE uses one submission process for the entire Federal Offset Program; therefore, while Michigan does not currently participate in FAO, the submission process for FAO would be the same as that for FTRO.

<sup>21</sup> Ref: Subsection 5 of this manual section for more information about qualifying debts.

<sup>22</sup> Prior to June 10, 2011, it was possible for tax offset funds received by MiCSES to be receipted to a IV-D case that was submitted for FTRO and later changed to a non-IV-D case, due to certain timing issues. Ref: [MiCSES Customer Information Guide \(CIG\): Tax Offset Process, Section 5.35, "Allocation/Distribution," of the Michigan IV-D Child Support Manual](#), and Subsection 9.5 of this manual section for further information.

<sup>23</sup> Ref: [MiCSES CIG: Tax Offset Process](#) and Subsection 9.4 of this manual section for more information on duplicate members.

- Be \$150 or more for TANF arrears;
- Be \$500 or more for non-TANF arrears;
- Be for support and maintenance of a child, or a child and parent who live together;
- Have accrued under a court or administrative order for support;
- Be verified by MiCSES prior to submission;
- Be a specific dollar obligation if the debt is for medical support (percentage-based medical obligations do not qualify); and
- For intergovernmental cases, be qualified and certified by the initiating state only.<sup>24</sup>

#### 4.3 FAO Submission Criteria<sup>25</sup>

The federal criteria for submitting cases for FAO are as follows:

- All case types (TANF, non-TANF, etc.) that are eligible for FTRO are eligible for FAO; and
- A debt may be submitted for administrative offset when it is at least \$25<sup>26</sup> and is at least 30 days past-due.

When Michigan elected to participate in the one-time interception of ERPs in 2009 and 2010, only those NCPs submitted by Michigan's IV-D program using the existing FTRO file were eligible for FAO ERP.<sup>27</sup> Therefore, for Michigan's FAO ERP intercept process, the qualifying FAO and FTRO past-due support amounts were equal. In the future, OCS may consider participation in FAO on a regular basis using the less restrictive FAO submission criteria.

#### 4.4 STRO Submission Criteria

Cases submitted for STRO must:

- Have an arrearage that accrued under a court order for support; and
- Have TANF and/or non-TANF arrears equal to or greater than \$150.

Note: Both initiating and responding intergovernmental cases are eligible for STRO.

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<sup>24</sup> Ref: [Section 7.05, "Initiating Cases"](#) and [Section 7.10, "Responding Cases"](#) of the *Michigan IV-D Child Support Manual*, and [IV-D Memorandum 2011-001, \*New Intergovernmental Federal Regulations\*](#), for clarification of specific roles and responsibilities in state IV-D initiating and responding agencies.

<sup>25</sup> Michigan does not currently participate in FAO, with the exception of intercepting ERPs between June 2009 and December 2010. Ref: Subsection 2 of this manual section.

<sup>26</sup> States have the flexibility to determine a higher threshold.

<sup>27</sup> OCS did not have time to develop a way to identify NCPs who qualified for FAO ERP using the less restrictive FAO submission criteria.



#### 4.5 Submission Errors

OCS will not submit NCPs with qualifying arrears for FTRO or STRO if there are data problems known as pre-edit errors.

The *Tax Offset Information and Update* (TAXI) screen in MiCSES<sup>28</sup> displays the following FTRO and STRO pre-edit error messages in the *Federal Pre Exclusion* and *State Pre Exclusion* fields:

- “First four positions of the last name are not alpha characters” – The IV-D worker must correct the NCP’s last name;
- “First position of the first name does not contain an alpha character” – The IV-D worker must correct the NCP’s first name;
- “Complete address does not exist” – The IV-D worker must obtain a complete address<sup>29</sup> for the NCP; and
- “SSN invalid” – The IV-D worker must research and enter the correct SSN<sup>30</sup> for the given NCP.

MiCSES will review previous pre-edit errors with each tax batch run. When the pre-edit requirements have been corrected, the errors will no longer display on the TAXI screen, and the NCP will be eligible for offset submission the next time the FTRO batch runs, and/or when the next annual STRO submission occurs.<sup>31</sup>

#### 4.6 Bankruptcy

Bankruptcy information is located on the *Member Demographics* (DEMO) screen. If the bankruptcy indicator is “N” (No Bankruptcy), or “R” (Relief from Stay), all available enforcement remedies will be taken as necessary. If the indicator is set to “Y” (Member in Bankruptcy), cases for that NCP cannot be submitted for FTRO or STRO; MiCSES will automatically exclude the case(s) from tax refund offset. For a submitted case in which the NCP’s bankruptcy indicator on the DEMO screen changes from “N” to “Y,” MiCSES will delete the individual from tax refund offset.

On April 20, 2005, President Bush signed the Bankruptcy Abuse Prevention and Consumer Protection Act (effective on October 17, 2005). The Bankruptcy Act expands Friend of the Court (FOC) and OCS staff’s ability to enforce child support cases after the NCP has filed for bankruptcy protection. NCPs filing for

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<sup>28</sup> Ref: [MiCSES Screen Description: TAXI – Tax Offset Information and Update](#).

<sup>29</sup> A complete address contains entries in the *Address Line1*, *City*, *State*, and *Zip Code* fields.

<sup>30</sup> MiCSES ensures the SSN is a numeric value greater than zero. Additionally, in the MiCSES tax refund offset duplicate member logic, MiCSES assumes the SSN is invalid for the duplicate NCP who is not submitted for FTRO or STRO.

<sup>31</sup> Ref: *MiCSES CIG: Tax Offset Process* for more information on this process.



bankruptcy protection on or after October 17, 2005 are no longer exempt from being submitted for tax refund offset.<sup>32</sup>

By setting the bankruptcy indicator to “R” rather than “Y” for bankruptcies occurring on or after October 17, 2005, FOC and OCS staff will ensure that the NCP is submitted for all available enforcement remedies.

It is the responsibility of the NCP and/or the trustee to notify all appropriate agencies (e.g., OCS, FOC, and the IRS) of a bankruptcy proceeding.

## 5. Qualifying Debts

### 5.1 Past-Due and Overdue Support

For purposes of submittal to FTRO, federal regulations<sup>33</sup> state that “past-due support” includes support owed to or on behalf of a qualified child,<sup>34</sup> or a qualified child and the parent with whom the child is living if the same support order includes support for the child and the parent. OCSE policy<sup>35</sup> states that all case types that are eligible for federal income tax refund offset are eligible for administrative offset.

Federal regulations<sup>36</sup> also require that the state have procedures in place to collect “overdue support” through the STRO process.

“Overdue support” is defined as “a delinquency pursuant to an obligation determined under a court order, or an order of an administrative process established under State law, for support and maintenance of a minor child, which is owed to or on behalf of the child, or for the NCP’s spouse (or former spouse) with whom the child is living, but only if a support obligation has been established with respect to the spouse and the support obligation established with respect to the child is being enforced under the State’s IV-D plan. At the option of the State, overdue support may include amounts which otherwise meet the definition in the previous sentence but which are owed to or on behalf of a child who is not a minor child.”<sup>37</sup>

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<sup>32</sup> Ref: [Section 6.15, “Bankruptcy,” of the Michigan IV-D Child Support Manual](#) for detailed information on the impact of bankruptcy on enforcement and the actions IV-D staff must take for the NCP regarding this and other enforcement remedies in MiCSES.

<sup>33</sup> 45 CFR 301.1

<sup>34</sup> Prior to October 1, 2007, a “qualified child” meant a child who was a minor, or who, while a minor, was determined to be disabled, and for whom a support order was in effect. Since the adoption of the DRA, debt submitted for FTRO is no longer restricted to that for a minor child.

<sup>35</sup> [OCSE AT 10-04, Collection and Enforcement of Past-Due Child Support Obligations through the Federal Income Tax Refund Offset, Administrative Offset, Passport Denial, Multistate Financial Institution Data Match, and Federal Insurance Match Programs.](#)

<sup>36</sup> 45 CFR 302.70

<sup>37</sup> 45 CFR 301.1

MiCSES uses debt types to classify obligations.<sup>38</sup> Each debt type is used for specific court-ordered obligations, as directed by state and federal laws and court rules.

MiCSES submits spousal support debt for the Federal Offset Program and for STRO; however, MiCSES does not submit spousal support debt (or any other debt) when the case is coded as non-IV-D (“L” type case in the *Case Type* field on the *Case Member Details* [CASE] screen in MiCSES).<sup>39</sup>

Refer to Section 5.10 of the *Michigan IV-D Child Support Manual*, [Exhibit 5.10E3](#), and the *MiCSES Screen Description: DBTP – Debt Type Priority* for further information regarding debt types submitted for the Federal Offset Program and STRO.

As of February 13, 2009, MiCSES discontinued the submission of Medical Support – Medicaid (MD) and Payee Birth Expenses (PC) debt types for FTRO and/or FAO.<sup>40</sup>

## 5.2 Actual and Qualified Arrears

The TAXI screen in MiCSES displays the NCP’s arrears amounts considered for the FTRO and STRO programs. Two arrears balances are displayed: *actual* and *qualified*.

Both amounts show only the arrears balances of the debt types that are eligible for submission for the Federal Offset Program. The qualified arrears amount is the amount certified for tax offset, and may be different from the actual arrears amount. If a case contains an overall negative arrears amount, these negative arrears are included when calculating actual arrears for the overall arrears balance. When determining qualified arrears, however, cases with negative arrears are not included for submission for offset.<sup>41</sup>

If there is an active income withholding notice (IWN)<sup>42</sup> and the actual arrears are less than or equal to one month of current support, the qualified arrears amount will be zero.

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<sup>38</sup> Ref: [Section 5.10, “Debt Types,” of the Michigan IV-D Child Support Manual](#) and the [MiCSES Screen Description: DBTP – Debt Type Priority](#).

<sup>39</sup> Ref: [Section 3.50, “Case Closure,” of the Michigan IV-D Child Support Manual](#) for the appropriate use of the “L” type case when there are continuing spousal support obligations.

<sup>40</sup> Ref: [Section 4.25, “Birth Expenses,” of the Michigan IV-D Child Support Manual](#) for more information.

<sup>41</sup> Ref: *MiCSES CIG: Tax Offset Process* for more information on actual and qualified arrears.

<sup>42</sup> Ref: [Section 6.03, “Income Withholding,” of the Michigan IV-D Child Support Manual](#) for more information on IWNs.

## 6. Exclusion Indicators

An NCP's case may be excluded manually or automatically from submittal to FTRO and/or STRO.<sup>43</sup> IV-D workers will use the TAXI screen to view and, with the appropriate security permissions, change the exclusion indicator(s) for FTRO and STRO programs.

It is possible to exclude an NCP, either manually or automatically, after submitting him/her for offset. IV-D staff can review an NCP's case on the *Federal Offset Information (FEDH)* or *State Tax Intercept Information (STXH)* screens to determine if MiCSES has submitted a "delete" transaction to the OCSE.

Excluded cases are not included in the calculation of an NCP's qualified arrears. (These exclusions are included in *actual* arrears but not in *qualified* arrears.)<sup>44</sup>

The IWN exclusion indicator on the TAXI screen, automatically set by MiCSES, prevents cases with high current support obligations from inappropriately submitting to FTRO and STRO. If an IWN is in place for such a case, it is assumed that the arrearage is temporary and will be satisfied within the month.<sup>45</sup>

Since Michigan does not currently participate in FAO, the exclusion indicators for FAO<sup>46</sup> are all automatically set by MiCSES to exclude.

Beginning in June 2012,<sup>47</sup> approved IV-D workers<sup>48</sup> were granted access to the Federal Collections and Enforcement application through the federal Child Support Portal.<sup>49</sup> Currently, there is no functionality designed to synchronize updates sent through MiCSES with updates sent via the portal; therefore, IV-D workers must change an FTRO exclusion and/or complete other FTRO transactions only through MiCSES, and **not** through the portal.

## 7. Reconciliation of Federal Offset Program Data

OCSE provides an opportunity for states to compare Federal Offset Program data between the state system and the Federal Offset System<sup>50</sup> and correct any mismatches. OCSE has two reconciliation processes:

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<sup>43</sup> For an exclusion indicator to be effective for an NCP, the exclusion indicator must be set for all of the NCP's cases.

<sup>44</sup> Ref: Subsection 5.2 of this manual section for information on actual and qualified arrears.

<sup>45</sup> Ref: *MiCSES CIG: Tax Offset Process*.

<sup>46</sup> FAO is called "ADM" in MiCSES.

<sup>47</sup> Pilot users of the federal Child Support Portal were granted access in May 2012.

<sup>48</sup> Ref: Section 1.10 of the *Michigan IV-D Child Support Manual* for information on the security authorization forms necessary for access to the federal Child Support Portal.

<sup>49</sup> Ref: [MiCSES 8.0.2 Release Notes](#) and Section 3.06 of the *Michigan IV-D Child Support Manual*.

<sup>50</sup> The Federal Offset System is the computer system at the federal level that processes Federal Offset Program data.

- OCSE-to-State Reconciliation – The state requests that OCSE send a file with all of the Federal Offset Program data within the Federal Offset System. The state reviews the federal file, compares it to the state data, and submits a correction file to OCSE. OCSE updates the Federal Offset System according to the correction file so that information in the state and federal systems matches.
- State-to-OCSE Reconciliation – The state sends a complete file of all of the state’s Federal Offset Program data to OCSE. OCSE updates the Federal Offset System to reflect the information listed in the state file.

Prior to August 29, 2008, MiCSES staff manually processed a State-to-OCSE Reconciliation.

Currently, MiCSES automatically processes the OCSE-to-State Reconciliation file. This automatic reconciliation process replaces the previous manual State-to-OCSE Reconciliation. Any errors that have been flagged by OCSE (both rejection and warning errors) are released from the *Reject/Warning Record Details* (RJCT) screen.<sup>51</sup>

MiCSES has the ability to run the OCSE-to-State Reconciliation at any time; however, because there is a delay in sending updated information to OCSE after MiCSES processes the reconciliation file, OCS anticipates that the reconciliation will occur annually toward the end of October. OCS staff will notify users via an email notification if the OCSE-to-State Reconciliation will be run at any other time.

Any data sent to OCSE through either of the reconciliation processes must meet the same standards as data sent through the regular submittal or update processes.

## 8. NCP’s Notification

In the case of FTRO, FAO or STRO, the NCP receives notification explaining that (s)he has the right to contest, or object to, the offset of the tax refund.

### 8.1 *Pre-Offset Notice* (PON)

NCPs must receive notification when they are selected for submission to FTRO, FAO, or STRO. The PON affords the NCP due process to contest the offset.

MiCSES uses the following address hierarchy to determine which address is sent to the OCSE for federal PONs:<sup>52</sup>

1. Legal, Verified Good, Not End-dated, Highest Begin Date;
2. Mailing, Verified Good, Not End-dated, Highest Begin Date;

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<sup>51</sup> Ref: Subsection 9.4 of this manual section for information on rejection and warning errors.

<sup>52</sup> This address hierarchy was also used for state PONs sent prior to August 29, 2008.

3. Legal, Previously Verified Good, End-dated, Highest End Date;<sup>53</sup> or
4. Mailing, Previously Verified Good, End-dated, Highest End Date.<sup>54</sup>

MiCSES uses the Enforcement Standard Hierarchy established on the *Address Hierarchy Maintenance* (AHMN) screen for state PONs.

If the NCP does not have an address that fits within the hierarchy, MiCSES will not select the NCP for the Federal Offset Program or STRO.

## 8.2 Federal PON<sup>55</sup>

Throughout the year, OCSE mails federal PONs to NCPs who are newly submitted (via an “add” transaction)<sup>56</sup> to the Federal Offset Program. The federal PON addresses FTRO, FAO, and passport denial, and informs the NCP of the right to contest the determination that the amount of past-due support is owed. The notice also provides instructions for injured spouses.<sup>57</sup>

The federal PON includes the address and FOC information for the primary member ID and docket that has the highest arrears balance. Only the docket with the highest arrears balance is shown, but the balance on the PON has the sum of all of the NCP’s qualified arrears. When an NCP with multiple cases contacts the IV-D worker, the worker will instruct the NCP to contact other appropriate FOC offices for details regarding additional cases associated with the PON.

In addition to receiving the federal PON, all of the Social Security Administration’s (SSA’s) ERP-eligible recipients received notice<sup>58</sup> informing them about ERP. The SSA notice included information about the ability to offset ERP for the collection of past-due support.

Beginning in June 2012, approved IV-D workers were able to view federal PON data, including the date the federal PON was sent to the NCP, through the federal Child Support Portal.<sup>59</sup>

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<sup>53</sup> MiCSES displays this address as “Legal, Bad, End-dated” on the *Member Address History* (AHIS) screen.

<sup>54</sup> MiCSES displays this address as “Mailing, Bad, End-dated” on the AHIS screen.

<sup>55</sup> Ref: [Exhibit 6.21E1](#).

<sup>56</sup> Ref: Subsection 9.1 of this manual section for information on an “add” transaction.

<sup>57</sup> An “injured spouse” is the non-debtor spouse of the NCP (may also be called the “innocent spouse” or “non-obligated spouse”). When filing a joint tax return, the injured spouse may file a claim against his/her share of the tax refund. If the injured spouse files a claim, his/her share of the refund may not be applied to the NCP’s support debt without permission. Ref: Subsection 9.3.1 of this manual section.

<sup>58</sup> Ref: [Exhibit 6.21E2, Information About Your One-Time Payment Under the American Recovery and Reinvestment Act](#).

<sup>59</sup> Ref: Section 3.06 of the *Michigan IV-D Child Support Manual*.

### 8.3 State PON<sup>60</sup>

Prior to August 29, 2008, the Michigan Department of Health and Human Services (MDHHS) generated and sent state PONs to NCPs who met the STRO certification criteria each September. MDHHS did not retain a history of state PONs sent before that date, and IV-D workers are not able to view copies of these state PONs.

MiCSES now generates state PONs to NCPs who meet the STRO certification criteria each September. STRO certification occurs only once a year during the annual STRO certification batch run. MiCSES retains a copy of each state PON generated.<sup>61</sup>

NCPs with multiple dockets will receive one state PON. The state PON includes instructions for injured spouses. It also informs the NCP of qualified STRO certification arrearage amounts on each docket. If the NCP has dockets in multiple counties, the state PON will contain contact information for each county's FOC office. The NCP may contact the appropriate office concerning the validity of each arrearage amount.

### 8.4 NCP's Right to Contest<sup>62</sup>

#### 8.4.1 Contesting FTRO or FAO

The NCP has the right to request an administrative review to contest the determination that the amount of past-due support is owed. The NCP must contact the office listed on the PON within 30 days<sup>63</sup> of the date of the PON to request an administrative review.

#### 8.4.2 Contesting STRO

An NCP has 21 days<sup>64</sup> from the date of the state PON to contest an STRO. The NCP may request a review on the grounds that the offset is not proper because of:

- A mistake in the amount of past-due support; or
- Mistaken identity.

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<sup>60</sup> Ref: *State Pre-Offset Notice* (FEN150).

<sup>61</sup> Ref: *MiCSES CIG: Tax Offset Process*.

<sup>62</sup> The administrative review process in MiCSES is documented in the [MiCSES CIG: TOFF – Topic Objection Fact Finding Activity Chain](#).

<sup>63</sup> The 30-day timeframe is established by 31 CFR 285.2(d)(2)(ii) and is included on the federal PON.

<sup>64</sup> The 21-day timeframe was established by the OCS Program Development Division (PDD) and is included on the state PON.

## 9. Processing

### 9.1 Federal Offset Program

Case submittals for the Federal Offset Program are continuous. “Add,” “update,” and “delete” requests are generated from MiCSES via a batch process and submitted to OCSE weekly to accommodate increases and decreases in the NCP’s certified<sup>65</sup> arrears balance.

It is possible to generate these same requests through the federal Child Support Portal; however, there is currently no functionality available to synchronize updates done through the portal with updates done through MiCSES. IV-D workers must **not** complete FTRO transactions through the portal.<sup>66</sup>

Federal Offset Program batch submissions are generally suspended for three weeks in November to allow for the federal “freeze period,” when OCSE conducts its year-end reconciliation with the federal Department of Treasury’s BFS and the Department of State.<sup>67</sup> OCS PDD will provide notification to IV-D workers via an email message prior to the start of the freeze period each year.

The FEDH screen allows IV-D workers to view FTRO information for an NCP. The screen displays information pertinent to the submission and review processes. Dated entries appear on the FEDH screen for all add, delete, and update transactions in the federal update file. Batch processes select new eligible cases included in the file and provide updates on those cases.

#### 9.1.1 FTRO

When BFS processes an FTRO intercept, BFS sends the *BFS Offset Notice*<sup>68</sup> to the NCP, informing him/her that the intercept has taken place. This notice includes the address and FOC information for the primary member ID<sup>69</sup> and case that has the highest arrears balance.

#### 9.1.2 FAO<sup>70</sup>

Both recurring and nonrecurring payments are eligible for FAO. BFS offsets federal retirement pay at a rate of 25 percent, and allows the

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<sup>65</sup> Ref: Subsection 4 of this manual section for information on the certified arrears balance.

<sup>66</sup> Ref: Section 3.06 of the *Michigan IV-D Child Support Manual*.

<sup>67</sup> The OCS MiCSES Yearly Tax Refund Offset Program Projected Schedule, which includes the dates of the freeze period, can be found on mi-support’s [Tax Refund Offset](#) page under “External Links.”

<sup>68</sup> Ref: [Exhibit 6.21E3](#).

<sup>69</sup> Ref: Subsection 4.1 of this manual section for a definition of “primary member.”

<sup>70</sup> Michigan does not currently participate in FAO, with the exception of intercepting ERPs between June 2009 and December 2010. Ref: Subsection 2 of this manual section.



offset of vendor and miscellaneous payments at 100 percent.<sup>71</sup> The one-time interception of ERPs conducted by Michigan in 2009-2010 was allowed at 100 percent. FAO intercepts are not to exceed the qualifying past-due support amount.

When BFS processes an FAO intercept, BFS sends the *BFS Offset Notice* to the NCP. For the one-time interception of ERPs conducted by Michigan in 2009-2010, BFS sent a notice specifically addressing the offset of ERP.<sup>72</sup>

## 9.2 STRO

Cases eligible for STRO are submitted once each year, through a batch process. MiCSES generates the initial STRO “add” file for the tax year in October and submits the file to Michigan’s Department of Treasury on November 1. NCPs are included in the selection file only if they were sent a state PON in September.<sup>73</sup>

MiCSES then generates and submits STRO “updates” and “deletes” through a weekly batch process beginning in early December and continuing through the following September. (There is no weekly file sent from MiCSES to Michigan’s Department of Treasury between the sending of the state PON and early December.) An STRO update is sent to Michigan’s Department of Treasury when the arrears balance decreases, but not when it increases.

The STXH screen allows IV-D workers to view STRO information for a IV-D member ID, SSN, and tax year.

When an STRO intercept is processed, Michigan’s Department of Treasury sends the NCP a *Notice of Income Tax Refund Used for Debts*<sup>74</sup> and a garnishment disclosure form.

## 9.3 Joint Tax Returns

### 9.3.1 Federal Joint Returns

The current spouse of an NCP may file an injured spouse claim on his/her portion of an FTRO. Currently, there is no time limit<sup>75</sup> on the non-obligated spouse to file the *Injured Spouse Allocation* (form 8379) with

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<sup>71</sup> Ref: OCSE AT 10-04.

<sup>72</sup> Ref: [Exhibit 6.21E4, This Is Not a Bill – Please Retain for Your Records.](#)

<sup>73</sup> Ref: Subsection 8.3 of this manual section for more information on the state PON.

<sup>74</sup> Ref: [Exhibit 6.21E5.](#)

<sup>75</sup> If the joint tax return receipt is also potentially fraudulent, the collection will initially be held for fraud. If the IRS, via the OCSE, notifies OCS that the receipt is not fraudulent, the receipt will then be placed on a joint tax return hold for six months from the date of the original collection. Ref: Subsection 10 of this manual section for more information.

the IRS.<sup>76</sup> If the spouse submits a claim with the tax return, the IRS typically prorates the refund offset before sending an FTRO to the state.

If the NCP's current spouse has filed an injured spouse claim and the NCP is due a portion of a federal tax refund, the IRS will issue two payment records to BFS: one for the injured spouse and the other for the NCP. The NCP's payment record will be forwarded to MiCSES via the OCSE.

When the FTRO payment is owed to the custodial party (CP), MiCSES places the receipt from a joint tax return in suspense for six months to allow for the processing of potential injured spouse claims.<sup>77</sup> The receipt is placed on an SJTO (*Joint IRS Offset – Non TANF*) hold. Placing the FTRO on a disbursement-level hold will delay the disbursement for six months and allow the NCP to receive immediate credit for the payment.<sup>78</sup> If the FTRO receipt is still in suspense after the conclusion of six months, MiCSES will automatically disburse the FTRO receipt to the CP.

If an FOC office has received a signed waiver from the NCP's current spouse indicating that (s)he is not pursuing an injured spouse claim, the FOC worker may submit a *Request for Central Receipt Adjustment/Suspense Work Form (DHS-307)*<sup>79</sup> to the Michigan State Disbursement Unit (MiSDU) requesting the release of FTRO funds prior to the conclusion of the six-month hold period.<sup>80</sup> The FTRO funds must not be released early if they are concurrently being held as potentially fraudulent. FOC staff must wait to submit a DHS-307 to the MiSDU until OCS Central Operations has resolved the issue of potential fraud.<sup>81</sup>

IV-D workers with Extended FTRO View or Full FTRO access<sup>82</sup> will be able to view the name of any person who may have filed a federal tax return jointly with the NCP, as well as an indicator showing whether or not an injured spouse claim has already been processed. If the indicator on the federal Child Support Portal shows that the injured spouse claim has already been processed by the IRS, the IV-D worker may request the release of FTRO funds prior to the conclusion of the six-month hold period by completing and submitting the DHS-307.<sup>83</sup> The IV-D worker

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<sup>76</sup> An FTRO may be reversed due to an injured spouse claim. Ref: Subsection 9.8 in this manual section for more information about offset reversals.

<sup>77</sup> 45 CFR 303.72(h)(5)

<sup>78</sup> Ref: [MiCSES CIG: Suspense Management Reference](#).

<sup>79</sup> The DHS-307 and its instructions can be found on mi-support's [MiSDU](#) page.

<sup>80</sup> In the future, OCS PDD will review policy to determine when it may be appropriate to release the disbursement-level hold before the six months have elapsed.

<sup>81</sup> Ref: Subsection 10 of this manual section.

<sup>82</sup> Ref: Section 3.06 of the *Michigan IV-D Child Support Manual*.

<sup>83</sup> IV-D workers may not release this receipt from hold if it is a joint tax return receipt on hold as a potentially fraudulent receipt. OCS Central Operations must first resolve the issue of potential fraud. Ref: Subsection 10 of this manual section.

must check the box “Release SJTO” on the DHS-307 and include “Verified by Child Support Portal” as the “Reason for Action.” If the federal Child Support Portal indicates that the claim has already been processed, there is no need to have a signed injured spouse waiver from the NCP’s current spouse.

### 9.3.2 State Joint Returns

The spouse of an NCP must file an injured spouse claim against a state joint tax return within 30 days from the date of the *Notice of Income Tax Refund Used for Debts*.<sup>84</sup> If Michigan’s Department of Treasury receives the injured spouse claim, the tax refund offset will be prorated before it is sent to the MiSDU. If the spouse fails to submit a claim within the 30-day period, (s)he waives the right to any portion of the refund. STRO payments from joint tax returns are **not** put on hold in MiCSES since Michigan’s Department of Treasury is responsible for holding STRO payments from joint tax returns until the 30-day period ends.

## 9.4 Rejection/Warning Errors

After OCS submits an NCP and his/her arrearages for the Federal Offset Program, OCS may receive a rejection or warning error from OCSE. IV-D staff must use the RJCT screen in MiCSES to view errors.<sup>85</sup> After the error is corrected, the IV-D worker will check the “resubmit” box to release the error. The NCP will automatically be included in the next processing cycle.

There is one RJCT error type code – Duplicate SSN (99) – that is generated by MiCSES rather than received from OCSE. On February 25, 2005, MiCSES ran a one-time comparison process to help identify duplicate members.<sup>86</sup> If member IDs sharing the same SSN did not match on other criteria (last name, date of birth, second and third letters of first name), the NCP’s cases were excluded from FTRO and STRO, and an error with the error code “99” was recorded on the RJCT screen.<sup>87</sup>

The *MiCSES CIG: Tax Offset Process* provides a complete list of RJCT error codes and suggested/required actions regarding each code. IV-D staff may use the RJCT screen to generate a Federal Offset Program reject error report for all error codes or for a specific error code. Failure to review and correct errors found on the Federal Offset Program reject error reports may result in otherwise eligible NCPs not being submitted for FTRO.

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<sup>84</sup> Ref: Subsection 9.2 of this manual section.

<sup>85</sup> If the NCP has an error on the RJCT screen, the *Error Status* field on the TAXI screen will display the message “Review RJCT Screen.” If the NCP does not have an error on the RJCT screen, the *Error Status* field on the TAXI screen will display “No Error Information.”

<sup>86</sup> MiCSES may run the comparison process again at some point in the future. If and when it does, OCS will notify IV-D staff via policy updates and/or email notifications.

<sup>87</sup> Ref: Subsection 4.1 of this manual section for more information on duplicate members.

Michigan's Department of Treasury rejects STRO requests:

- When the SSN and name do not match Michigan's Department of Treasury records; or
- If the first four letters of the payer's last name do not match the taxpayer's name in Treasury records.

Michigan's Department of Treasury staff periodically provide a list of STRO rejections to OCS Central Operations on an *Edit Errors* report.<sup>88</sup> IV-D staff may also use the RJCT screen since identifying errors affecting the Federal Offset Program may help identify issues affecting STRO.

## 9.5 Receipting

OCSE and Michigan's Department of Treasury provide MiCSES with offset collection files that include information on the offset payments. OCSE provides the FTRO collection file on a weekly basis,<sup>89</sup> while MiCSES processes the STRO collection file once or twice each month.

Refer to Subsection 10 of this manual section for information about potentially fraudulent FTRO receipts on hold in MiCSES.

Note: The NCP will not receive immediate credit for an FTRO receipt identified as potentially fraudulent and held in suspense.

FTRO and STRO collections will only allocate to dockets and IV-D cases that have been certified for tax offset.<sup>90</sup> MiCSES applies tax refund offset receipts for the NCP's submitted IV-D cases up to the amount of the offset request (on the MiCSES FEDH screen) or the last amount submitted to Michigan's Department of Treasury (on the STXH screen).<sup>91</sup> If MiCSES receives a rejection from OCSE, MiCSES will apply tax refund offset receipts for the NCP's submitted IV-D cases up to the amount most recently accepted by OCSE.<sup>92</sup>

If an NCP's case was submitted for FTRO or STRO and was later changed in MiCSES to an "L" (non-IV-D) type case on the CASE screen, it is possible that FTRO and/or STRO funds were applied to the non-IV-D case.<sup>93</sup> As of June 10,

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<sup>88</sup> Currently, this report does not provide sufficient information for OCS Central Operations or FOC staff to correct MiCSES records. Help Desk ticket IT 19022/19187 has been entered to modify the file sent from MiCSES to Michigan's Department of Treasury. This may result in a workable report.

<sup>89</sup> Prior to 2010, OCSE sent this file to MiCSES bi-weekly.

<sup>90</sup> Ref: Subsection 4 of this manual section for more information on the certification of arrears.

<sup>91</sup> Ref: *MiCSES CIG: Tax Offset Process* for more information on finding these amounts on the FEDH and STXH screens.

<sup>92</sup> When a rejection is received from OCSE, the FEDH screen is updated to identify the last amount that OCSE accepted.

<sup>93</sup> Ref: *MiCSES CIG: Tax Offset Process* and Section 5.35 of the *Michigan IV-D Child Support Manual*.

2011, MiCSES allocates tax refund offsets only to cases that are IV-D at the time the offset is receipted. MiCSES does not allocate FTRO or STRO payments to non-IV-D cases. If FTRO and/or STRO funds are received on a case that changed from IV-D to non-IV-D between submission and receipt, the NCP may receive a refund.<sup>94</sup>

FTRO collections are processed using the FTRO distribution hierarchy. ERP and STRO collections are processed as standard obligor payments using the regular distribution hierarchy.<sup>95</sup> ERP collections appear in MiCSES without an indication that they result from an ERP intercept.

## 9.6 FTRO Refunds

FTRO refunds occur when the IV-D agency refunds money from an FTRO to the taxpayer. MiCSES reports FTRO refunds to the OCSE through a batch process. OCSE then notifies the IRS (via BFS) that the taxpayer received all or a portion of the offset, and applies appropriate adjustments to the state's future FTRO collections.

An FTRO refund occurs when:

- An individual submitted for FTRO is certified in error;
- An incorrect arrearage amount is reported to OCSE;
- An NCP makes a payment resulting in a decrease in the arrearage amount that is owed before the update is processed;
- There is an audit/administrative review that results in a decrease in the arrearage amount owed before an update is processed; or
- A case closes but BFS processes the tax refund offset before OCSE and BFS receive the updated case information.

Generally, MiCSES automatically handles FTRO refunds through the use of suspense codes.<sup>96</sup>

Manual intervention is required when MiCSES has submitted an incorrect SSN to OCSE. Other situations involving an incorrect SSN (e.g., taxpayer uses wrong SSN while filing, or two taxpayers have the same SSN) must be referred to OCS Central Operations.

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<sup>94</sup> Ref: *MiCSES CIG: Tax Offset Process*.

<sup>95</sup> Ref: Section 5.35 of the *Michigan IV-D Child Support Manual*.

<sup>96</sup> Ref: *MiCSES CIG: Suspense Management Reference*.

**Example:**

If MiCSES has submitted the wrong SSN for an individual, the IV-D agency must make a prompt refund to the taxpayer and submit a delete transaction to the OCSE for the taxpayer's SSN. For example, William Green with SSN \*\*\*-\*\*-4444 is submitted instead of the actual NCP, William Green, with SSN \*\*\*-\*\*-7777. In this instance, the wrong SSN is identified for the NCP, and the taxpayer being offset is entitled to a prompt refund.

If an incorrect SSN was submitted and the individual due the refund is not the obligor (see above example), the IV-D worker will correct the SSN in MiCSES.<sup>97</sup> Marking the incorrect SSN "Bad" (as described in the *MiCSES Quick Reference Guide*) will send the delete transaction to the OCSE.

If the offset receipt is held in suspense, the IV-D worker will contact OCS Central Operations regarding the creation of a new Other Party (OTHP) record<sup>98</sup> for the taxpayer whose SSN was submitted in error.

The IV-D worker will then submit a DHS-307<sup>99</sup> to the MiSDU and ask that the receipt be reversed and refunded to the new OTHP ID.

If the money due the taxpayer has already been disbursed, the IV-D worker must refund the payment to the individual through the make whole process.<sup>100</sup>

## 9.7 Use of Excess Tax Refund Offset Funds Toward Non-Certified Arrears

Federal regulations<sup>101</sup> require OCS to refund excess FTRO funds to the NCP; however, this regulation does not interfere with the IV-D agency's right to negotiate with the NCP to apply the excess funds toward non-certified arrears.<sup>102</sup>

Federal regulations<sup>103</sup> also require OCS to take steps to refund excess STRO funds to the NCP. OCS determined that excess STRO funds must be handled similarly to excess FTRO funds.

FOC staff will submit a DHS-307 to apply excess FTRO or STRO funds to non-certified arrears only when the IV-D worker has informed the NCP of the excess

<sup>97</sup> Ref: [MiCSES Quick Reference Guide: MSSN – Update a Member's SSN Information](#).

<sup>98</sup> Ref: [Section 3.16, "Other Parties," of the Michigan IV-D Child Support Manual](#).

<sup>99</sup> Ref: [AT 2005-011, Submission of the Request for Central Receipt Adjustment/Suspense Work Form \(DHS-307\), Revised Computer Access Forms, Access to TierTrac](#).

<sup>100</sup> Ref: [AT 2005-023, REVISED: Use of State Make-Whole Funds](#).

<sup>101</sup> 45 CFR 303.72(h)(4)

<sup>102</sup> Ref: [OCSE AT 94-05, Child Support Collection by IRS through Offsetting Federal Income Tax Refunds](#), Section 4(IV)(C): "...the excess is to be returned to the taxpayer. This, of course, does not preclude the state from negotiating with the NCP...."

<sup>103</sup> 45 CFR 303.102(c)(2)

funds remaining after paying the certified arrears, and the NCP has given express consent to use the excess funds against non-certified arrears. Express consent is given when:

- The NCP provides FOC staff written permission to use excess funds to pay non-certified arrears. The IV-D worker will place the document in the NCP's file and update the *Notes Processor* (NOTE) screen; or
- The NCP provides permission to FOC staff via telephone. The IV-D worker will record on the NOTE screen the date, time, and location of the call; the participants on the call; and the NCP's express verbal approval.

FOC staff may not apply excess FTRO or STRO funds using an NCP's implied consent. Implied consent is the use of an NCP's lack of response to a specific notice within a defined time period as permission to take a specific action.

After the NCP has provided express consent to use the excess FTRO or STRO payment for non-certified arrears:

- The IV-D worker must complete a DHS-307 and send it to the MiSDU. The IV-D worker must indicate on the form that (s)he obtained express consent from the NCP;
- MiSDU staff will refund the payment as directed on the DHS-307; and
- The IV-D worker will receipt the funds into MiCSES as a receipt source "R."

If the NCP requests that his/her excess FTRO or STRO funds be returned to him/her, the IV-D worker must submit a DHS-307 to the MiSDU, asking for the amount to be refunded to the payer.

## 9.8 Offset Reversal (Negative Offset)

BFS's reversal of an offset previously sent to the IV-D agency is called an "offset reversal," "negative offset," or "negative tax refund offset (NTRO)." In 2016, OCSE added the BFS reversal reason codes to the IRS Collection and Adjustment file. MiCSES extracts the reversal reason codes from the IRS Collection and Adjustment file and adds them to the "Potential Fraud Conditions Query" report located on the *FTRO Fraud Queries* (FFRQ) screen. OCS Central Operations uses the FFRQ screen to track potentially and confirmed fraudulent FTRO receipts.<sup>104</sup>

### 9.8.1 Pending Reversal Report

In 2019, BFS changed its accounting procedures regarding offset reversals (negative offsets). BFS determined that it would hold a state's

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<sup>104</sup> Ref: Subsection 10 of this manual section for more information about fraudulent FTRO receipts.



reversals if the total amount of negative tax offsets exceeded the total amount of positive offsets in a weekly collection cycle. States would not receive the reversals until the amount of positive offsets in a weekly collection cycle equaled or exceeded the amount of reversals.

To help states identify the reversals that the BFS is holding, OCSE created a pending reversal report.<sup>105</sup> This weekly report lists all the pending reversals BFS is holding and not sending in weekly files. This report is cumulative and includes pending reversals from the most recent four weeks (cycles). OCS Central Operations workers with Full FTRO access<sup>106</sup> to the Federal Collections and Enforcement application can download the reports on the Pending Reversal Report page.<sup>107</sup> This report is available only in Microsoft Excel format, and includes the following data:

- State;
- Debt Type;
- Trace Number;
- Amount Held;
- BFS Date Held; and
- Cycle.

### 9.8.2 Reversal Reason Codes

The reversal reason codes are available in the Federal Collections and Enforcement application on the federal Child Support Portal. The reversal codes are federal tax information<sup>108</sup> and will be available only to users with Full FTRO access to the Federal Collections and Enforcement application. The IV-D worker can use the reversal reason codes to learn why an offset reversal occurred.

BFS may reverse an FTRO or FAO previously sent to the IV-D agency for any reasons that appear in the table below. The table also includes the corresponding reversal reason code.

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<sup>105</sup> For more information about the accounting changes and the pending reversal report, reference [OCSE Software Changes Release 19-04-Minor](#).

<sup>106</sup> Ref: Section 3.06 of the *Michigan IV-D Child Support Manual* for more information on access to the Federal Collections and Enforcement application.

<sup>107</sup> OCSE previously sent pending reversal reports by email.

<sup>108</sup> Federal tax information is subject to IRS security requirements. Ref: *IRS Publication 1075, Tax Information Security Guidelines for Federal, State and Local Agencies* and Section 1.10 of the *Michigan IV-D Child Support Manual*.

| Reversal Reason Code | Reversal Reason   |
|----------------------|---|
| 0001                 | IRS Injured Spouse  |
| 0002                 | IRS Other Reason (less than six months)                               |
| 0003                 | State Approved IRS Partial Reversal (after six months) <sup>109</sup> |
| 0004                 | State Approved IRS Full Reversal (after six months)                   |
| 0005 <sup>110</sup>  | BFS Initiated Reversal (incorrect bank account or address)            |
| 0006                 | Forced Reversal <sup>111</sup>  |

### 9.8.3 Refunds/Reversals When BFS Cannot Locate the NCP

BFS will send the NCP any portion of his/her refund or payment remaining after satisfying the certified support debt. However, if BFS cannot locate<sup>112</sup> the NCP to send him/her that portion of the refund or payment, BFS must return the entire amount, including the amount used to satisfy the certified support debt, to the IRS or government agency making the payment.

If BFS has an incorrect address or bank account for the NCP, once BFS locates the correct address or bank account, BFS will again offset the refund and send the remaining portion of the refund to the obligor.

Note: Reversals of ERPs were processed accordingly, with negative ERP offsets processed against preceding positive ERP payments.

## 10. Fraudulent FTRO Collections

### 10.1 Overview

In 2011, the IRS reported an increase in the number of fraudulent tax returns filed and fraudulent income claimed as earnings. At that time, fraudulent filers used false or stolen identities to file tax returns online. The fraud originally involved the identities of incarcerated or deceased individuals; however, since then, the scope of the fraud has expanded to include other individuals and/or conditions, and it continues to evolve on a regular basis. The fraudulent FTRO

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<sup>109</sup> Ref: Subsection 10.5.2 of this manual section for information about when a state will approve a partial or full reversal.

<sup>110</sup> If BFS issues two payment records – one to the NCP’s bank and one to the IV-D agency – the bank’s rejection necessitates the reversal of the payment issued to the IV-D agency.

<sup>111</sup> Ref: Subsection 10.4.6 of this manual section for more information about forced reversals.

<sup>112</sup> If BFS cannot locate the NCP using its own address information, then BFS will attempt to locate the NCP using the address that MiCSES submitted to OCSE.

issue affects child support programs nationwide. In 2013, OCS implemented a process to identify potentially fraudulent federal tax returns.

When the IRS identifies a fraudulent tax return, it uses the negative offset process to recover money previously forwarded to the child support program. MiCSES receives the IRS negative adjustment in the weekly IRS Collection and Adjustment file and processes it. If the corresponding FTRO receipt is held in MiCSES or was disbursed to TANF, the negative adjustment is recouped automatically through the recovery process.<sup>113</sup>

However, in some cases, the negative adjustment for an FTRO receipt from a joint tax return is received after the SJTO (Joint IRS Offset – Non TANF) six-month suspense hold has expired<sup>114</sup> or the FTRO receipt from an individual tax return has already been disbursed and sent to the CP. Therefore, OCS is not able to recover the FTRO receipts in these instances.<sup>115</sup> OCS is responsible for the amount of the negative adjustment and must bear the cost of the amount it is unable to recover from the CP.<sup>116</sup>

The IRS has made some progress in the detection and prevention of identity theft and other types of fraud. The agency has also improved the customer service provided to victims of identity theft; however, significant improvements are still needed. To address issues with fraudulent FTRO collections and unrecovered FTRO receipts, OCS created a Fraud Workgroup. The workgroup developed criteria to identify potentially fraudulent FTRO collections and documented a process to prevent distribution of those receipts. In this process, the potentially fraudulent receipts will remain on hold in MiCSES until the IRS conducts further research and confirms the validity of the tax return. The OCS Executive Management Team (EMT) reviewed the Fraud Workgroup's recommendations and supported implementing the process identified below.

As a result of these procedures, NCPs and CPs may notice and inquire about an FTRO receipt on hold for a long period of time with no distribution or disbursement details available. To respond appropriately to inquiries from NCPs and CPs,<sup>117</sup> IV-D staff must be aware of the fraudulent FTRO issue and the process implemented.

In November 2013, OCS implemented a process to:

- Identify potentially fraudulent FTRO receipts;
- Delay the distribution of those receipts; and

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<sup>113</sup> Ref: *MiCSES CIG: Tax Offset Process*.

<sup>114</sup> Ref: Subsection 9.3 of this manual section.

<sup>115</sup> OCS has received negative adjustments for receipts received in multiple tax years.

<sup>116</sup> Ref: Subsection 10.9 of this manual section for more information about CP recoupment.

<sup>117</sup> Ref: Subsections 10.6 and 10.7 for more information on NCP and CP inquiries.

- Refer information to the federal OCSE to confirm with the IRS the validity of the FTRO collection.<sup>118</sup>

In December 2014, OCS updated its FTRO fraud process. The process was originally designed to deal with identity theft. OCS has since learned that the IRS does not differentiate between identity theft and other types of fraud. The IRS may reverse an offset collection because the NCP under-reported income, took an exemption (s)he was not legally entitled to, or for some other reason the IRS considers fraud. OCS experienced financial losses when the IRS reversed collections that OCS released based on the NCP's confirmation of a tax return. OCS has not been able to differentiate between potential identity theft and other potentially fraudulent collections; therefore, as of December 2014, OCS Central Operations no longer releases money on hold even if the NCP can demonstrate that (s)he filed the return.

## 10.2 Criteria for Identifying Potentially Fraudulent FTRO Receipts

The Fraud Workgroup developed specific criteria for identifying potentially fraudulent FTRO receipts. The NCP's SSN is used to query information from the IRS Collection and Adjustment file and information recorded and/or stored in MiCSES.

Note: IV-D workers must continue to add and/or update demographic information in MiCSES for IV-D members associated to an open IV-D case because that data is used to identify potentially fraudulent FTRO receipts.

The Fraud Workgroup determined that the NCP must match two or more criteria for the FTRO receipt to be considered potentially fraudulent. This decision was based on:

- The criteria used in other states;<sup>119</sup>
- The limited resources to complete the work to delay distribution for receipts identified as potentially fraudulent; and
- The potential to hold distribution for a valid FTRO receipt.

The criteria for identifying potentially fraudulent FTRO receipts are as follows:<sup>120</sup>

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<sup>118</sup> Ref: [OCSE Dear Colleague Letter \(DCL\)-11-17, Erroneous Federal Tax Refund Offsets based upon Fraudulent Returns](#) and [DCL-12-02, Update – Erroneous Federal Tax Refund Offsets based upon Fraudulent Returns](#) for more information.

<sup>119</sup> The Fraud Workgroup contacted other states, including Florida and Texas, which have implemented a process to identify potentially fraudulent FTRO receipts.

<sup>120</sup> Some criteria may not capture all NCPs, since not all data is readily available in MiCSES. For example, criteria #7 and #8 will not include SSI recipients because income withholding is not applicable to those recipients.

|     |   |
|-----|---|
| 1.  | The NCP is deceased and FTRO is from an individual tax return.  |
| 2.  | The NCP's MiCSES addresses and the IRS address do not have a matching state.  |
| 3.  | The NCP is presently incarcerated, and FTRO is from an individual tax return. <sup>121</sup>  |
| 4.  | The NCP has no FTRO in the past three years, and the NCP was certified for FTRO in a year prior to the tax year.  |
| 5.  | The NCP has a past incarceration.   |
| 6.  | The NCP has bankruptcy identified or a past/present non-sufficient funds incident identified.   |
| 7.  | The NCP has an active SSA OTHP ID, the FTRO is from an individual tax return, and less than \$25,000 was reported in quarterly wage income in the previous tax year. <sup>122</sup> |
| 8.  | The NCP has an active SSA OTHP ID, the FTRO is from a joint tax return, and less than \$32,000 was reported in quarterly wage income in the previous tax year. <sup>123</sup>       |
| 9.  | The FTRO receipt exceeds 40 percent of the quarterly wage income reported in the previous tax year.   |
| 10. | The FTRO receipt is between 20 and 39.99 percent of the quarterly wage income reported in the previous tax year. <sup>124</sup>   |
| 11. | The FTRO is from an individual tax return, and a negative adjustment that offset an individual tax return was received within the past three years.                                 |
| 12. | The NCP has no quarterly wage income for the previous tax year.   |

### 10.3 Delay in Distribution of FTRO Receipts

When initially addressing the issue of fraudulent FTRO receipts, OCSE permitted states to hold potentially fraudulent FTROs indefinitely. In Michigan, potentially fraudulent receipts were held until the IRS confirmed that the receipt was valid, or until the IRS confirmed that the receipt was fraudulent and sent an offset reversal.

In March 2016, OCSE published [AT-16-03, \*Timeframe to Distribute Tax Offsets Referred for Fraud\*](#), which limited the amount of time a state can hold potentially fraudulent FTRO receipts<sup>125</sup> that are referred to the IRS. A state can hold these

<sup>121</sup> An individual tax return includes returns filed as single, married filing separately, or head of household.

<sup>122</sup> Per the SSA, an individual must pay federal taxes on Social Security benefits if filing an individual tax return and the total income is more than \$25,000. An FTRO receipt received for an SSA recipient who is not required to file a federal tax return is an indication that the FTRO may be potentially fraudulent.

<sup>123</sup> Per the SSA, an individual must pay federal taxes on Social Security benefits if filing a joint tax return and the total income is more than \$32,000.

<sup>124</sup> OCS may decide to include the 40 percent criterion during high-volume FTRO season (February through June), rather than the 20 to 39.99 percent criterion. The 20 to 39.99 percent criterion may be used during low-volume FTRO season (July through January). Ref: Subsection 10.9 of this manual section for more information.

<sup>125</sup> OCSE AT-16-03 refers to potentially fraudulent receipts as "suspicious tax refund offsets."

receipts up to six months from the date the state received the FTRO. OCSE also stated in the AT that if the IRS has not completed its fraud investigation or reversed the offset after six months, the state must distribute the receipt.

OCSE based its guidance on the IRS interim final rule that amended a Treasury rule (31 CFR 285.3) and was effective January 1, 2016. The amended Treasury rule imposed a six-month limit on the IRS to recoup erroneous FTROs from a state if the state has forwarded the funds to the CPs.<sup>126</sup> The rule does not apply to FTROs from joint tax returns because the IRS may reverse an FTRO for an injured spouse claim<sup>127</sup> greater than six months after the date of the offset.

#### 10.4 Workflow Process

MiCSES receives the weekly IRS Collection and Adjustment file from OCSE every Thursday. Then on Monday of the following week, MiCSES creates the “Potential Fraud Conditions Query” using criteria for identifying potentially fraudulent FTRO receipts. OCS Central Operations staff<sup>128</sup> generate the query report from the FFRQ screen and refer the receipts flagged as potentially fraudulent to OCSE. OCS Central Operations maintains and tracks the referral, including the responses received from OCSE.

The chart below provides a high-level summary<sup>129</sup> of the work to be completed in an OCSE weekly cycle,<sup>130</sup> the resources assigned, and the start and completion dates/times:

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<sup>126</sup> Ref: Subsection 10.4.6 for information on how OCS handled confirmed fraudulent receipts received prior to January 1, 2016.

<sup>127</sup> Ref: Subsection 9.3 for more information about joint tax returns.

<sup>128</sup> “OCS Central Operations staff” in Subsection 10 refers to users with the MiCSES role of FTRO Fraud Specialist. Only OCS Central Operations staff have access to the FFRQ screen.

<sup>129</sup> Detailed descriptions of each step are included in the subsections that immediately follow the table.

<sup>130</sup> The OCSE weekly cycle is a number that OCSE assigns each week to the IRS Collection and Adjustment file.

| Step | Task   | Resource(s)                        | Start Date  | Completion Date     |
|------|--|------------------------------------|---|---------------------|
| 1.   | MiCSES receives the IRS Collection and Adjustment file.                          | MiCSES                             | Week 1<br>Thursday  | Week 1<br>Thursday  |
| 2.   | Create the “Potential Fraud Conditions Query” on the FFRQ screen. <sup>131</sup> | MiCSES                             | Week 2<br>Monday  | Week 2<br>Monday    |
| 3.   | Set the fraud indicator to “Potential Fraud” and enter a docket-level note.      | MiCSES – BATCH_IRSI <sup>132</sup> | Week 1<br>Friday  | Week 1<br>Friday    |
| 4.   | MiSDU reconciles the funds.  | MiSDU                              | Week 1<br>Friday  | Week 1<br>Friday    |
| 5.   | Process the receipts in the IRS Collection and Adjustment file.                  | MiCSES                             | Week 1<br>Friday  | Week 1<br>Friday    |
| 6.   | Add the <i>FTRO Tax Fraud Process</i> (STFP) suspense hold.                      | MiCSES                             | Week 1<br>Friday  | Week 1<br>Friday    |
| 7.   | Refer potentially fraudulent FTRO receipts to OCSE.                              | OCS Central Operations staff       | Week 2<br>Monday  | Week 2<br>Tuesday   |
| 8.   | Process OCSE’s responses.  | OCS Central Operations staff       | Continually   | Continually         |
| 9.   | Update the FFRQ screen with OCSE’s responses.                                    | OCS Central Operations staff       | Continually   | Continually         |
| 10.  | Remove the STFP hold.  | MiCSES                             | Six months after MiCSES received the FTRO receipt. <sup>133</sup> | Same as start date. |
| 11.  | Respond to BFS Requests.   | OCS Central Operations staff       | Continually   | Continually         |

#### 10.4.1 “Potential Fraud Conditions Query”

The MiCSES “Potential Fraud Conditions Query” identifies the docket and IV-D cases certified for FTRO for the NCP. The query includes:

<sup>131</sup> Ref: [MiCSES Screen Description: FFRQ – FTRO Fraud Queries.](#)

<sup>132</sup> Ref: [MiCSES CIG: Federal Tax Refund Offset Receipting \(BATCH\\_IRSI\) Process.](#)

<sup>133</sup> This is only applicable if the IRS has not completed its investigation or processed a negative offset.



- NCPs who were previously confirmed by OCSE as having a fraudulent FTRO receipt;<sup>134</sup>
- NCPs meeting two or more criteria;<sup>135</sup>
- Highest collection amount by SSN;<sup>136</sup>
- SSN; and
- Certified IV-D cases.

All potential fraud condition records from 2016 forward are stored electronically in MiCSES. OCS Central Operations staff generate the “Potential Fraud Conditions Query” results and record the responses received from OCSE on the FFRQ screen. They also view and search query data on the FFRQ screen. OCS Central Operations staff use the FFRQ screen to add and edit the Treasury Offset Program (TOP) Trace numbers, BFS reversal reason codes,<sup>137</sup> offset dates, and other data about the potentially fraudulent and confirmed fraudulent receipts.

#### 10.4.2 Set Fraud Indicator Status/Create Docket-Level Note

After the “Potential Fraud Conditions Query” is created by MiCSES, MiCSES will automatically set the SSN’s *FTRO Fraud Status* maintained on the FFRQ screen to “Potential Fraud” for members who do not yet have an FTRO fraud status of “Confirmed Fraud” or “Potential Fraud.” MiCSES will also create a docket-level note stating that the fraud status of the IV-D member’s primary SSN has changed. The note will identify the new fraud status and the date of the change.

Note: OCS Central Operations staff can manually change the fraud status on the FFRQ screen. This will prompt MiCSES to set the *FTRO Fraud Status* fields on the DEMO screen (Enforcement tab), FEDH screen, and *Member SSN History* (MSSN) screen, and create a docket-level note automatically.

IV-D workers can view the FTRO fraud status of a IV-D member’s primary SSN in the *FTRO Fraud Status* field on the DEMO, FEDH, and MSSN screens. The date the status was last updated<sup>138</sup> is populated in the FTRO fraud status update field. Both fields are read-only.

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<sup>134</sup> Ref: Subsection 10.4.6(A) of this manual section for more information.

<sup>135</sup> Ref: Subsection 10.2 in this manual section.

<sup>136</sup> The IRS Collection and Adjustment file may contain two receipts (TANF and non-TANF) for one SSN. In addition, duplicate members in MiCSES may result in multiple FTRO receipts being created in MiCSES.

<sup>137</sup> Ref: Subsection 9.8.2 for more information about reversal reason codes.

<sup>138</sup> This date will be removed whenever the FTRO fraud status changes from “Potential or Confirmed Fraud” to “No Fraud.” The “No Fraud” status dates are not tracked in MiCSES.

#### 10.4.3 MiSDU Reconciles the Funds and MiCSES Processes the File

The MiSDU receives the funds for the FTRO receipts every Monday and reconciles the funds with the IRS Collection and Adjustment file. MiCSES processes the IRS Collection and Adjustment file after MiSDU staff confirm receipt of the appropriate funds. The MiCSES process will allocate, distribute, and disburse, if appropriate, **all non-fraudulent** FTRO receipts.<sup>139</sup>

#### 10.4.4 Add a Suspense Hold/Create Docket-Level Note<sup>140</sup>

After the MiSDU reconciles the funds for the FTRO receipts, MiCSES will automatically add the STFP suspense hold to SSNs that:

- Have positive FTRO receipt amounts in the IRS Collection and Adjustment file; and
- Have an FTRO fraud status of “Potential Fraud” or “Confirmed Fraud.”

FOC staff **must not** manually remove the STFP hold added by MiCSES. Either OCS Central Operations staff will manually remove the STFP hold, or MiCSES will automatically remove the hold as described in this manual section.<sup>141</sup>

When adding the STFP hold, MiCSES will simultaneously add a docket-level case note to the NOTE screen stating that an STFP hold was placed for the FTRO receipt on a IV-D member’s primary SSN that has a status of “Potential Fraud” or “Confirmed Fraud.”

#### 10.4.5 Refer Potentially Fraudulent FTRO Receipts to OCSE

OCS Central Operations staff will send the list of potentially fraudulent receipts to OCSE on a weekly basis through the federal Child Support Portal Federal Collections and Enforcement application.<sup>142</sup> The portal allows the secure upload of files to OCSE.

OCSE requires the TOP Trace number for all potentially fraudulent FTRO receipts reported for further investigation.<sup>143</sup> Each week, OCS Central Operations will use the FFRQ screen to retrieve a list of TOP Trace numbers that identify potentially fraudulent receipts and upload the list to the federal Child Support Portal.

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<sup>139</sup> Ref: Section 5.35 of the *Michigan IV-D Child Support Manual*.

<sup>140</sup> This step was automated with the MiCSES 9.0 Release (March 2016).

<sup>141</sup> Ref: Subsection 10.4.6 for information on how OCS handles OCSE responses.

<sup>142</sup> Ref: Section 3.06 of the *Michigan IV-D Child Support Manual*.

<sup>143</sup> The federal Bureau of Fiscal Service (BFS) assigns the TOP Trace number.

OCSE will transmit the TOP Trace numbers to the IRS for further investigation. The IRS will usually respond to OCS within 60 to 90 days as to whether the receipt is valid or fraudulent.

OCS Central Operations staff must also maintain a record of all FTRO receipts referred to OCSE, the date of the referrals, and the responses received from OCSE.<sup>144</sup> OCS Central Operations staff must maintain this information on the FFRQ screen.<sup>145</sup>

#### 10.4.6 Process OCSE Responses

Via the federal Child Support Portal, OCSE will send OCS Central Operations staff a file containing the IRS responses and details regarding the FTRO receipts. OCS Central Operations staff can search for a TOP Trace number on the portal's Federal Collections and Enforcement application to learn the fraud status of an FTRO receipt.<sup>146</sup> OCS Central Operations staff can also obtain the fraud status by doing an SSN search on the portal's case query screen<sup>147</sup> and clicking on the TOP Trace number.

Upon receiving the responses from OCSE, OCS Central Operations staff will upload the responses to the FFRQ screen by adding the TOP Trace number(s)<sup>148</sup> and completing the following actions:

A. For a fraudulent FTRO receipt:

1. On the FFRQ screen, select "Yes" in the *TRACE Nbr Response Upload* pop-up. MiCSES will automatically add a docket-level note stating that the FTRO fraud status has changed. The note will also include the new status, the date of the change, and the name of the IV-D worker who initiated the change. SSNs associated with a confirmed fraudulent receipt will be used to identify future potentially fraudulent receipts without the need to match two or more criteria.<sup>149</sup>

The STFP hold on confirmed fraudulent receipts will remain until the negative adjustment is processed in MiCSES, or six months

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<sup>144</sup> Ref: Subsection 10.4.6 of this manual section for more information regarding OCSE responses.

<sup>145</sup> Ref: *MiCSES Screen Description: FFRQ – FTRO Fraud Queries* for more information.

<sup>146</sup> The fraud status of the FTRO receipt is updated when OCSE sends the file via the federal Child Support Portal. Ref: OCSE's [Portal Applications Release 15-01 – Minor](#) for more information about searching the portal using the TOP Trace number.

<sup>147</sup> This screen is available on the Federal Collections and Enforcement application on the federal Child Support Portal.

<sup>148</sup> The *OCSE Submission Upload* button on the FFRQ screen generates a pop-up window for entry of the TOP Trace numbers that have responses from OCSE.

<sup>149</sup> Ref: Subsection 10.2 in this manual section.

elapses from the date MiCSES received the receipt, whichever comes first.

2. For FTROs received prior to January 1, 2016 that had been held for over six months, which the IRS had confirmed as fraudulent and had not processed an offset reversal, OCSE provided the states the option of either distributing the FTRO funds or forcing a reversal of the receipts (i.e., requesting that the IRS process an offset reversal). OCS opted to force a reversal of these receipts. Reversing rather than distributing these receipts limited OCS's possible financial liability if the IRS decided to reverse the FTROs after OCS had forwarded the receipts to CPs.<sup>150</sup>

B. For a valid FTRO receipt:

1. If the SSN has no previous history of a potential or confirmed fraud status, select "No" in the *TRACE Nbr Response Upload* pop-up. MiCSES will automatically add a docket-level note stating that the FTRO fraud status has changed, the new status, the date of the change, and the name of the IV-D worker who initiated the change.
2. On the *Suspense Management (SUMA)* screen,<sup>151</sup> manually release the STFP hold. MiCSES will allocate, distribute and disburse as appropriate.
3. If the FTRO receipt is for a joint return and will be applied to non-TANF arrears, MiCSES will automatically place the receipt on an SJTO hold for six months from the date the receipt was released from the STFP hold.<sup>152</sup> OCS Central Operations staff will follow up to release the receipt six months from the date of the original FTRO receipt. If six months have elapsed from the original receipt date, OCS Central Operations staff will release the money on SJTO hold.

C. For a "PAR"<sup>153</sup> (partial) FTRO receipt:

1. Select "PAR" in the *TRACE Nbr Response Upload* pop-up. MiCSES will automatically add a docket-level note stating that the FTRO fraud status has changed, the new status, the date of the

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<sup>150</sup> As of September 2016, BFS has processed a reversal request for each of the receipts, and OCS Central Operations has manually processed the reversals in MiCSES.

<sup>151</sup> Ref: [MiCSES Quick Reference Guide: SUMA – Manage Money Held in Suspense](#).

<sup>152</sup> Ref: Subsection 9.3 of this manual section.

<sup>153</sup> The PAR status indicates that OCSE considers a portion of the receipt to be fraudulent.

change, and the name of the IV-D worker who initiated the change.

2. Wait for a second response from OCSE confirming the receipt is valid or for the negative offset of a portion of the receipt or the entire receipt.
3. If the negative offset only applies to a portion of the receipt, release the STFP hold on the remaining portion.

#### 10.4.7 FTRO Tax Fraud Process (STFP) Holds As of December 5, 2016

MiCSES will automatically release the STFP suspense hold on potentially fraudulent receipts six months after the date MiCSES received the receipt.<sup>154</sup> The automatic release will apply to all new FTRO receipts received after December 5, 2016.

Potentially fraudulent receipts that were on hold prior to December 5, 2016 did not have release dates and therefore were automatically released.<sup>155</sup> To prevent the premature automatic release of FTROs on an STFP hold after December 5, 2016, OCS Central Operations staff manually backed out and reposted these FTROs and placed them on an *Unidentified Federal Tax Offset (UFTO)* hold prior to December 5, 2016. OCS Central Operations staff manually monitored these receipts to ensure that they were not held longer than six months. OCS Central Operations staff manually released the receipts when OCSE confirmed their validity, or they had been on hold for six months, whichever came first.

#### 10.4.8 STFP Holds Prior to December 5, 2016

Prior to March 2016, OCS Central Operations staff manually placed UFTO holds on all potentially and confirmed fraudulent FTRO receipts. In March 2016, MiCSES began automatically placing an STFP suspense hold on FTRO receipts it identified as potentially or confirmed fraudulent. The STFP hold prevents the FTRO receipt from being distributed and disbursed.<sup>156</sup> Prior to December 5, 2016, OCS Central Operations monitored both types of holds.

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<sup>154</sup> MiCSES receives the FTRO receipt usually within one or two days after the MiSDU receives the IRS Collection and Adjustment file.

<sup>155</sup> Potential fraudulent receipts after December 5, 2016 (the MiCSES 9.3 Release) have release dates.

<sup>156</sup> Ref: Subsection 10.4.4 of this manual section for more information on the STFP hold, and the *MiCSES CIG: Suspense Management Reference* for further information regarding the types of suspense holds.

Between March 2016 and December 5, 2016, potentially or confirmed fraudulent receipts remained on an STFP or UFTO hold until one of the following occurred:

- The IRS confirmed that the receipt was fraudulent and MiCSES processed an offset reversal;<sup>157</sup>
- OCS Central Operations staff manually removed the hold after the IRS confirmed the receipt was valid; or
- OCS Central Operations staff manually released the hold after six months from the date of receipt because the IRS had not completed its fraud investigation and/or sent an offset reversal even if the receipt had been confirmed fraudulent.

### 10.5 Bureau of the Fiscal Service (BFS) Procedures

The federal Department of Treasury, BFS published an Interim Final Rule<sup>158</sup> that imposes a six-month limit on the time period during which Treasury may recover tax refund offset collections from states.<sup>159</sup> The six-month limitation applies only to collections that the state has forwarded to CPs. The limitation does not apply to collections from a joint return<sup>160</sup> because the IRS may reverse an FTRO for an injured spouse claim greater than six months from the date of the offset.

In February 2016, OCSE notified states of BFS's new procedures for IRS reversal requests that are greater than six months from the offset date.<sup>161</sup> OCS Central Operations staff are responsible for implementing the BFS procedures and responding to the inquiries. However, other IV-D workers may notice that the IRS is reversing FTRO receipts that are six months or older as a result of the procedures. The BFS procedures do not apply to:

- Reversals from joint tax returns;
- Reversals that BFS receives and processes prior to six months from the offset date;
- Partial offsets returned to BFS for bad addresses or incorrect bank account information;<sup>162</sup> and
- Administrative offset reversals.<sup>163</sup>

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<sup>157</sup> This is a manual process for UFTO holds.

<sup>158</sup> The rule became effective on January 1, 2016.

<sup>159</sup> Ref: [OCSE DCL-15-21, Offset of Tax Refund Payments to Collect Past-Due Support Interim Final Rule](#); Federal Register (FR) 81436-81465.

<sup>160</sup> Ref: Subsection 9.3.1 of this manual section for more information on federal joint tax returns.

<sup>161</sup> BFS will process IRS reversal requests on receipts that are less than six months from the offset date without regard to whether the state has distributed the funds.

<sup>162</sup> These types of offsets are usually resolved within 30 days.

<sup>163</sup> Michigan does not participate in the Administrative Offset Program.

### 10.5.1 TANF and Non-TANF FTRO Distribution

The method of distributing FTRO receipts for TANF and non-TANF arrears differs between BFS and MiCSES. This difference may impact OCS Central Operations' response when BFS sends an inquiry about whether Michigan has disbursed FTRO funds.

#### A. BFS Distribution Method

When BFS determines that an FTRO receipt will be applied to a past-due child support debt, it will review the TANF and non-TANF arrears Michigan submitted for that NCP. The debt with the earliest submission date, whether TANF or non-TANF, will be first in the distribution of offsets. BFS will distribute FTRO receipts to the state IV-D program on arrears with earlier submission dates before those with later submission dates. For example, if an NCP has both TANF and non-TANF arrears, and the state submits the non-TANF arrears for FTRO to BFS first,<sup>164</sup> BFS will distribute FTRO receipts based on the non-TANF arrears. However, MiCSES distributes the FTRO receipts as described below.

#### B. MiCSES Distribution Method

When MiCSES receives the FTRO receipts, it distributes them according to its distribution rules.<sup>165</sup> Therefore, even if BFS distributes the FTRO receipt for the non-TANF arrears first, MiCSES may distribute the funds to the TANF arrears first.

### 10.5.2 Response to BFS Inquiries on TANF FTROs

BFS will email the designated IV-D worker in OCS Central Operations to inquire whether Michigan disbursed the FTRO receipt to the CP when:

- BFS determines that a confirmed fraudulent FTRO receipt was applied to TANF arrears that Michigan submitted (Ref: Subsection 10.5.1 above); and
- The current date is greater than six months from the offset date.

OCS Central Operations will research the receipt to determine if MiCSES disbursed all, part or none of the receipt to a CP and will appropriately respond to BFS within two to three business days of receiving the email request.

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<sup>164</sup> Michigan submits TANF arrears and non-TANF arrears separately for FTRO.

<sup>165</sup> Ref: [Exhibit 5.35E1, MiCSES Allocation/Distribution Hierarchies](#), for more information about distribution rules.



- A. If OCS Central Operations confirms that all of the FTRO receipt has been disbursed to a CP, then BFS will reject the IRS's request for a reversal.
- B. If OCS Central Operations confirms that part of the FTRO receipt has been disbursed to a CP, then BFS will process the undisbursed portion of the FTRO and will reject the IRS's request for reversal of the disbursed portion.
- C. If OCS Central Operations confirms that all of the FTRO receipt has been disbursed to the state, then BFS will process the IRS's request for a reversal.

### 10.5.3 Non-TANF FTROs

BFS will reject all reversal requests from the IRS and will not contact OCS Central Operations on FTROs when:

- BFS determines the FTRO was applied to non-TANF arrears that Michigan submitted (Ref: Subsection 10.5.1 above); and
- The current date is greater than six months from the offset date.

### 10.6 Inquiries From NCPs

IV-D workers can view the *FTRO Fraud Status* for a IV-D member's primary SSN and the date the status was last updated<sup>166</sup> on the DEMO screen (Enforcement tab), the FEDH screen, and the MSSN screen. The *FTRO Fraud Status* field is read-only. When NCPs contact a IV-D worker about a potentially fraudulent FTRO receipt that is on hold in MiCSES, the IV-D worker must:

- Confirm the NCP's identity;
- Determine if the NCP is a possible victim of identity theft; and
- Give the NCP the appropriate instructions based on whether or not the NCP is a possible victim of identity theft.

These steps are detailed below.

#### 10.6.1 Confirm the NCP's Identity

When the NCP contacts the IV-D worker inquiring about a potentially fraudulent FTRO receipt, the IV-D worker must confirm the NCP's identity prior to releasing any information.<sup>167</sup> Since the NCP may be the

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<sup>166</sup> This date is removed whenever the FTRO fraud status changes from "Potential or Confirmed Fraud" to "No Fraud." The "No Fraud" status dates are not tracked.

<sup>167</sup> Ref: Subsection 9.1, "Disclosures to Parties to the Case," from Section 1.10 of the *Michigan IV-D Child Support Manual* regarding the verification of a case member's identity over the telephone.

victim of identity theft, the IV-D worker must also ask the NCP to confirm the child(ren)'s:

- Name(s);
- Date(s) of birth; and
- SSN(s).

If the IV-D worker cannot confirm the NCP's identity, the IV-D worker must not release any information to the caller.

#### 10.6.2 Determine Possible Identity Theft

Upon confirming the identity of the NCP, the IV-D worker must ask the NCP the following questions to determine whether the NCP filed the tax return that is associated with the potentially fraudulent FTRO receipt:

- Did you file a tax return within the past six months?
- Are you expecting a tax refund based upon that filing?
- What is the expected amount of your refund?
- What is the address you used when you filed your tax return?

Note: IV-D workers need the Extended FTRO View to access the NCP's tax filing address on the federal Child Support Portal. Each office needs at least one IV-D worker with the Extended FTRO View user role.<sup>168</sup>

The IV-D worker will compare the NCP's responses with the information in MiCSES and on the federal Child Support Portal. If the responses match, it is likely that the NCP is not a victim of identity theft. If the responses do not match, the NCP may be a victim of identity theft.

Note: The expected amount of the refund is not available on the federal Child Support Portal or in MiCSES. If the expected amount of the refund is equal to or more than the amount on STFP hold, then the NCP's response is considered a match.

In addition to assisting the IV-D worker in determining where to refer the NCP, the FOC may use this information to determine whether or not to pursue discretionary enforcement measures.<sup>169</sup>

The IV-D worker **must not** release the FTRO receipt on STFP hold based on the NCP's ability to verify information about the income tax return, and instead must wait for the IRS to respond.

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<sup>168</sup> Ref: Section 3.06 of the *Michigan IV-D Child Support Manual* for information on requesting the Extended FTRO View user role.

<sup>169</sup> Ref: Subsection 10.8 of this manual section.

### 10.6.3 Provide Further Instructions

#### A. NCPs Who Are Victims of Identity Theft

If the NCP appears to be a victim of identity theft, the IV-D worker must immediately refer the NCP to the IRS Identity Protection Specialist Unit (IPSU) at 1-800-908-4490.<sup>170</sup> The IV-D worker must tell the NCP that it takes 60 to 90 days for the IRS to complete its investigation of the tax return. OCS will keep the FTRO receipt on hold until the IRS completes its investigation.

#### B. NCPs Who Are Not Victims of Identity Theft

If the NCP does not appear to be a victim of identity theft, the IV-D worker must explain to the NCP that the IRS is investigating the potentially fraudulent FTRO receipt, and in most cases, it takes 60 to 90 days to complete its investigation. After that time period, the NCP may call the Michigan IV-D child support agency or the IRS main customer service number at 1-800-829-1040.<sup>171</sup> OCS will keep the FTRO receipt on hold until the IRS completes its investigation.

### 10.7 Inquiries From CPs

Refer to Section 1.10 of the *Michigan IV-D Child Support Manual*. The subsection titled “Disclosure of FTI to Parties on the Case” provides guidance regarding what FTRO information IV-D workers may share with the CP.

### 10.8 Continued Enforcement While an FTRO Receipt Is on Hold

When an NCP’s FTRO collection is held in suspense in MiCSES due to potential fraud, all mandatory enforcement actions<sup>172</sup> must continue. Other enforcement actions may take place at the discretion of the IV-D worker; however, OCS recommends that the IV-D worker consider the held collection before proceeding.

In cases of identity theft, the entire collection amount will be subject to a negative offset by the IRS. If the IRS considers the collection as fraudulent for some other reason, the negative offset may be for less than the amount of the

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<sup>170</sup> In cases of identity theft, the IRS will advise the NCP of actions that can be taken to protect his/her identity.

<sup>171</sup> If the NCP’s tax return is confirmed fraudulent because of errors on the tax return, the IRS will tell the NCP what (s)he must do to correct the tax return.

<sup>172</sup> Ref: [MiCSES CIG: Introduction to Enforcement](#) for information on mandatory and discretionary enforcement remedies.

collection. Knowing whether the NCP is the victim of identity theft<sup>173</sup> may help the IV-D worker decide whether or not to pursue discretionary enforcement.

Normally, it takes about 60 to 90 days for the IRS, via the OCSE, to notify OCS Central Operations whether an offset collection is fraudulent or valid. About a third of the collections identified as potentially fraudulent are confirmed fraudulent by the IRS. OCS recognizes there are situations where enforcement is continuing for an NCP who has a valid FTRO collection on hold; however, this situation will be limited in duration. In many cases, the FTRO collection on hold is fraudulent, and continued enforcement is appropriate since the IRS will ultimately reverse the FTRO collection.

### 10.9 Reevaluate Criteria and Process

In the future, OCS may reevaluate the criteria used to identify a potentially fraudulent FTRO receipt to determine if any new criteria exist or any existing criteria need revisions. Reevaluation of the FTRO fraud process is ongoing.

If IV-D staff discover an FTRO receipt that appears to be potentially fraudulent (e.g., the NCP reports that [s]he did not file a tax return), they must contact the OCS Central Operations Tax Refund Offset Unit by phone at 517-241-2922 or email at [mdhhs-ocs-passport@michigan.gov](mailto:mdhhs-ocs-passport@michigan.gov). IV-D staff will provide OCS Central Operations with the NCP's name, SSN, and the docket number and/or IV-D case number. OCS Central Operations Tax Refund Offset staff will investigate the case and recommend other criteria to consider the next time OCS reviews the FTRO fraud process. The FTRO receipt will not be referred to OCSE as potentially fraudulent.

At this time, OCS has not implemented a process to recover the disbursement from the CP as a result of a fraudulent FTRO receipt.<sup>174</sup> OCS will continue to reevaluate the CP recoupment process.

## 11. Reports<sup>175</sup>

MiCSES generates reports to assist IV-D staff in maximizing processing and collections for the FTRO and STRO programs. OCS recommends IV-D staff work the STRO reports prior to the state's annual "add" each September. Furthermore, OCS recommends IV-D staff periodically work the FTRO reports throughout the year, since FTRO cases are submitted to OCSE weekly.

The following reports can be generated via the TAXI screen:

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<sup>173</sup> Ref: Subsection 10.6.2 of this manual section.

<sup>174</sup> Ref: AT 2005-023 and [OCSE Policy Interpretation Question \(PIQ\)-02-01, \*Recoupment of a Child Support Overpayment, Guidance 2002\*](#).

<sup>175</sup> Ref: the [MiCSES Screen Description: TAXI – Tax Offset Information and Update](#) on mi-support for more information regarding these reports.

- *Federal Exclusion Report* (county or statewide);
- *State Pre-Offset Report* (county or statewide);
- *State Exclusions Report* (county or statewide);
- *Federal Negative Arrears*; and
- *Transaction History Detail Report* (federal and state at the member level).

Each year, OCS staff will request the re-run of fast-track query 174836 and have the results sent to FOC confidential email addresses. This query identifies NCPs who will not be submitted for tax offset due to the individual/case(s) not meeting certain pre-edit requirements.<sup>176</sup> FOC workers may also request, via a Help Desk ticket, to have this query re-run at any time for an individual county or multiple counties.

After FOC staff correct the errors, MiCSES will submit the NCPs for tax offset if their case(s) still qualifies.

**SUPPORTING REFERENCES:**

Federal

11 USC 362  
42 USC 654a(g)  
42 USC 664  
42 USC 666  
42 USC 666(a)(3)  
31 CFR 285.1  
31 CFR 285.2(d)(2)(ii)  
31 CFR 285.3  
45 CFR 301.1  
45 CFR 302.60  
45 CFR 302.70  
45 CFR 303.72  
45 CFR 303.72(h)(4)  
45 CFR 303.72(h)(5)  
45 CFR 303.102  
45 CFR 303.102(c)(2)  
FR 81436-81465  
PL 97-35, Section 2331  
PL 98-378  
PL 104-134  
PL 109-171  
Executive Order 13019  
IRS Publication 1075  
DRA  
Bankruptcy Abuse Prevention and Consumer  
Protection Act of 2005  
American Recovery and Reinvestment Act of  
2009

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<sup>176</sup> For more information regarding pre-edit errors, see the *MiCSES CIG: Tax Offset Process* and Subsection 4.5 of this manual section.

OCSE AT 16-03  
OCSE AT 94-05  
OCSE AT 99-14  
OCSE AT 09-01  
OCSE AT 10-04

OCSE DCL-06-18  
OCSE DCL-11-17  
OCSE DCL-12-02  
OCSE DCL-15-21

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OCSE PIQ-02-01  
OCSE PIQ-03-07

State

MCL 205.30a  
MCL 400.233  
MCL 400.233a  
MCL 432.32  
MCL 552.605b  
MCL 552.624

**REVISION HISTORY:**

[IV-D Memorandum 2021-011](#)  
IV-D Memorandum 2020-007  
IV-D Memorandum 2018-011  
IV-D Memorandum 2016-034  
IV-D Memorandum 2016-006  
IV-D Memorandum 2015-020  
IV-D Memorandum 2014-032  
IV-D Memorandum 2012-007  
IV-D Memorandum 2011-008