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To : "Pisarik, " HollyHollyPisarik@gov.sc.gov

Cc : "Patel, " SwatiSwatiPatel@gov.sc.gov

Subject : Question from Nelson Mullins

Holly,

I spoke to Marc Manos at Nexsen Pruet and he confirmed that the "Clawback" clause that David Dukes is asking about is directly related to the following contingency clause in the settlement agreement between the State and HP. Marc told me that David has called him several times about this clause in an effort to find out if OCSE has started an audit or if the State knows when an audit may take place:

5.3 Contingent Payment. In the event that the State is required to pay (whether by affirmative payment or an offset reducing the Title IV-D grant) the United States Office of Child Support Enforcement ("OCSE") any sum for a failed project adjustment under 45 C.F.R. Part 95, Subpart F, the State must pay the first \$5.0 million of any such sum. If the OCSE demands more than \$5,000,000 from the State for a failed project adjustment, then HPSLES will pay up to the next \$3,000,000 in recoupment. In no event shall HPSLES or any HP Entity be responsible for any further recoupment payment beyond this payment of up to \$3,000,000.

I spoke to Katie about the OCSE audit. Although OCSE mentioned the audit in their contract approval letter last August, OCSE has not contacted us about the audit and we are not pushing the issue to invite an audit at this time.

While we will comply with an OCSE audit request at any time, we believe the State will be best served if the audit is conducted during the later stages or at the end of a successful project with Xerox. We may be able to better demonstrate that we are using work and artifacts (plans, data conversion logic/rules, test scripts, etc.) from prior projects to assist with the current Xerox project. This should help reduce the amount of any penalty or payment that OCSE may impose. Also, If a failed audit penalty/recoupment is assessed by OCSE at the end of the Xerox project, we may be able to pay any amount owed using a portion of the 90% rebate of the last penalty paid.

Hope this helps. Let me know if you have any other questions.

Jimmy

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