



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Michigan State Disbursement Unit
Office of Child Support
Department of Human Services

Report Number:
 43-142-04

Released:
 May 2006

The Michigan State Disbursement Unit (MiSDU) centrally collects and disburses child support remittances in accordance with federal child support enforcement program requirements and State law.

Audit Objectives:

1. To assess the effectiveness of MiSDU's efforts in ensuring that the receipt and disbursement of child support remittances were accurate and timely.
2. To assess the effectiveness of MiSDU's efforts in resolving unidentified child support remittances.
3. To assess the effectiveness of MiSDU's efforts in monitoring the contract with its service provider.

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Audit Conclusions:

1. We concluded that MiSDU's efforts were effective in ensuring that the receipt and disbursement of child support remittances were accurate and timely. However, our assessment disclosed reportable conditions related to procedures for the receipt of child support remittances and power supply and backup procedures (Findings 1 and 2).

2. We concluded that MiSDU's efforts were effective in resolving unidentified child support remittances. Our audit report does not include any reportable conditions related to this audit objective.
3. We concluded that MiSDU's efforts in monitoring the contract with its service provider were effective. However, our assessment disclosed a reportable condition related to bond protection (Finding 3).

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Agency Response:

Our report contains 3 findings and 3 corresponding recommendations. The Department of Human Services' preliminary response indicated that it agrees with all of our recommendations.

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May 2, 2006

Mrs. Marianne Udow, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

This is our report on the performance audit of the Michigan State Disbursement Unit, Office of Child Support, Department of Human Services.

This report contains our report summary; description of program; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Program

The Department of Human Services (DHS) operates the Michigan State Disbursement Unit* (MiSDU) to centrally collect and disburse child support remittances in accordance with federal child support enforcement program requirements. Act 161, P.A. 1999, authorized DHS to establish MiSDU as the State's centralized collection and disbursement unit for all child support remittances.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (commonly known as the federal Welfare Reform Act) revised Title IV-D* of the Social Security Act to require that each state operate a state disbursement unit to centrally collect and disburse certain child support remittances. Section 454B of the Social Security Act (Title 42, Section 654b of the *United States Code*) requires that state disbursement units provide one central location for the receipt and disbursement of all Title IV-D child support remittances and for all private payments associated with a child support order* initially issued on or after January 1, 1994 that include a court order for an employer to withhold income from the check of the noncustodial parent*. Federal law requires that state disbursement units must be able to process all remittances received with complete information within two business days after receipt. Also, state disbursement units are required to use automated data processing to the greatest extent possible. Noncompliance with federal law could result in a loss of federal funds for the State's Child Support Enforcement Program and the Temporary Assistance for Needy Families welfare block grant.

DHS entered into a five-year contract with an initial service provider to develop and operate MiSDU. The original contract was for the period August 1999 through August 2004. DHS approved an extension of the original contract through April 30, 2005, at which time a new service provider began operation. MiSDU receives child support remittances in a variety of methods, including paper payments (checks), electronic funds transfers, electronic data interchange, and payments through the Internet. MiSDU researches unidentified child support remittances* to determine if additional information can be obtained to process the remittance or to return it to the remitter. When MiSDU cannot obtain sufficient case and remitter information, the remittance

* See glossary at end of report for definition.

remains in the Michigan Child Support Enforcement System (MiCSES) suspense accounts* to be escheated.

MiSDU's service provider develops a daily electronic file of child support remittances using its own proprietary software systems. MiCSES determines the appropriate allocation and distribution of the service provider's daily electronic file of remittances based on federal regulations. MiSDU's service provider disburses remittances by generating a support check or direct deposit transaction to the payee or the payee's bank.

MiSDU paid its service provider approximately \$22.4 million for services provided from October 1, 2003 through June 30, 2004. During fiscal year 2003-04, the Office of Child Support Enforcement*, U.S. Department of Health and Human Services, and the State General Fund provided 66% and 34%, respectively, of the funding necessary for MiSDU's operations.

MiSDU and county Friend of the Court* (FOC) offices collected and processed approximately \$1.2 billion (95%) and \$60.9 million (5%), respectively, of child support remittances received during the period October 1, 2003 through July 1, 2004. FOC offices receipt and process certain case-specific remittances as directed by the DHS Office of Child Support*.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Michigan State Disbursement Unit (MiSDU), Office of Child Support, Department of Human Services (DHS), had the following objectives:

1. To assess the effectiveness* of MiSDU's efforts in ensuring that the receipt and disbursement of child support remittances were accurate and timely.
2. To assess the effectiveness of MiSDU's efforts in resolving unidentified child support remittances.
3. To assess the effectiveness of MiSDU's efforts in monitoring the contract with its service provider.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan State Disbursement Unit administered by the Department of Human Services. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, performed from May through September 2004, included an examination of MiSDU records primarily for the period October 1, 2003 through July 31, 2004.

To accomplish our audit objectives, we interviewed Office of Child Support staff, MiSDU staff, and MiSDU's service provider staff. We reviewed applicable federal regulations, State statutes, State policies and procedures, and policies and procedures of the service provider.

* See glossary at end of report for definition.

In connection with our first objective, we selected a random sample of child support remittances with sufficient identifying information processed at MiSDU. We assessed and observed MiSDU's internal controls related to receipting and disbursing child support remittances. Further, we evaluated MiSDU's compliance with applicable statutes, regulations, policies, and procedures in receipting and disbursing child support remittances.

In connection with our second objective, we selected a random sample of child support remittances with insufficient identifying information that required further research by MiSDU. We assessed various researching methods performed by MiSDU to resolve unidentified child support remittances. Further, we determined MiSDU's compliance with applicable statutes, regulations, policies, and procedures in resolving unidentified child support remittances.

In connection with our third objective, we examined the contract between MiSDU and its service provider, including the invitation to bid, response to the invitation to bid, and amendments to the contract. Also, we assessed MiSDU's administration of contract amendments with its service provider.

Agency Responses and Prior Audit Follow-Up

Our report contains 3 findings and 3 corresponding recommendations. DHS's preliminary response indicated that it agrees with all of our recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DHS to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Michigan State Disbursement Unit, Office of Child Support, Family Independence Agency (#4314201), in November 2001. Within the scope of this audit, we followed up on all 9 prior audit recommendations. DHS had complied with 6 of the 9 prior audit recommendations, 1 prior recommendation was rewritten for inclusion in this audit report, and 2 recommendations were no longer applicable.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS IN ENSURING ACCURATE AND TIMELY RECEIPT AND DISBURSEMENT OF CHILD SUPPORT REMITTANCES

COMMENT

Audit Objective: To assess the effectiveness of the Michigan State Disbursement Unit's (MiSDU's) efforts in ensuring that the receipt and disbursement of child support remittances were accurate and timely.

Conclusion: We concluded that MiSDU's efforts were effective in ensuring that the receipt and disbursement of child support remittances were accurate and timely. However, our assessment disclosed reportable conditions* related to procedures for the receipt of child support remittances and power supply and backup procedures (Findings 1 and 2).

FINDING

1. Procedures for the Receipt of Child Support Remittances

MiSDU had not established sufficient procedures and did not consistently follow procedures designed to ensure that it accurately and timely receipted child support remittances that required further contact with the remitter. As a result, MiSDU was unable to ensure that it accurately receipted certain child support remittances. Also, MiSDU's noncompliance with established procedures caused delays in providing child support to custodial caregivers*.

Our review of MiSDU's receipt of child support remittances needing further contact with the remitter disclosed:

- a. MiSDU had not established formal procedures for, and did not adhere to its informal practice of, obtaining and maintaining documentation of authorization from the remitter for the reallocation of submitted remittances. MiSDU may be required to reallocate remittances submitted by employers or payers in situations such as when there are multiple payees and no specified amount for each payee. As a result, MiSDU could not always support the accuracy of its remittance reallocations. MiSDU informed us that its informal practice was to obtain and maintain authorization from the remitter prior to reallocating submitted remittances.

* See glossary at end of report for definition.

Our review disclosed that MiSDU either did not obtain or did not maintain supporting authorization for 11 (48%) of 23 remittances that it reallocated.

MiSDU administrators were not aware that MiSDU staff did not consistently follow MiSDU's informal practice of obtaining and maintaining documentation of authorization for the reallocation of submitted remittances. After our disclosure, MiSDU immediately implemented a formal procedure requiring staff to obtain and maintain authorization from the remitter prior to reallocating submitted remittances.

- b. MiSDU did not consistently comply with its procedures established to ensure the timely receipting of all child support remittances.

MiSDU's procedures provided detailed guidance on the identifying information necessary to record remittances the same day as received. The procedures also provided methods and a time frame within which to obtain additional information, if necessary.

Our review of MiSDU's receipt of child support remittances disclosed instances in which MiSDU staff did not consistently follow established procedures:

- (1) MiSDU did not comply with procedures requiring that it contact the remitter to obtain the information necessary to receipt the remittance or return the remittance to the remitter. MiSDU did not contact the remitter for 4 of 5 child support remittances that needed additional information to process and did not return any of the remittances to the remitter. At the time of our review, MiSDU took an average of 50 days to receipt 2 of these remittances and still had not receipted the remaining 3 remittances after an average of 83 days.
- (2) MiSDU did not contact the remitter for additional information within 3 days of receipt as required by procedures for 14 (37%) of 38 child support remittances with insufficient identifying information. In these 14 instances, MiSDU contacted the remitter from 1 to 2 days after the allotted time period.

MiSDU administrators were not aware of the procedural deficiencies and the lack of compliance with established procedures that caused delays in providing child support to custodial caregivers.

RECOMMENDATION

We recommend that MiSDU establish sufficient procedures and consistently follow procedures designed to ensure that it accurately and timely receipts child support remittances that require further contact with the remitter.

AGENCY PRELIMINARY RESPONSE

The Department of Human Services (DHS) agrees and informed us that it has complied. DHS stated that the new vendor is now required to document its communication with the payer, has processes in place to automatically complete research within 10 days (except for financial information data matches which, by their nature, take longer), and is required to meet the specific time frames for responses. DHS also stated that new reports have been developed and are now monitored by the MiSDU director. In addition, DHS pointed out that no actual allocation errors were identified in the audit. The vendor would have been required to cover any allocation errors that would have occurred and, therefore, there was no risk to the custodial parent or the State.

FINDING

2. Power Supply and Backup Procedures

MiSDU did not provide an alternative power supply or create backup file procedures to ensure the continuity of its operations. As a result, MiSDU's operations experienced delays on at least two occasions and could experience future delays in the receipting and disbursing of child support remittances.

As a data center, MiSDU's operations are primarily automated. MiSDU should take necessary steps to prevent or minimize disruptions to its automated operations. Department of Management and Budget Administrative Guide procedure 1310.02 provides guidance to State departments on information processing security and requires that departments test and maintain an alternative power supply and create formal backup file procedures.

Our review disclosed:

- a. During our audit fieldwork, MiSDU staff informed us of two occasions when MiSDU operations experienced child support remittance processing delays because of electrical power outages. On both occasions, MiSDU was temporarily unable to receipt and disburse child support remittances because of the lack of electrical power. One of these occasions may have contributed to the creation of duplicate child support disbursements. MiSDU's service provider corrected the duplicate child support disbursements; however, an alternative electrical power supply may have resulted in MiSDU avoiding these disruptions in operations.

DHS's Office of Internal Audit identified MiSDU's lack of an alternative power supply as a weakness during a review of MiSDU's operations; however, MiSDU did not correct the weakness. MiSDU informed us that because its contract with the service provider did not require the provision of an alternative electrical power supply, it could not require the service provider to supply one.

- b. MiSDU had not established formal backup file procedures; however, it was MiSDU's informal practice to perform nightly partial backups and weekly full backups.
- c. MiSDU obtained an independent audit for the period October 1, 2003 through September 30, 2004 that included a review of the effectiveness of MiSDU's backup file process. The audit disclosed that MiSDU did not consistently perform nightly partial backups and weekly full backups and specifically cited that MiSDU successfully completed only 4 (8%) weekly backups during a 52-week audit period.

RECOMMENDATION

We recommend that MiSDU provide an alternative power supply and create backup file procedures to ensure the continuity of its operations.

AGENCY PRELIMINARY RESPONSE

DHS agrees and informed us that it has complied. DHS stated that the new vendor's operation has a backup power supply and daily file backup. DHS pointed out that the prior facility was equipped with an alternative electrical feed provided

by the local utility company that could have provided backup power in the event that power was lost in one part of the city. DHS also pointed out that the uninterruptible power supplies were located on all critical servers and personal computers to bridge interim power spikes or brownouts (covering outages of less than 20 minutes).

EFFECTIVENESS IN RESOLVING UNIDENTIFIED CHILD SUPPORT REMITTANCES

Audit Objective: To assess the effectiveness of MiSDU's efforts in resolving unidentified child support remittances.

Conclusion: We concluded that MiSDU's efforts were effective in resolving unidentified child support remittances. Our audit report does not include any reportable conditions related to this audit objective.

EFFECTIVENESS IN MONITORING THE SERVICE PROVIDER CONTRACT

COMMENT

Audit Objective: To assess the effectiveness of MiSDU's efforts in monitoring the contract with its service provider.

Conclusion: We concluded that MiSDU's efforts in monitoring the contract with its service provider were effective. However, our assessment disclosed a reportable condition related to bond protection (Finding 3).

FINDING

3. Bond Protection

MiSDU did not require its service provider to obtain a bond to protect against loss resulting from employee dishonesty as required by federal regulations. As a result, MiSDU may not adequately protect the State against the risk of significant loss of child support funds because of employee dishonesty.

Title 45, Part 302, section 19 of the *Code of Federal Regulations* requires the State to ensure that every person who has access to, or control over, funds collected under the child support enforcement program, including employees of governmental and private entities, obtain a bond in an amount adequate to protect against loss resulting from employee dishonesty.

The service provider had access to, and control over, approximately \$936.3 million in child support funds during the 10-month period for which we examined MiSDU records, averaging \$5.4 million per day. The service provider informed us that it operates disbursement units in other states and provides a bond covering employee dishonesty when contractually required. MiSDU's contract with its service provider did not require a bond; therefore, the service provider did not obtain this coverage for MiSDU.

RECOMMENDATION

We recommend that MiSDU require its service provider to obtain a bond to protect against loss resulting from employee dishonesty as required by federal regulations.

AGENCY PRELIMINARY RESPONSE

DHS agrees and informed us that the MiSDU vendor provides insurance against employee dishonesty to a value of \$2,000,000 per employee. Also, the vendor is contractually required to be responsible for any losses of child support within its processing responsibility.

GLOSSARY

Glossary of Acronyms and Terms

child support order	A written court order that provides for the periodic payment of money for the support of a child. Orders may also include other provisions, such as health insurance, childcare, confinement expenses, custody, and parenting time.
custodial caregiver	The individual who has primary care, custody, or control of a child; usually the person to whom child support is owed.
DHS	Department of Human Services.
effectiveness	Program success in achieving mission and goals.
Friend of the Court (FOC)	An operational arm of the circuit court.
IV-D	Refers to Title IV-D of the federal Social Security Act, which requires that each state create a program to locate noncustodial parents, establish paternity, establish and enforce child support obligations, and collect and distribute support payments. All recipients of public assistance (IV-A or Temporary Assistance for Needy Families cases) are referred to their respective state's IV-D child support program.
Michigan State Disbursement Unit (MiSDU)	The centralized collection, processing, and disbursement unit for child support payments in Michigan.
MiCSES	Michigan Child Support Enforcement System.
noncustodial parent	The parent who does not have primary care, custody, or control of a child and has an obligation to pay child support.
Office of Child Support	The designated IV-D child support agency in the State of Michigan.

Office of Child Support Enforcement	The agency within the U.S. Department of Health and Human Services that is responsible for implementing the child support program.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
suspense accounts	Accounts that hold payments that need additional research before they can be distributed or escheated.
unidentified child support remittances	<p>Child support remittances in the MiCSES suspense accounts with missing or incomplete case information and missing or incomplete remitter information. MiSDU researches these payments and determines one of the following outcomes:</p> <ul style="list-style-type: none"> • When sufficient case information is obtained, the child support payment is processed. • When sufficient remitter information is obtained, the remitter is contacted to obtain additional case information for processing or the child support remittance is returned to the remitter. • When sufficient case and remitter information is not obtained, the payment remains in the MiCSES suspense accounts to be escheated.

