



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL



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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January 25, 2006

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

Dear Mrs. Udow:

This is our report on our follow-up of the material finding (Finding 2) and corresponding recommendation reported in the performance audit of Undistributed and Undistributable Child Support Collections, Child Support Program, Office of Child Support, Family Independence Agency. That audit report was issued and distributed in September 2002; however, additional copies are available on request or at <<http://www.audgen.michigan.gov>>. Subsequent to our original audit, Executive Order No. 2004-38 renamed the Family Independence Agency as the Department of Human Services.

Our follow-up disclosed that the Program had not complied with the recommendation.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General.

AUDITOR GENERAL



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**UNDISTRIBUTED AND UNDISTRIBUTABLE  
CHILD SUPPORT COLLECTIONS  
CHILD SUPPORT PROGRAM  
OFFICE OF CHILD SUPPORT  
FAMILY INDEPENDENCE AGENCY  
FOLLOW-UP REPORT**

**INTRODUCTION**

This report contains the results of our follow-up of the material finding and corresponding recommendation reported in the performance audit\* of Undistributed and Undistributable Child Support Collections, Child Support Program, Office of Child Support\* (OCS), Family Independence Agency (#4362502L), which was issued and distributed in September 2002. That audit report contained 1 material condition\* (Finding 2) and 2 other reportable conditions\*.

Subsequent to our original audit, Executive Order No. 2004-38 renamed the Family Independence Agency as the Department of Human Services (DHS).

**PURPOSE OF FOLLOW-UP**

The purpose of this follow-up was to determine whether the Program had taken appropriate corrective measures in response to the material finding and corresponding recommendation.

**BACKGROUND**

The Office of Child Support Enforcement, U.S. Department of Health and Human Services (HHS), administers the federal Child Support Enforcement Program, which was established in 1975. Title IV-D of the federal Social Security Act requires that each

*\* See glossary at end of report for definition.*

state have a program to secure child support\* from legal parents with the financial ability to pay. 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 collections. Act 161, P.A. 1999, authorized DHS to establish the Michigan State Disbursement Unit\* (MiSDU) as the State's centralized collection and disbursement unit for all child support collections.

The Child Support Program in Michigan operates through the cooperative efforts of DHS's OCS, county prosecuting attorney offices, and county Friend of the Court (FOC) offices. OCS is the State agency responsible for administering the Program. The State Court Administrative Office (SCAO), under the supervision of the Michigan Supreme Court, is responsible for developing and recommending guidelines for the conduct, operations, and procedures for 65 FOC offices, which provide services to the 57 circuit courts in Michigan.

Prior to conversion to the Michigan Child Support Enforcement System\* (MiCSES) (an electronic network linking child support information in all 83 counties), MiSDU collected and forwarded to FOCs child support payments withheld under income withholding orders. County FOC offices, being the operational arm of the circuit courts, were responsible for the enforcement of child support orders, the collection of child support payments from all other sources, and the distribution\* and disbursement\* of child support collections in Michigan. After the Program completed conversion to MiCSES Statewide on October 1, 2003 (certified by the HHS Office of Child Support Enforcement on November 25, 2003), MiSDU began centrally collecting and disbursing all child support payments. County FOC offices remained responsible for the enforcement of child support orders.

During conversion to MiCSES, a portion of child support collections that could not be converted to MiCSES remained with the FOCs. This unconverted portion of child support collections is now designated as undistributable child support collections\*. The Program designates child support collections as undistributable when repeated attempts to distribute and disburse child support collections in accordance with Section 457 of the federal Social Security Act are not successful.

\* See glossary at end of report for definition.

Section 567.234 of the *Michigan Compiled Laws* defines property that is held for an owner by a court, State, or other government agency for more than one year after becoming payable or distributable as abandoned property. Section 567.238 of the *Michigan Compiled Laws* requires that government agencies, including courts, holding abandoned property file a report and transfer the property to the Unclaimed Property Division (UPD), Department of Treasury, on or before November 1 of each year for the 12-month period ending on the immediately preceding June 30.

OCS is required to report quarterly to HHS any undistributable child support collections transferred to UPD. HHS considers these transfers to be program income, which reduces the Program's reimbursable costs. Also, HHS retains 66% of this income, which requires OCS to file a claim for federal reimbursement if any abandoned child support payments subsequently are made to the rightful owners.

## **SCOPE**

Our fieldwork was conducted from July through November 2005. We reviewed State laws to determine whether there were any changes since the prior audit. We interviewed Program personnel and obtained and reviewed federal survey information and methodology to determine whether the corrective action taken to comply with the recommendation related to the material finding occurred as represented by the Program.

## **FOLLOW-UP RESULTS**

### **TRANSFER OF UNCLAIMED CHILD SUPPORT COLLECTIONS TO THE DEPARTMENT OF TREASURY**

#### **RECOMMENDATION AND RESPONSE AS REPORTED IN SEPTEMBER 2002**

##### **2. Undistributable Child Support Collections**

#### **RECOMMENDATION**

We recommend that the Program ensure that FOCs transfer undistributable child support collections to UPD as required by statute.

#### **AGENCY PRELIMINARY RESPONSE**

The Program agreed that FOCs should transfer undistributable child support collections to UPD as required by statute. The Program would like to point out that although FOCs are required to make a yearly review of the collections on hand, it may not always be necessary to make a transfer to UPD because a transfer is made only if collections have been held for more than one year.

As the disbursing function is transferred to MiSDU, all FOCs will analyze the undistributable collections on hand and make the necessary transfers to UPD.

#### **FOLLOW-UP CONCLUSION**

We concluded that the Program had not complied with the recommendation.

By October 1, 2003, the Program had converted all 83 counties to MiCSES, which allowed MiSDU to centrally disburse child support collections. At conversion, a portion of child support collections that could not be converted to MiCSES remained with the FOCs. A federal survey of 18 FOCs, covering the time period October 1, 2001 through December 31, 2004, disclosed that 10 (56%) did not transfer undistributable child support collections in accordance with Section 567.238 of the *Michigan Compiled Laws*. As of December 31, 2004, these 10 FOCs still retained approximately \$6.94 million in undistributable child support collections. We were informed that the FOCs do not earn interest on these funds. They hold onto the collections because they believe they can find the appropriate individuals and do not want to prematurely escheat any funds.

On October 27, 2005, the SCAO sent a memorandum to all the Family Division chief judges and circuit court chief judges requesting that all pre-MiCSES conversion child support collections be processed into MiCSES or escheated by December 31, 2005. The SCAO also requested that all FOCs provide a full accounting of the final disposition of the pre-MiCSES child support collections by November 30, 2005.

# GLOSSARY

## Glossary of Acronyms and Terms

child support	Financial support paid by a parent to help support a child or children whom the parent does not have custody of. Child support can be entered into voluntarily or by court order.
DHS	Department of Human Services.
disbursement	The process of paying out collected and distributed child support collections to the appropriate party.
distribution	The allocation of child support collected to the various types of debt within a child support case. For example, child support can be distributed to current monthly support obligations, arrears, medical support, and day care. Child support can also be distributed to the State under an assignment of support rights, which results in the State and federal governments using the child support payment to defray or recoup public assistance expenditures.
FOC	Friend of the Court.
HHS	U.S. Department of Health and Human Services.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
Michigan Child Support Enforcement System (MiCSES)	A Statewide automated information system that OCS, county prosecuting attorney offices, and county FOC offices use to perform critical child support functions, including case initiation, parent locate, paternity establishment, court order establishment, child support enforcement, and child support collection and distribution.

Michigan State Disbursement Unit (MiSDU)	The single site designated in Michigan where all child support payments are processed. All withheld child support payments are sent to this central location for distribution and disbursement.
Office of Child Support (OCS)	The designated Title IV-D child support agency in the State of Michigan.
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.
SCAO	State Court Administrative Office.
undistributable child support collections	The portion of child support collections that, despite numerous attempts, cannot be distributed in accordance with Section 457 of the federal Social Security Act. These amounts, which can include stale-dated checks and money not identified as belonging to a specific person or case (e.g., checks sent from an unidentified person or a case without sufficient information to allow distribution), are abandoned property and must be reported to the federal Office of Child Support Enforcement as program income.
UPD	Unclaimed Property Division.





