

EXECUTIVE DIGEST

MICHIGAN STATE DISBURSEMENT UNIT

INTRODUCTION

This report, issued in November 2001, contains the results of our performance audit* of the Michigan State Disbursement Unit* (MiSDU), Office of Child Support, Family Independence Agency (FIA).

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General (OAG). Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

In addition, Act 161, P.A. 1999 (specifically, Section 400.238 of the *Michigan Compiled Laws*), mandates that the OAG conduct an audit of MiSDU not less than one year, but within two years, after the effective date of Act 161, P.A. 1999, and not less than every two years after the initial audit.

BACKGROUND

The federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 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 payments. Section 454B of the Social Security Act requires that state disbursement units provide one central location for the receipt and disbursement of all Title IV-D child support payments 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*. Sections 400.236 - 400.239 of the *Michigan Compiled Laws* (Act 161, P.A. 1999) authorized FIA to establish MiSDU as the State's centralized collection and disbursement unit for all child support payments.

The federal deadline for Michigan to have a fully operational state disbursement unit was October 1, 1999. However, FIA applied for and was granted a waiver to extend the deadline to October 1, 2001. The waiver was granted based on FIA's plan to process child support payments by linking local disbursement units through an automated information network. The State's Child Support Enforcement System (CSES), which was not fully implemented at the time of our review, is a critical component necessary for FIA to fully implement MiSDU. The waiver was further extended to April 1, 2002.

FIA entered into a five-year contract with Lockheed Martin IMS (contractor) to develop and operate MiSDU. Pending completion of CSES, MiSDU processed payments from employers and electronically transferred the funds to Friend of the Court offices* (FOCs) who were responsible for distributing the funds.

During May 2001, MiSDU received and transferred to FOCs for distribution approximately \$67.7 million. FIA expended approximately \$29.3 million to establish and operate MiSDU for the period October 1, 1999 through May 31, 2001.

As of May 31, 2001, the contractor and its subcontractors employed approximately 92 full-time equated staff. In

addition, 2 full-time FIA employees, 2 contracted employees, and 4 contracted quality assurance employees were assigned to MiSDU.

Effective August 24, 2001, Lockheed Martin, Inc., sold its wholly owned subsidiary, Lockheed Martin IMS (the primary contractor for MiSDU), to Affiliated Computer Services, Inc. ACS State and Local Solutions, Inc., is the new Affiliated Computer Services, Inc., subsidiary responsible for processing child support payments under the existing contractual agreement with FIA.

AUDIT OBJECTIVE,
CONCLUSION, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess FIA's effectiveness and efficiency in establishing and operating MiSDU in accordance with State and federal laws and rules.

Conclusion: As a result of FIA's failure to fully implement a Statewide automated CSES, MiSDU did not have the ability to receive child support payments not made through an income withholding order* and to distribute child support payments directly to recipients. Excluding these deficiencies, **we concluded that FIA was generally effective and efficient in establishing and operating MiSDU in accordance with State and federal laws and rules.** However, our assessment disclosed one material condition*:

- FIA did not ensure that FOCs distributed child support payments within two business days after receipt at MiSDU as required by federal statute (Finding 1).

FIA responded that it agreed with the corresponding recommendation and will comply.

Our assessment also disclosed reportable conditions* related to compliance with contract requirements, courier bonding, use of interest income, and privatization project plan (Findings 2 through 5).

Noteworthy Accomplishments: FIA and the MiSDU contractor worked closely with employers and FOCs to provide for a smooth transition and to identify and resolve issues in a timely manner. As a result, FIA and the contractor developed and implemented an automated system that processed approximately \$65 million per month in employer-withheld child support payments from income withholding orders in less than nine months. This system distributed approximately 98% of all payments received at MiSDU to FOCs in one business day.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Michigan State Disbursement Unit. 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.

Our audit procedures included an examination of MiSDU and FIA records primarily for the period July 1999 through May 2001.

We performed a preliminary survey to obtain an understanding of the process MiSDU used to receive and disburse child support payments. We interviewed various MiSDU and FIA staff and reviewed pertinent federal and State laws, rules, policies, and procedures.

We assessed the status of program implementation based on requirements in the federal program waiver. Also, we

surveyed local FOCs to determine compliance with the two-day disbursement requirement.

We reviewed the bid process for the primary contractor and examined the contract in relation to program controls. Further, we reviewed FIA's and the quality assurance contractor's efforts to oversee the primary contractor's compliance with certain program requirements.

We reviewed the current status of MiSDU program implementation, including facility security and disaster recovery. Also, we tested a random sample of transactions for compliance with significant program requirements.

AGENCY RESPONSES

Our audit report contains 5 findings and 9 corresponding recommendations. FIA's preliminary response indicated that it generally agreed with 8 recommendations and did not agree with 1 finding and recommendation.