



STATE OF MICHIGAN
DEPARTMENT OF HUMAN SERVICES
LANSING



JENNIFER M. GRANHOLM
GOVERNOR

ISMAEL AHMED
DIRECTOR

March 24, 2010

Mr. Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, the Department of Human Services is enclosing a summary table identifying the department's responses and the corrective action plans to address recommendations identified in the Office of the Auditor General's report for the Performance Audit of the Michigan State Disbursement Unit for the period of June 1, 2006, through September 30, 2008.

Questions regarding the summary table or corrective action plans should be directed to Cindy Osga, CGFM, at osgac@michigan.gov or 517-335-4087.

Sincerely,

Signature Redacted

Ismael Ahmed

Enclosure

c: Executive Office
Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency
House and Senate Appropriate Sub-Committees
House and Senate Standing Committees



State of Michigan
Department of Human Services
Response to the Auditor General's Report
Performance Audit of the Michigan State Disbursement Unit
06/01/2006-09/30/2008
OAG Reference No. 431-0142-08
DHS Reference No. 2010-002

1. Findings Complied With
1b, 1c, 1d, 1e, 1f, 1h, 1i
2. Findings To be Complied With
1a, 1g
3. Findings Disagreed With

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Audit Title	STATE DISBURSEMENT UNIT PERFORMANCE AUDIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	6/1/2006
Report Issuance Date	12/23/2009	End Date	5/31/2008
Finding Description	SAS 70 Report Scope Modification		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	7/1/2010	Status Requested	1/14/2010
Status Contact	morkd	Last Updated	2/5/2010
Status	Open	Last Updated By	onanp
Corrective Action Plan	<p>FINDING MiSDU could improve the effectiveness of its service provider by requiring the service provider to modify the scope of its SAS 70 audits to include a complete review of the service provider's processes and internal control. A complete review of the service provider's processes and internal control would help the MiSDU establish a basis for reliance on the service provider's operations and data that the MiSDU uses to monitor the contractor's performance.</p> <p>RESPONSE DHS agrees with the finding. While a complete review would be optimal, the MiSDU has an incredibly large number of processes and internal controls serviced by the vendor. Because of limited resources, the most critical areas were reviewed. However, the MiSDU understands the importance of assuring that proper controls exist to ensure that security over software and database configuration is maintained.</p> <p>CORRECTIVE ACTION MiSDU will continue to review the most critical areas until such time resources allow for a complete review of the service provider's processes and internal control. This will include the potential development of additional control objectives and activities to address software developer controls as well as database and operating controls.</p> <p>Barriers: n/a</p> <p>Responsible Administration: Bureau of Child Support</p> <p>Responsible Individual(s), Name(s), Title(s): David Mork, Director, MiSDU</p>		
Recoupment Recommended	N/A		
Recoupment Comments			
OIA Status			
OIA Comments			

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Audit Title	STATE DISBURMENT UNIT PERFORMANCE AUDIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	6/1/2006
Report Issuance Date	12/23/2009	End Date	5/31/2008
Finding Description	Service Provider Separation of Duties		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	12/23/2009	Status Requested	1/14/2010
Status Contact	morkd	Last Updated	2/5/2010
Status	Completed	Last Updated By	onanp
Corrective Action Plan	<p>FINDING MiSDU could improve the effectiveness of its service provider by requiring the service provider to establish a separation of duties of users' access at the Kids 1st application.</p> <p>RESPONSE: DHS disagrees with the finding, in part. MiSDU believes that an adequate separation of duties was in place through the role grid and flex grid. MiSDU agrees that improvement is beneficial and have established an additional process for Kids 1st access, as described below.</p> <p>CORRECTIVE ACTION: The initial review process identified which role was appropriate for Kids 1st access. A form was developed and is maintained for application and network access requests. The Move, Add, or Change (MAC) form is subject to an approval process at the time of access and role creation. Activities related to the MAC form will be included in the SAS 70 review process. In addition, MiSDU will be performing quarterly reviews of flex and role grids and Kids 1st access to further ensure the appropriate separation of duties is maintained.</p> <p>Anticipated Implementation Date: The MAC process was implemented on December 14, 2008, and was added to the SAS 70 report with an implementation date of December 14, 2008.</p> <p>The quarterly review of the flex and role grids and Kids 1st access will begin November 1, 2009.</p> <p>Barriers: none</p> <p>Responsible Administration: Bureau of Child Support</p> <p>Responsible Individual(s), Name(s), Title(s): David Mork, Director, MiSDU</p>		
Recoupment Recommended	N/A		
Recoupment Comments			
OIA Status	Approved		
OIA Comments			

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Audit Title	STATE DISBURSEMENT UNIT PERFORMANCE AUDIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	6/1/2006
Report Issuance Date	12/23/2009	End Date	5/31/2008

Finding Description	Include all Daily Receipts in the Quality Assurance Process		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	12/23/2009	Status Requested	1/14/2010
Status Contact	morkd	Last Updated	2/5/2010
Status	Completed	Last Updated By	onanp

Corrective Action Plan	<p>MiSDU could improve the effectiveness of its service provider by requiring the service provider to include all daily receipts in the quality assurance process, as required by the contract. The audit disclosed instances in which more than 50 percent of the daily receipts were not subject to the quality assurance process. Not subjecting all receipts to the quality assurance process creates a risk that the accuracy and completeness of the performance information provided by the service provider is not reliable.</p> <p>Response: DHS disagrees with the finding, in part. MiSDU believes that state resources are protected due to the significant oversampling which currently exists (98% confidence rather than the 95% stipulated by the contract in particular). Moreover, each day 250 – 900 additional payments are sampled from the previous day's processing when quality assurance tests items listed on the pull and derog reports. Derog is a system alert in the Kids 1st processing application that informs the processors of special instructions (NSF, stop payment, etc.) in handling specific payments, based on case information such as docket, social security number, member identification, check routing or account numbers. Additional items are tested on the Recon and Research reports. Staff are held accountable for errors made via a progressive notification and disciplinary process for identifying employees who have committed payment errors as noted during and after quality assurance sampling.</p> <p>Corrective Action Plan: MiSDU agrees that process improvement is important. MiSDU implemented an additional daily quality assurance sample of receipts. This sample will be taken as late as possible during production. MiSDU recognizes this may not include all receipts but it will increase the number exposed to sampling while leaving adequate time in the processing day to correct any errors and meet other contractual requirements. The later sample time coupled with other quality assurance activities already in place should ensure that all receipts have a reasonable chance of being included in some part of the quality assurance process.</p> <p>Anticipated Implementation Date: Corrective action was implemented October 1, 2009</p> <p>Barriers: none identified</p> <p>Responsible Administration: Bureau of Child Support</p> <p>Responsible Individual(s), Name(s), Title(s): David Mork, Director, MiSDU</p>
Recoupment Recommended	N/A
Recoupment Comments	
OIA Status	Approved
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Audit Title	STATE DISBURSEMENT UNIT PERFORMANCE AUDIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	6/1/2006
Report Issuance Date	12/23/2009	End Date	5/31/2008
Finding Description	Include All Critical Errors in the Weekly Performance Report		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	12/23/2009	Status Requested	1/14/2010 
Status Contact	morkd	Last Updated	2/5/2010
Status	Completed	Last Updated By	onanp
Corrective Action Plan	<p>FINDING: MiSDU could improve the effectiveness of its service provider by requiring the service provider to include all critical errors in the service provider's weekly performance reports of its accuracy rate. The contract requires the service provider to process child support payments with a daily accuracy rate of 99.8 percent.</p> <p>RESPONSE: DHS agrees with the finding.</p> <p>CORRECTIVE ACTION: MiSDU has established criteria to be used as a basis for reporting critical errors in quality assurance reviews. Critical errors are defined as:</p> <ul style="list-style-type: none"> • Wrong Payer or Non-Custodial Parent (NCP); and Wrong Amounts • Wrong Docket or IV-D Case; Wrong Amounts • Posting through a Posting Instruction or Non-Sufficient Fund Derog; if a negative affect on payment distribution • Posting Total Check to one NCP instead of multiple NCPs • Posting to wrong Member ID • Wrong Payment Source when posting Obligor payment as Employer – delays payment • Posting Replacement/Recoupment/ Return/Refund checks – causing negative impact to distribution of funds <p>Anticipated Implementation Date: Implemented August 1, 2009</p> <p>Barriers: N/A</p> <p>Responsible Administration: Bureau of Child Support</p> <p>Responsible Individual(s), Name(s), Title(s): David Mork, Director, Michigan State Disbursement Unit</p>		
Recoupment Recommended	N/A		
Recoupment Comments			
OIA Status	Approved		
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Audit Title	STATE DISBURSEMENT UNIT PERFORMANCE AUDIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	6/1/2006
Report Issuance Date	12/23/2009	End Date	5/31/2008
Finding Description	Monitor Payments Posted to Child Support Cases from the MiCSES Suspende		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	12/23/2009	Status Requested	1/14/2010 
Status Contact	morkd	Last Updated	2/5/2010
Status	Completed	Last Updated By	onanp
Corrective Action Plan	<p>FINDING MiSDU could improve the effectiveness of its service provider by monitoring payments posted to child support cases from MiCSES suspense. Because these payments are an opportunity for fraud, MiSDU should implement a process to monitor the postings or amend the contract to require the service provider to review these postings.</p> <p>RESPONSE DHS disagrees with the finding, in part.</p> <p>MiSDU agrees that the implementation of a process to monitor payments posted from MiCSES suspense reduces the risk of fraud. However, the MiSDU lacks the real time knowledge to sample payments posted from MiCSES suspense related to cases resolved by the Friend of the Court. Therefore, the ability of MiSDU to mitigate the risk of fraud in this instance is limited to the extent that total payments posted out of MiCSES suspense are performed by employees of the service provider.</p> <p>CORRECTIVE ACTION The state and Informatix QA implemented a process to sample payments posted out of MiCSES UNID and UIRE, using an Info Trac spreadsheet. These samples are compared to the listing of disclosed cases to ensure that they have not been posted to an employee's disclosed case. The sample size is up to 75 per day, which appears more than adequate given the normal size of UNID. In addition, this process has been added as a new control activity to the 2009 SAS 70 audit. QA will sample only those items posted by the service vendor.</p> <p>Anticipated Implementation Date: Implemented June 1, 2009</p> <p>Barriers: MiSDU lacks the real time knowledge to question FOC-resolved cases.</p> <p>Responsible Administration: Bureau of Child Support</p> <p>Responsible Individual(s), Name(s), Title(s): David Mork, Director, Michigan State Disbursement Unit</p>		
Recoupment Recommended	N/A		
Recoupment Comments			
OIA Status	Approved		
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Audit Title	STATE DISBURSEMENT UNIT PERFORMANCE AUDIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	6/1/2006
Report Issuance Date	12/23/2009	End Date	5/31/2008
Finding Description	Service Provider Liability Insurance and Bond Coverage for Employees and Couriers		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	12/23/2009	Status Requested	1/14/2010 
Status Contact	morkd	Last Updated	2/5/2010
Status	Completed	Last Updated By	onanp
Corrective Action Plan	<p>FINDING MiSDU could improve the effectiveness of its service provider by requiring the service provider to submit its liability insurance and bond coverage for staff and couriers to MiSDU annually so MiSDU can ascertain whether or not the State is fully protected against claims which may arise out of, or result from, the service provider's performance of services.</p> <p>RESPONSE DHS agrees with the finding.</p> <p>CORRECTIVE ACTION MiSDU now requires the vendor to submit verification of their liability insurance on an annual basis.</p> <p>Anticipated Implementation Date: Insurance and bonding documentation was received and tested on October 8, 2009.</p> <p>Barriers: N/A</p> <p>Responsible Administration: Bureau of Child Support</p> <p>Responsible Individual(s), Name(s), Title(s): David Mork, Director, Michigan State Disbursement Unit</p>		
Recoupment Recommended	N/A		
Recoupment Comments			
OIA Status	Approved		
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Log Out

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[View Audit Report](#)

Audit Title	STATE DISBURSEMENT UNIT PERFORMANCE AUDIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	6/1/2006
Report Issuance Date	12/23/2009	End Date	5/31/2008
Finding Description	Service Provider Procedures for Identifying Related Cases of Its Employees		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	7/1/2010	Status Requested	1/14/2010
Status Contact	morkd	Last Updated	2/5/2010
Status	Open	Last Updated By	onanp
Corrective Action Plan	<p>FINDING</p> <p>MiSDU could improve the effectiveness of its service provider by requiring the service provider to change its procedures for identifying related cases of its employees. The contract requires the service provider to monitor any and all employees who are a party to a restricted child support case. The service provider solely relies on disclosure by the employee of related cases. A change to the procedures would help reduce the risk that the service provider's employees could post child support payments intended for other cases to their own case or to cases in which they had a personal interest.</p> <p>RESPONSE:</p> <p>DHS disagrees with the finding, in part.</p> <p>In compliance with the contract, MiCSES requirements, and policy, all vendor employees are required to complete the DHS-428, Michigan Child Support Enforcement System (MiCSES) Child Support Case Disclosure Form. When completing this form, employees are notified of disciplinary action if this form is not completed accurately. This form is utilized by supervisory personnel in their review of processing activity to identify inappropriate postings by staff who have identified a conflict of interest. MiSDU believes that further investigation of related cases beyond what is disclosed on the DHS-428 is a random search of confidential IV-D information, which is prohibited by policy.</p> <p>MiSDU agrees with the concept of increased monitoring of employees posting payments to related cases.</p> <p>Corrective Action Plan:</p> <p>The Bureau of Child Support is evaluating the feasibility of performing data matches using the data from MiCSES (including the names of workers releasing payments). It is hoped that a means of determining improper releases might be possible. This may also assist with controlling the risk cited in finding 1e. Several queries have been attempted so far with little success. The evaluation will continue for a period of time deemed adequate to determine if this can be accomplished with existing resources.</p> <p>Anticipated Implementation Date:</p> <p>Subject to results of feasibility study.</p> <p>Barriers:</p> <p>Resources, and the fact that the current MiCSES and MiSDU security role processes limit the number of workers who can complete certain functions. This means that frequency searches generally turn up the same people doing MiCSES release functions, but does not help determine if the release is appropriate. The feasibility study will attempt to determine if queries can isolate specific types of releases that could then be studied closer. It is uncertain that this can be done.</p> <p>Anticipated Implementation Date:</p> <p>Cannot be determined at this time.</p> <p>Barriers:</p> <p>Resources.</p> <p>Responsible Administration:</p> <p>Bureau of Child Support</p> <p>Responsible Individual(s), Name(s), Title(s):</p> <p>David Mork, Director, Michigan State Disbursement Unit</p>		
Recoupment Recommended	N/A		
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Audit Title	STATE DISBURSEMENT UNIT PERFORMANCE AUDIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	6/1/2006
Report Issuance Date	12/23/2009	End Date	5/31/2008
Finding Description	Conduct Periodic Review of Changes to the Service Provider's Software		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	12/23/2009	Status Requested	1/14/2010
Status Contact	morkd	Last Updated	2/5/2010
Status	Completed	Last Updated By	onarp
Corrective Action Plan	<p>FINDING MiSDU could improve the effectiveness of its service provider by conducting a periodic review of changes made to the service provider's software. The service provider's procedures require that only software builds are put into escrow. However, the contract does not limit what changes are required for escrow and does not require only software builds to be escrowed. A periodic review of the service provider's procedures to escrow software and analysis of the changes would help reduce the risk that MiSDU would not have the most recent version of software to continue operations in the case of an emergency or other event.</p> <p>RESPONSE DHS agrees with the finding.</p> <p>CORRECTIVE ACTION PLAN MiSDU has developed a monitoring process that does not depend on the difference between builds and patches as with the old process. Each change will receive an identifying number and be tracked on a log. The service provider and MiSDU staff will jointly determine if the build or patch is significant (in which case it will be escrowed immediately), or minor (in which case it will be escrowed later in combination with other builds or patches). With MiSDU approval noted on the log, MiSDU will be able to better monitor and ensure that past patches not escrowed immediately are picked up in later escrow activities.</p> <p>Anticipated Implementation Date: Joint determination of significant changes and identification of each change was implemented April 1, 2009. The SAS 70 control activity of monitoring the escrow process was implemented August 1, 2009.</p> <p>Barriers: n/a</p> <p>Responsible Administration: Bureau of Child Support</p> <p>Responsible Individual(s), Name(s), Title(s): David Mork, Director, Michigan State Disbursement Unit</p>		
Recoupment Recommended	N/A		
Recoupment Comments			
OIA Status	Approved		
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Audit Title	STATE DISBURSEMENT UNIT PERFORMANCE AUDIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	6/1/2006
Report Issuance Date	12/23/2009	End Date	5/31/2008
Finding Description	Monitor Collateral Balances		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	12/23/2009	Status Requested	1/14/2010
Status Contact	morkd	Last Updated	2/5/2010
Status	Completed	Last Updated By	onarp
Corrective Action Plan	<p>FINDING MiSDU could improve the effectiveness of its service provider by monitoring the collateral balances of MiSDU to ensure that its service provider complies with the contract to retain sufficient collateral. The contract requires the service provider have sufficient collateral to cover the funds deposited in the MiSDU bank account, to be held in the name of the Michigan Department of Treasury at the Federal Reserve. Monitoring the collateral balances by MiSDU would help MiSDU to ensure that the risk of the service provider defaulting on contractual obligations is minimized.</p> <p>RESPONSE DHS agrees with the finding.</p> <p>CORRECTIVE ACTION MiSDU has implemented a procedure whereby the financial specialist monitors collateral quarterly, provides to the MiSDU Director a review of the past quarter, and a projection of the upcoming quarter. The MiSDU Director will use this information, plus other economic factors as necessary to determine if further steps need to be taken.</p> <p>Implementation Date: October 1, 2008.</p> <p>Barriers: n/a</p> <p>Responsible Administration: Bureau of Child Support</p> <p>Responsible Individual(s), Name(s), Title(s): David Mork, Director, Michigan State Disbursement Unit</p>		
Recoupment Recommended	N/A		
Recoupment Comments			
OIA Status	Approved		
OIA Comments			