



STATE OF MICHIGAN  
DEPARTMENT OF HUMAN SERVICES  
LANSING



RICK SNYDER  
GOVERNOR

MAURA D. CORRIGAN  
DIRECTOR

February 27, 2012

Mr. Doug Ringler, Director  
Office of Internal Audit Services  
Office of the State Budget  
George W. Romney Building  
111 South Capitol, 6<sup>th</sup> 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 Performance Audit of the Michigan State Disbursement Unit.

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

Sincerely,

Signature Redacted

Maura D. Corrigan

c: Executive Office  
Office of the Auditor General  
House Fiscal Agency  
Senate Fiscal Agency  
House and Senate Appropriation 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  
OAG Reference No. 431-0142-10  
DHS Reference No. 2010-072

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1. Findings Complied With  
n/a
2. Findings To be Complied With  
1, 3, 4
3. Findings Disagreed With  
2

## DHS Tracking System

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## View Audit 2010072 Finding 01 - 1/25/2012

Audit Title	STATE DISBURSEMENT UNIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	10/1/2009
Report Issuance Date	4/5/2011	End Date	4/30/2010
Finding Description	SAS 70 Monitoring		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	1/1/2012	Status Requested	1/5/2012 
Status Contact	noworytd	Last Updated	1/5/2012
Status	Completed	Last Updated By	noworytd
Corrective Action Plan	<p>Finding No.1: SAS 70 Monitoring  MiSDU needs to improve the effectiveness of the SAS 70 examination of its service provider by ensuring that it includes testing of all key general internal controls of its operating system and its critical applications. Improvement in the SAS 70 examination would help provide MiSDU assurance that the service provider's processes and controls over its operating system and critical applications are sufficient to ensure security and reliability of the data processed, maintained, and reported by the system and its applications.</p> <p>Section 1.022(H)(6) of the contract requires the service provider to provide for a Type II SAS-70 audit annually with the scope to be defined by the service provider and concurred with by the State. A Type II SAS 70 audit is an engagement that reviews and tests the effectiveness of a service provider's general and application internal controls based on the AICPA Statement of Accounting Standards No. 70, as amended. A Type II SAS 70 report includes the service provider's description of its internal controls and objectives, an auditor's opinion on the suitable design of the controls in meeting the specified objectives, and a test and evaluation of the effectiveness of the internal controls.</p> <p>The OAG obtained the SAS 70 reports of the service provider's operations for the periods October 1, 2008 through September 30, 2009, and October 1, 2007 through September 30, 2008. In addition, the OAG obtained from the service provider the additions planned for the SAS 70 report for the period October 1, 2009 through September 30, 2010. The planned additions are the service provider's corrective action response to our prior performance audit of the Michigan State Disbursement Unit, Office of Child Support (431-0142-08). The SAS 70 report for this period will not be issued prior to completion of our audit.</p> <p>A review of the SAS 70 reports and other corrective action provided by the service provider noted:</p> <p>a. The MiSDU could improve the effectiveness of the SAS 70 examination of its service provider by ensuring that key control activities related to configuration management are identified for review. In response to the prior audit finding 1.a., the service provider did include manual key control activities, such as the hardcopy review by management of operating system and application updates. However, configuration management also includes key control activities that are contained within the system, such as ensuring that access to all programs (including production code, source code, and extra program copies) are adequately protected. A review of access control rules and security system parameters programmed within the systems would give additional assurance that this key control activity is working as intended.</p> <p>b. The MiSDU could improve the effectiveness of the SAS 70 examination of its service provider by ensuring key control activities related to segregation of duties are identified for review in the SAS 70 examination. In response to the prior audit finding 1.a., the service provider did include manual key control activities, such as the manual review of access forms by management of the service provider. However, segregation of duties also includes key control activities that are contained within the system, such as ensuring that application controls prevent users from performing incompatible duties. A review, such as inspecting documentation or system tables, to determine whether access to menus or screens corresponds with the user's defined duties and evaluating whether their duties and access is appropriate to prevent them from performing incompatible duties would help to ensure proper segregation of duties.</p> <p>Although the service provider did add some manual key control activities related to the prior audit finding in the SAS 70 examination for the period October 1, 2008 through September 30, 2009, MiSDU should ensure that the service provider further identify and include in future SAS 70 examinations key controls related to system controls within the operating system or application.</p> <p>Recommendation:  Recommend that MiSDU improve the effectiveness of the SAS 70 examination of its service provider by ensuring that includes testing of all key general controls of its operating system and critical applications.</p> <p>Response/Corrective Action:  MiSDU will evaluate if changes are necessary as the service organization transitions from the SAS 70 review to Statement of Standards for Attestation Engagements (SSAE) 16 (effective for periods ending June 30,</p>		

2011 or later).

Monitoring Activities:  
n/a at this time

Actions Taken for Deficiencies Cited in the Finding:  
n/a

Anticipated Implementation Date:  
10/01/2011

Update 08/2011:

The anticipated implementation date is being changed to January 1, 2012, to allow time for the new SDU director to follow-up with the status of corrective action.

Update 1/5/2012

After meeting with the SDU service provider, a modification was made to the service provider's business process to remove the SDU from the planning process for upcoming SSAE No. 16 reviews. This change was made to hold the service provider solely responsible for the description of controls and tests of controls as disclosed in the SSAE report.

OCS has reviewed the report from the SSAE No. 16 review completed for the period of October 1, 2010 through September 30, 2011 and is in the process of holding meetings with the service provider to seek corrective action on some of the findings and clarification on some of the disclosures in the report. This process is expected to be completed within the next 30 days.

This finding is considered closed, the SSAE No. 16 audit is being used as intended.

Barriers:  
n/a

Responsible Administration:  
Office of Child Support

Responsible Individual(s), Name(s), Title(s):  
Marilyn Stephen, Director, OCS  
Pratin Trivedi, Director, MiSDU

Recoupment Recommended

N/A

Recoupment Comments

OIA Status

Approved

OIA Comments

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## View Audit 2010072 Finding 02 - 1/25/2012

Audit Title	STATE DISBURSEMENT UNIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	10/1/2009
Report Issuance Date	4/5/2011	End Date	4/30/2010
Finding Description	Receipts Subject to Service Provider's Quality Assurance Process		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	4/5/2011	Status Requested	
Status Contact	noworytad	Last Updated	
Status	Completed	Last Updated By	osgac
Corrective Action Plan	<p>Finding No. 2: Receipts Subject to Service Provider's Quality Assurance Process  MiSDU should ensure that its service provider's quality assurance sampling process used to verify the accuracy and completeness of child support postings includes all payments posted throughout the day. A quality assurance process uses sampling but does not ensure that the sample represents all payments posted throughout the review period reduces the reliability of the sample results and the assurance that the service provider is meeting contract performance requirements.</p> <p>One of MiSDU's primary oversight tools of the service provider's performance is the service provider's quality assurance process. Section 1.0221-3 of the contract requires the service provider to develop and apply quality assurance methods and practices for the continuing improvement of posted payment information accuracy and completeness. The service conducts random sampling of payments posted and reports the results of its quality assurance sampling to the MiSDU through various reports. The service provider's quality assurance policy states that the total population from which random samples are pulled contains all the payments as well as all pre-ten items that are posted on that day. Pre-ten items are those items held for ten days or less for further research due to insufficient identifying information. MiSDU uses the reports to ensure that the service provider is meeting established performance requirements. The review disclosed that the service provider did not maintain documentation to show when samples were obtained for quality assurance testing and what time frame the sample covered. As a result, MiSDU could not determine whether the service provider subjected all payments posted for that day to sampling and whether the sample was representative of the population.</p> <p>The service provider's quality assurance staff is required to obtain samples throughout the day of payments posted for that day. In selecting these samples, the quality assurance staff are able to either leave the time frame of payments posted blank, which results in including the whole day of payments posted (up to the time the sample is pulled) in the review process or to specify a time frame of payments posted when obtaining their sample. The service provider does not log or document the time the sample was obtained or the time frame selected for review of payments posted.</p> <p>In following the service provider's assertion that the sample items were reviewed as they were pulled, the auditor reviewed 10 days to determine if the service provider subjected to sample all of the payments posted for the day. The review disclosed that the service provider's quality assurance process did not ensure that all payments posted in a day were subject to sample. For 5 (50 percent) of 10 days reviewed, the percentages of payments posted that were not subject to review ranged from 5.8 percent to 60.8 percent.</p> <p>Similar issues were noted in the prior audit. As a result of the audit, the service provider implemented a procedure for pulling a sample later in the processing day. However, as noted above, the revised procedure was still not effective in ensuring the completeness of the population subject to sample. A later sample was pulled on 3 (60%) of the 5 days in which over 5 percent of the payments posted for that day were not subject to review. The MiSDU staff stated that its service provider samples more than the required number of sample items each day to achieve the required confidence level of 98 percent. However, the confidence level would only apply to the payments subject to sample. For example, if the service provider only pulled transactions related to a one-hour period, it would only be able to conclude on the performance for that one-hour period.</p> <p>Obtaining a sample that is not representative of the entire population, in this instance from all payments posted in the day, increases the risk that MiSDU will not be able to detect performance deficiencies of the service provider.</p> <p>Recommendation:  Recommend that MiSDU ensure its service provider's quality assurance sampling process used to verify the accuracy and completeness of child support payments postings includes all payments processed throughout the day.</p> <p>Response:  MiSDU believes the sampling process provides a high level of assurance that child support payments processed throughout the day are accurate and complete.</p>		

Transactions are randomly selected for the quality assurance review throughout the day, which begins with the first mail delivery at approximately 4am. Transactions are generally processed until 2:00pm – 2:30pm. The current time frames and the sampling process were established to ensure payments are processed within two business days as required by Section 454B of the Social Security Act. As described in the finding the service provider implemented a procedure for pulling a sample later in the processing day. The original sampling process, before the implementation of the later sample pull, was reviewed by a statistician and found to be statistically valid.

Given the percentage of transactions processed after the last sample pull and additional assurances, MiSDU believes the risk is minimal. Additional assurances include the service provider sampling payments from the previous day's processing when items are selected from the pull and derog reports, and additional items may be tested on the Recon and Research Reports by the service provider.

## Corrective Action:

n/a

## Monitoring Activities:

n/a

## Actions Taken for Deficiencies Cited in the Finding:

n/a

## Anticipated Implementation Date:

n/a

## Barriers:

n/a

## Responsible Administration:

Office of Child Support

## Responsible Individual(s), Name(s), Title(s):

Marilyn Stephen, Director, OCS

Pratin Trivedi, Director, MiSDU

## Recoupment Recommended

N/A

## Recoupment Comments

## OIA Status

Approved

## OIA Comments

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## View Audit 2010072 Finding 03 - 1/25/2012

Audit Title	STATE DISBURSEMENT UNIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	10/1/2009
Report Issuance Date	4/5/2011	End Date	4/30/2010
Finding Description	Service Provider's Bond and Insurance Coverage		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	1/1/2012	Status Requested	1/5/2012 
Status Contact	noworytd	Last Updated	1/5/2012
Status	Completed	Last Updated By	noworytd
Corrective Action Plan	<p>Finding No. 3: Service Provider's Bond Insurance Coverage  MiSDU did not ensure that the service provider obtained sufficient bond and liability insurance coverage as outlined in the contract. As a result, the State does not have assurance that sufficient bond and insurance coverage beyond the expiration dates.</p> <p>Section 2.131 of the MiSDU contract requires the service provider to provide general liability insurance with designated coverage amounts. The contract further states the service provider is required to provide proof of the minimum levels of insurance coverage. In addition, Section 2.133 of the MiSDU contract, effective April 25, 2010, requires the service provider to provide evidence that the State and its agents, officers, and employees are listed as additional insureds under each commercial general liability and commercial automobile liability not less than 20 days before the insurance expiration date.</p> <p>The service provider had access to, and control over, approximately \$3 billion in child support funds during the two year period June 2008 through May 2010, averaging 3.8 million per day.</p> <p>The service provider's process stipulates that it provides a copy of the most recent insurance certificates on file to the MiSDU on a yearly basis, every June 30th. The OAG reviewed the bond and insurance certificates for the audit period and determined they expired at different times throughout the year, some as early as nine months prior to the June 30th due date.</p> <p>MiSDU staff stated that they rely on the service provider to develop adequate procedures to meet contract requirements. Reviewing the service provider's procedures and reviewing the insurance and bond documentation in a timely manner would help to ensure that the State is fully protected against claims which may arise out of, or result from, the service provider's performance of services.</p> <p>Recommendation:  Recommend that MiSDU ensure that the service provider's procedures for providing documentation of bond and insurance coverage comply with the contract.</p> <p>Response:  The service provider submitted documentation to DTMB in a timely manner and maintained appropriate coverage for the audit period. MiSDU will perform a review each quarter comparing the list with the policies on file. For any policy expiring within 90 days, MiSDU will request the service provider to provide documentation not less than 20 days before the insurance expiration date that the insurance has been obtained to extend the coverage period.</p> <p>Corrective Action:  MiSDU will improve its monitoring of the service provider's coverage by maintaining an insurance inventory which lists all insurance and bonding coverage policies required by the contract.</p> <p>Monitoring Activities:  MiSDU will perform a review each quarter comparing the list with the policies on file. For any policy expiring within 90 days, MiSDU will request the service provider to provide documentation not less than 20 days before the insurance expiration date that the insurance has been obtained to extend the coverage period.</p> <p>Actions Taken for Deficiencies Cited in the Finding:  n/a</p> <p>Anticipated Implementation Date:  10/01/2011</p> <p>Updates 08/2011:  The anticipated implementation date is being changed to January 1, 2012, to allow time for the new SDU director to follow-up with the status of corrective action.</p>		

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## View Audit 2010072 Finding 03 - 1/25/2012

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Audit Title	STATE DISBURSEMENT UNIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	10/1/2009
Report Issuance Date	4/5/2011	End Date	4/30/2010
Finding Description	Service Provider's Bond and Insurance Coverage		
Administration Area	MICHIGAN STATE DISBURSEMENT UNIT		
Report Implementation Date	1/1/2012	Status Requested	1/5/2012 
Status Contact	noworytad	Last Updated	1/5/2012
Status	Completed	Last Updated By	noworytad
Corrective Action Plan	<p>Finding No. 3: Service Provider's Bond Insurance Coverage  MiSDU did not ensure that the service provider obtained sufficient bond and liability insurance coverage as outlined in the contract. As a result, the State does not have assurance that sufficient bond and insurance coverage beyond the expiration dates.</p> <p>Section 2.131 of the MiSDU contract requires the service provider to provide general liability insurance with designated coverage amounts. The contract further states the service provider is required to provide proof of the minimum levels of insurance coverage. In addition, Section 2.133 of the MiSDU contract, effective April 25, 2010, requires the service provider to provide evidence that the State and its agents, officers, and employees are listed as additional insureds under each commercial general liability and commercial automobile liability not less than 20 days before the insurance expiration date.</p> <p>The service provider had access to, and control over, approximately \$3 billion in child support funds during the two year period June 2008 through May 2010, averaging 3.8 million per day.</p> <p>The service provider's process stipulates that it provides a copy of the most recent insurance certificates on file to the MiSDU on a yearly basis, every June 30th. The OAG reviewed the bond and insurance certificates for the audit period and determined they expired at different times throughout the year, some as early as nine months prior to the June 30th due date.</p> <p>MiSDU staff stated that they rely on the service provider to develop adequate procedures to meet contract requirements. Reviewing the service provider's procedures and reviewing the insurance and bond documentation in a timely manner would help to ensure that the State is fully protected against claims which may arise out of, or result from, the service provider's performance of services.</p> <p>Recommendation:  Recommend that MiSDU ensure that the service provider's procedures for providing documentation of bond and insurance coverage comply with the contract.</p> <p>Response:  The service provider submitted documentation to DTMB in a timely manner and maintained appropriate coverage for the audit period. MiSDU will perform a review each quarter comparing the list with the policies on file. For any policy expiring within 90 days, MiSDU will request the service provider to provide documentation not less than 20 days before the insurance expiration date that the insurance has been obtained to extend the coverage period.</p> <p>Corrective Action:  MiSDU will improve its monitoring of the service provider's coverage by maintaining an insurance inventory which lists all insurance and bonding coverage policies required by the contract.</p> <p>Monitoring Activities:  MiSDU will perform a review each quarter comparing the list with the policies on file. For any policy expiring within 90 days, MiSDU will request the service provider to provide documentation not less than 20 days before the insurance expiration date that the insurance has been obtained to extend the coverage period.</p> <p>Actions Taken for Deficiencies Cited in the Finding:  n/a</p> <p>Anticipated Implementation Date:  10/01/2011</p> <p>Updates 08/2011:  The anticipated implementation date is being changed to January 1, 2012, to allow time for the new SDU director to follow-up with the status of corrective action.</p>		

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## View Audit 2010072 Finding 04 - 1/25/2012

Audit Title	STATE DISBURSEMENT UNIT (OAG)		
Auditing Agency	OFFICE OF THE AUDITOR GENERAL	Begin Date	10/1/2009
Report Issuance Date	4/5/2011	End Date	4/30/2010

Finding Description	Disclosed Case Reviews		
Administration Area	OFFICE OF CHILD SUPPORT		
Report Implementation Date	3/1/2012	Status Requested	1/5/2012
Status Contact	noworytad	Last Updated	1/5/2012
Status	Open	Last Updated By	noworytad

Corrective Action Plan	<p>Finding No. 4: Disclosed Case Reviews MiSDU should improve its monitoring of employee related cases to include all cases in which an employee has a personal interest, not just those cases annually disclosed by the employee. Without improvement, a risk continues to exist that the service provider's employees could post child support payments intended for other cases to their own cases or to cases in which they have a personal interest.</p> <p>Sound internal control would prohibit a service provider employee from having access to a case in which the employee has a personal interest. In addition, the MiSDU contract prohibits an employee from viewing a case in which the employee has a personal interest. MiSDU required employees to list all cases in which they had a personal interest on the MiCSES child support case disclosure form annually. MiSDU implemented a monthly monitoring process in which the quality assurance supervisor and human resource manager reviewed the disclosed related cases to ensure that employees did not inappropriately post payments. However, the monthly monitoring process did not consider the review of any new or additional cases that arose throughout the year that were not listed on the annual disclosure form. When the quality assurance supervisor or human resource manager reviewed a case disclosed by the employee, all related cases (disclosed, new, and additional) were revealed in the MiSDU operating system. MiSDU's monitoring process did not require the quality assurance supervisor or human resource manager to discuss the new or additional related cases with the employee, require the employee to amend its annual disclosure form, require inclusion of the new or additional cases in subsequent monthly disclosed case reviews. The review identified 7 of 77 employees who potentially had related cases not disclosed on the annual disclosure form. As a result, these related cases and payments were not reviewed during the monthly monitoring of related cases.</p> <p>MiSDU stated that OCS staff has held several meetings to discuss how to implement a review of potential related cases not disclosed on the annual disclosure form. As a result of the meetings, a hot line message was sent to all State Title IV-D staff reminding them of the disclosure requirements and providing a 60-day period to update their disclosure forms on file.</p> <p>Recommendation: Recommend that MiSDU improve its monitoring of employee related cases to include all cases in which an employee has a personal interest, not just those cases annually disclosed by the employee.</p> <p>Response: DHS disagrees with the recommendation. MiSDU must rely on self-disclosure because of variables which do not allow for any other means to identify a case where a conflict of interest could be present (e.g., a staff person's neighbor, a relative with a different last name, etc.).</p> <p>Corrective Action: MiSDU will issue quarterly announcements to the MiSDU service provider to update the Michigan Child Support Disclosure Form (DHS-428).</p> <p>Monitoring Activities: n/a</p> <p>Actions Taken for Deficiencies Cited in the Finding: n/a</p> <p>Anticipated Implementation Date: 10/01/2011</p> <p>Update 08/2011: The anticipated implementation date is being changed to January 1, 2012, to allow time for the new SDU director to follow-up with the status of corrective action.</p> <p>Update 01/05/12 A reminder was sent out June 14th, 2011 to update the DHS-428. However, it is still an annual reminder. OCS</p>
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will be meeting to discuss the possibility of increasing the frequency of the program wide announcement to a quarterly process. This process should be completed within the next 60 days. Next update 2/29/2012

Barriers:  
n/a

Responsible Administration:  
Office of Child Support

Responsible Individual(s), Name(s), Title(s):  
Marilyn Stephen, Director, OCS  
Pratin Trivedi, Director, MISDU

Recoupment Recommended

N/A

Recoupment Comments

OIA Status

OIA Comments
