



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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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:
431-0142-06

Released:
April 2007

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 and requires an audit of MiSDU.

Audit Objective:

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

Audit Conclusion:

We concluded that MiSDU's efforts in monitoring the contract with its service provider were effective. However, our assessment disclosed reportable conditions related to improvement of the quality assurance process and compliance with contract requirements (Findings 1 and 2).

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Audit Objective:

To assess the effectiveness of MiSDU's efforts in ensuring that the receipt and disbursement of child support remittances were accurate and timely.

Audit 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 a reportable

condition related to procedures for the receipt of child support remittances (Finding 3).

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Audit Objective:

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

Audit 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.

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Agency Response:

Our audit report includes 3 findings and 3 corresponding recommendations. DHS's preliminary response indicates that it agrees with the recommendations.

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April 4, 2007

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, Department of Human Services.

This report contains our report summary; description of agency; 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 Agency

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 and requires an audit of MiSDU.

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 state disbursement units to 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 includes a court order for an employer to withhold income from the wages 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 substantial loss of federal funds for the State's Child Support Program and the Temporary Assistance for Needy Families welfare block grant.

DHS entered into a five-year contract with its service provider to develop and operate MiSDU. The contract is for the period December 2004 through December 2009. MiSDU receives child support remittances in a variety of methods, including paper payments (personal checks, cashier's checks, certified checks, and money orders) and electronic payments (made by wire transfer, credit card, or debit card). MiSDU researches unidentified child support remittances* to determine if additional information can be obtained to process the remittance. When MiSDU cannot obtain sufficient case and remitter information, the remittance is sent to the Michigan Child Support Enforcement System (MiCSES) suspense accounts* using certain suspense hold codes* to be worked on, returned, or escheated.

* See glossary at end of report for definition.

MiSDU's service provider develops a daily electronic file of child support remittances to be sent to MiCSES. 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 a debit card payment to the payee or a direct deposit to the payee's bank.

MiSDU paid its service provider approximately \$19.1 million for services provided from October 1, 2005 through September 30, 2006. During fiscal year 2005-06, 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 collected and processed approximately \$1.6 billion of child support remittances received during the period October 1, 2005 through September 30, 2006.

* 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), Department of Human Services (DHS), had the following objectives:

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

Audit Scope

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, performed from April through October 2006, included examination of MiSDU records primarily for the period May 1, 2005 through May 31, 2006.

Audit Methodology

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

In connection with our first objective, we examined the contract between MiSDU and its service provider, including the invitation to bid, response to the invitation to bid, and

* See glossary at end of report for definition.

amendments to the contract. Also, we assessed MiSDU's efforts in monitoring the contract with the service provider.

In connection with our second objective, we selected a random sample and performed an analytical review of child support remittances with sufficient identifying information processed at MiSDU. We selected a random sample of payments placed in suspense hold codes in MiCSES. We assessed and observed MiSDU's internal controls related to receipting and disbursing child support remittances. Further, we evaluated MiSDU's compliance with applicable regulations, statutes, policies, and procedures in receipting and disbursing child support remittances.

In connection with our third 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 regulations, statutes, policies, and procedures in resolving unidentified child support remittances.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 3 findings and 3 corresponding recommendations. DHS's preliminary response indicates that it agrees with the 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 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, Department of Human Services (43-142-04), in May 2006. Within the scope of this audit, we followed up all 3 prior audit recommendations. DHS complied with 2 of the 3 prior audit recommendations. The remaining prior audit recommendation was rewritten for inclusion in this audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS IN MONITORING SERVICE PROVIDER CONTRACT

COMMENT

Audit Objective: To assess the effectiveness of the Michigan State Disbursement Unit's (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 reportable conditions* related to improvement of the quality assurance process and compliance with contract requirements (Findings 1 and 2).

FINDING

1. Improvement of Quality Assurance Process

MiSDU needs to improve its oversight of the service provider's quality assurance process to ensure that the process is documented and provides accurate, complete, and unbiased results.

Improvements in the methodology, sampling techniques, and documentation of the process would provide MiSDU with the appropriate level of assurance that its service provider complied with contract and federal requirements for processing and posting child support payments. MiSDU contracts with the service provider to conduct quality assurance reviews for the child support payments that the service provider processes. As a result, it is vital that MiSDU provide adequate oversight of the service provider's quality assurance process.

Our review disclosed:

- a. MiSDU did not require the service provider to document the population used in its testing process. As a result, MiSDU did not have assurance of the accuracy and reliability of the performance information provided by its service provider.

We attempted to determine the population of payments that were subject to review by the service provider during our audit period. We identified

* See glossary at end of report for definition.

discrepancies in the testing population that the service provider used. The service provider informed us that the testing population consisted of all payments posted to Kids 1st* during the day, including payments receipted in previous days that were resolved and posted. However, MiSDU informed us that the population did not contain those payments receipted in previous days that were resolved and posted.

- b. MiSDU did not require the service provider to document that it has quality assurance processes and procedures to ensure that only remittances that lacked sufficient and accurate information were appropriately sent to State Disbursement Unit (SDU) research*. Although we found no instances of remittances inappropriately sent to SDU research, a risk exists that delays in providing child support to custodial caregivers* could occur.

Title 42, section 654b of the *United States Code* requires that MiSDU distribute all amounts payable within two business days after receipt from the employer or other source of periodic income, if sufficient information identifying the payee is provided. Also, the MiSDU contract specifies that the service provider must process 100% of child support remittances within two business days of receipt (including the day of receipt). This requirement is only applicable when information supplied by the payer is sufficient.

The service provider holds remittances for further research when the information supplied by the payer is not sufficient.

The service provider verbally informed us that its quality assurance process included reviewing the validity of payments sent to SDU research. However, the service provider did not document that quality assurance staff ensured that payments were appropriately sent to SDU research.

- c. MiSDU did not require the service provider to replace payments selected more than once for review.

The service provider's random sampling methodology allowed the same payment to be reviewed more than once. As a result, the number of payments reviewed was overstated on the service provider's performance reports to

* See glossary at end of report for definition.

MiSDU. We analyzed the sample items reviewed by the service provider on four randomly selected days during April and May 2006. We determined that the number of duplicate payments reviewed ranged from 28 payments to 58 payments, from an average of 969 payments reviewed daily during the four randomly selected days.

RECOMMENDATION

We recommend that MiSDU improve its oversight of the service provider's quality assurance process to ensure that the process is documented and provides accurate, complete, and unbiased results.

AGENCY PRELIMINARY RESPONSE

The Department of Human Services (DHS) agrees and will implement the necessary changes with the service provider.

FINDING

2. Compliance With Contract Requirements

MiSDU did not ensure that its service provider complied with contract requirements concerning conflicts of interest. As a result, a risk exists 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 had a personal interest.

Our review disclosed:

- a. MiSDU did not ensure that the service provider had formal policies and procedures to prohibit its employees from viewing or posting child support payments to restricted child support cases. A case that an employee is a party to or in which he or she has a personal interest is considered a restricted case.

Section II-C of the MiSDU contract requires that the service provider prohibit its employees from viewing their own and any family or household member's MiSDU child support docket or payment records. The contract also requires that the service provider have policies and procedures to ensure that employees do not have access to their own cases.

Service provider staff stated that they verbally informed employees that they were prohibited from viewing or posting child support payments to restricted child support cases. The service provider's payment processing system did not have the capability to automatically block access to restricted child support cases.

- b. MiSDU did not ensure that its service provider monitored the activities of employees who disclosed conflicts of interest.

Section IV.D.1 of the contract requires the service provider to monitor any and all employees who are a party to a restricted child support case, whether they are the noncustodial parent, custodial parent, or child. The contract also requires that monitoring should involve periodic screening of restricted cases to ensure that the service provider appropriately applied payments to those cases and that it did not apply payments not meant for those cases. The contract further states that service provider staff should review the payment histories for restricted cases for irregularities and review the images of the payments applied to determine whether staff posted them to the appropriate case.

The service provider adopted the Michigan Title IV-D Action Transmittal 2006-004, which required employees to disclose such cases on an annual Michigan Child Support Enforcement System (MiCSES) child support case disclosure form. However, we determined that the service provider did not require employees to update their disclosures if conflicts of interest occurred in the interim and did not monitor employees who had disclosed information on the annual disclosure form. The service provider retained copies of the disclosure form completed by each employee. Service provider staff informed us that they simply overlooked this specific contract requirement and that they intend to begin monitoring restricted cases in the future.

RECOMMENDATION

We recommend that MiSDU ensure that its service provider complies with contract requirements concerning conflicts of interest.

AGENCY PRELIMINARY RESPONSE

DHS agrees and informed us that it has already complied.

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

BACKGROUND

MiSDU's service provider receives child support remittances in a variety of methods, including paper payments and electronic payments. The service provider disburses remittances by generating a support check or a debit card payment to the payee or a direct deposit to the payee's bank. Federal law requires MiSDU to process all remittances received with complete information within two business days after receipt. The contract with the service provider specifies that the service provider must accurately process within one business day 99.8% of child support payments that are received at MiSDU when information supplied by the payer is complete and accurate. The service provider researches unidentified child support remittances to determine if additional information can be obtained to process the remittance. When the service provider cannot obtain sufficient case and remitter information, the remittance is sent to MiCSES suspense accounts for further action.

COMMENT

Audit Objective: To assess the effectiveness of 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 a reportable condition related to procedures for the receipt of child support remittances (Finding 3).

FINDING

3. Procedures for Receipt of Child Support Remittances

MiSDU did not ensure that its service provider initiated timely telephone contact with the remitter when additional information was needed to post the remittance. As a result, there could have been delays in providing child support to custodial caregivers.

Attachment B of the MiSDU contract requires that all items in SDU research be resolved within 10 days. Section II-C-2 of the contract further requires the service

provider to initiate telephone contact within one business day and continue attempts at telephone contact for up to three days, with mail contact occurring immediately thereafter. The service provider's procedures require that telephone contact be initiated and documented, followed by mail contact if necessary. However, the procedures do not include a time frame in which telephone and mail contact should be made.

In our audit of 16 remittances, we identified 12 that required further information from the remitter. The service provider did not initiate telephone contact within one business day for all 12 remittances. The service provider contacted the remitters from 2 to 5 days after it sent the remittances to SDU research.

The service provider's implementation of detailed policies and procedures would clarify for its staff the requirements for timely follow-up and help to ensure consistent application of the follow-up requirements.

RECOMMENDATION

We recommend that MiSDU ensure that its service provider initiates timely telephone contact with the remitter when additional information is needed to post the remittance.

AGENCY PRELIMINARY RESPONSE

DHS agrees and will work with the service provider to ensure timely follow-up on items needing additional information to post the remittance.

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.

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.
Kids 1st	A system used to process remittances by MiSDU.
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 Title 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.

State Disbursement
Unit (SDU) research

An area within MiSDU where remittances requiring further identifying information are researched.

suspense accounts

Accounts that hold payments that need additional research before they can be distributed or escheated.

suspense hold codes

Codes in the suspense accounts used to identify the case conditions.

Title 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 (Title IV-A or Temporary Assistance for Needy Families cases) are referred to their respective state's Title IV-D child support program.

unidentified child
support remittances

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:

- 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.

