



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

Audit report information can be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Michigan State Disbursement Unit
Office of Child Support
Department of Human Services

Report Number:
431-0142-10

Released:
April 2011

The Office of Child Support (OCS), Department of Human Services (DHS), contracts with a service provider to operate the Michigan State Disbursement Unit (MiSDU). The service provider centrally collects and disburses 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 its service provider's collection and disbursement of child support remittances.

Audit Conclusion:

We concluded that MiSDU's efforts in monitoring its service provider's collection and disbursement of child support remittances were effective. However, we noted four reportable conditions (Findings 1 through 4).

Reportable Conditions:

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 controls of its operating system and its critical applications (Finding 1).

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 (Finding 2).

MiSDU did not ensure that the service provider's procedures for providing documentation of bond and insurance coverage complied with the contract (Finding 3).

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 (Finding 4).

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

Audit Objective:

To assess the effectiveness of OCS's efforts in monitoring the accuracy and completeness of the bank accounts used to account for child support activities.

Audit Conclusion:

We concluded that OCS's efforts in monitoring the accuracy and completeness of the bank accounts used to account for child support activities were effective. Our audit report does not include any reportable conditions related to this audit objective.

~ ~ ~ ~ ~

Agency Response:

Our audit report includes 4 findings and 4 corresponding recommendations. DHS's preliminary response indicated that it agrees with 3 of the recommendations and disagrees with 1 recommendation.

~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

April 5, 2011

Ms. Maura D. Corrigan, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Ms. Corrigan:

This is our report on the performance audit of the Michigan State Disbursement Unit, Office of Child Support, Department of Human Services.

This report contains our report summary; description; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; the Michigan State Disbursement Unit banking model, presented as supplemental information; 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 plan to address the audit recommendation and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

TABLE OF CONTENTS

MICHIGAN STATE DISBURSEMENT UNIT OFFICE OF CHILD SUPPORT DEPARTMENT OF HUMAN SERVICES

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description	7
Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	9
COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES	
Effectiveness in Monitoring Service Provider's Collection and Disbursement of Child Support Remittances	13
1. SAS 70 Monitoring	14
2. Receipts Subject to Service Provider's Quality Assurance Process	16
3. Service Provider's Bond and Insurance Coverage	19
4. Disclosed Case Reviews	20
Effectiveness in Monitoring the Accuracy and Completeness of the Bank Accounts Used to Account for Child Support Activities	22
SUPPLEMENTAL INFORMATION	
MISDU Banking Model	24

GLOSSARY

Glossary of Acronyms and Terms

26

Description

The Office of Child Support* (OCS), Department of Human Services (DHS), contracts with a service provider to operate the Michigan State Disbursement Unit* (MiSDU). The service provider centrally collects and disburses 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 check 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 Enforcement Program and the Temporary Assistance for Needy Families welfare block grant.

DHS entered into a five-year contract with its current service provider in December 2004 to operate MiSDU. DHS entered into a new contract with the same service provider for the period April 2010 through September 2016. MiSDU's service provider receives child support remittances in a variety of methods including paper payments (cash, personal checks, cashier's checks, certified checks, and money orders) and electronic payments (wire transfers and credit card payments through the mail, telephone, and Internet). MiSDU's service provider researches unidentified child support remittances* to determine if additional information can be obtained to process the remittance. When

* See glossary at end of report for definition.

MiSDU's service provider 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 further worked on, returned, or escheated.

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 direct deposit transaction to the payee or the payee's bank.

OCS monitors the accuracy and completeness of the bank accounts used to account for child support activities in a number of ways, including obtaining and reviewing daily bank account reconciliations of the service provider and reconciling service provider activity with MiCSES and the MiSDU bank accounts.

MiSDU paid its service provider approximately \$25.6 million during the period June 1, 2008 through September 28, 2010 for services provided. 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 \$3.2 billion of child support remittances received during the period June 1, 2008 through September 28, 2010.

** 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), Office of Child Support (OCS), Department of Human Services (DHS), had the following objectives:

1. To assess the effectiveness* of MiSDU's efforts in monitoring its service provider's collection and disbursement of child support remittances.
2. To assess the effectiveness of OCS's efforts in monitoring the accuracy and completeness of the bank accounts used to account for child support activities.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan State Disbursement Unit administered by the Department of Human Services, primarily related to the prior audit finding. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, conducted from May through September 2010, generally covered the period June 1, 2008 through May 31, 2010.

As part of our audit, we prepared supplemental information that relates to our second audit objective. Our audit was not directed toward expressing a conclusion on this information and, accordingly, we express no conclusion on it.

Audit Methodology

To gain an understanding of MiSDU activities and to establish our audit objectives and methodology, we conducted a preliminary review of MiSDU operations. Our preliminary review included interviews with OCS staff, MiSDU staff, and MiSDU's service provider

* See glossary at end of report for definition.

staff; an on-site observation and examination of processes and procedures of OCS staff, MiSDU staff, and MiSDU's service provider staff; a review of applicable federal regulations, State statutes, State policies and procedures, and policies and procedures of the service provider; and a review of the contract with MiSDU's service provider.

To accomplish our first audit objective, we examined the contract between MiSDU and its service provider, including the invitation to bid, response to the invitation to bid, and amendments to the contract. We assessed and observed MiSDU's internal control* related to receipting and disbursing child support remittances. We examined the SAS 70 report* of the service provider as it relates to part 1.a. of our prior audit finding (431-0142-08). We assessed MiSDU's review of the service provider's SAS 70 report to determine if key general and application controls were reviewed. We selected a random sample and performed an analytical review of child support remittances with sufficient, identifying information processed at MiSDU. We assessed various processes in identifying processing errors, including assessing the validity of the service provider's random sampling quality assurance process. We performed analytical review procedures of processing errors identified by the service provider's quality assurance processes. We assessed the appropriateness of MiSDU employee access and abilities in the various systems used to process child support remittances. Further, we assessed MiSDU's efforts in monitoring its service provider.

To accomplish our second audit objective, we assessed and observed MiSDU's internal control related to reconciling the MiSDU bank accounts. We selected a random sample and performed a review of daily bank reconciliations conducted by the service provider and OCS to reconcile the various MiSDU bank accounts with MiSDU activity and the Michigan Child Support Enforcement System (MiCSES). We assessed the appropriateness of OCS and MiSDU employee access and abilities in the MiSDU bank accounts.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

* See glossary at end of report for definition.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 4 findings and 4 corresponding recommendations. DHS's preliminary response indicated that it agrees with 3 of the recommendations and disagrees with 1 recommendation.

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 the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require DHS to develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Michigan State Disbursement Unit, Office of Child Support, Department of Human Services (431-0142-08), in December 2009. Within the scope of this audit, we followed up the prior audit recommendation. DHS complied with the recommendation as it related to 5 of the 9 parts of the prior audit finding. The other 4 parts of the finding were rewritten for inclusion as Findings 1 through 4 of this report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS IN MONITORING SERVICE PROVIDER'S COLLECTION AND DISBURSEMENT OF CHILD SUPPORT REMITTANCES

COMMENT

Background: The Michigan State Disbursement Unit (MiSDU) monitors its service provider's collection and disbursement of child support remittances in a variety of ways, including obtaining and reviewing the annual SAS 70 report of the service provider, obtaining and reviewing performance information provided by the service provider, and analyzing bank account information.

In its review of the annual SAS 70 reports, MiSDU reviews the scope and objectives of the SAS 70 examination with its service provider and reviews the final published report to determine if there were any items noted that would require further follow-up from the service provider. MiSDU generally looks to ensure that deficiencies are not identified in the subsequent SAS 70 report.

The service provider prepares and distributes various reports to MiSDU, including reports containing information obtained from the service provider's quality assurance sampling and testing. MiSDU reviews the reports for reasonableness and uses the performance information to determine if the service provider met key benchmarks outlined in the contract, such as the number of sample items tested, the number of errors identified in testing, and the calculated accuracy rate. MiSDU follows up with the service provider if key benchmarks are not met or if any of the information appears unreasonable. MiSDU tracks certain information provided in the reports to determine activity over a period of time and follows up with the service provider if the information does not appear to follow its usual trend. In addition, MiSDU monitors customer service calls and make whole funding* as reported by its service provider, which could identify errors in payments and system processing after the payment has occurred.

Audit Objective: To assess the effectiveness of MiSDU's efforts in monitoring its service provider's collection and disbursement of child support remittances.

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

Audit Conclusion: We concluded that MiSDU's efforts in monitoring its service provider's collection and disbursement of child support remittances were effective. However, our assessment disclosed four reportable conditions* related to SAS 70 monitoring, receipts subject to the service provider's quality assurance process, the service provider's bond and insurance coverage, and disclosed case reviews (Findings 1 through 4).

FINDING

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 controls of its operating system and its critical applications. Improvement in the SAS 70 examination would help provide MiSDU with assurance that the service provider's processes and controls over its operating system and critical applications are sufficient to ensure the security and reliability of the data processed, maintained, and reported by the system and its applications.

Section 1.022H(6) of the contract requires the service provider to provide for a Type II SAS 70 examination annually with the scope of the examination to be defined by the service provider and concurred with by the State. A Type II SAS 70 examination is an engagement that reviews and tests the effectiveness of a service provider's general and application controls based on the American Institute of Certified Public Accountants Statement on Auditing Standards No. 70, as amended. A Type II SAS 70 report includes the service provider's description of its 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 controls.

We obtained the SAS 70 reports of the service provider's operations for the periods October 1, 2007 through September 30, 2008 and October 1, 2008 through September 30, 2009. In addition, we obtained from the service provider the planned additions 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, Department of Human Services (431-0142-08). The

* See glossary at end of report for definition.

SAS 70 report for this period will not be issued prior to completion of fieldwork for this audit.

Our review of the SAS 70 reports and other corrective action provided by the service provider disclosed:

- a. 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 part 1.a. of our prior audit finding, the service provider did include manual key control activities, such as the hard copy 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) is 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.
- b. MiSDU could improve the effectiveness of the SAS 70 examination of its service provider by ensuring that key control activities related to segregation of duties are identified for review in the SAS 70 examination. In response to part 1.a. of the prior audit finding, 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 his/her duties and access are appropriate to prevent him/her from performing incompatible duties, would help to ensure proper segregation of duties.

Although the service provider did add some manual key control activities related to our 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 identifies and includes in future SAS 70 examinations key controls related to system controls within the operating system or application.

RECOMMENDATION

We recommend that MiSDU improve the effectiveness of the SAS 70 examination of its service provider by ensuring that it includes testing of all key general controls of its operating system and its critical applications.

AGENCY PRELIMINARY RESPONSE

MiSDU agrees with the finding and recommendation.

MiSDU informed us that it will evaluate if changes are necessary as the service organization transitions from the SAS 70 review to Statement on Standards for Attestation Engagements (SSAE) No. 16.

FINDING

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 that uses sampling but does not ensure that the sample(s) 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.

One of MiSDU's primary oversight tools to evaluate the service provider's performance is the service provider's quality assurance process. Section 1.022I(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 provider conducts random sampling of payments posted and reports the results of its quality assurance sampling to 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 posted on the current day as well as all pre-ten items* that are posted on that day. MiSDU uses the reports to ensure that the service provider is meeting established performance requirements. Our review

* See glossary at end of report for definition.

disclosed that the service provider did not maintain documentation to show when samples were obtained for quality assurance testing and what time frame the samples 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.

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 either to 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.

In following up the service provider's assertion that the sample items were reviewed as they were pulled, we reviewed 10 days to determine if the service provider subjected to sample all of the payments posted for the day. We determined 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%) of 10 days reviewed, we noted that the percentages of payments posted that were not subject to review ranged from 5.8% to 60.8%.

We noted similar issues in our prior audit. As a result of our 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. We noted that a later sample was pulled on 3 (60%) of the 5 days in which over 5% of the payments posted for that day were not subject to review. MiSDU staff stated that the service provider samples more than the required number of sample items each day to achieve the required confidence level of 98%. 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.

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.

RECOMMENDATION

We recommend that MiSDU 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.

AGENCY PRELIMINARY RESPONSE

MiSDU disagrees with the finding and recommendation.

MiSDU informed us that it believes the sampling process provides a high level of assurance that child support payments processed throughout the day are accurate and complete.

MiSDU indicated that transactions are randomly selected for the quality assurance review throughout the day, which begins with the first mail delivery at approximately 4:00 a.m. Transactions are generally processed until 2:00 p.m. to 2:30 p.m. The current time frames and the sampling process were established to ensure that 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 implementation of the later sample pull, was reviewed by a statistician and found to be statistically valid.

MiSDU also informed us that, given the percentage of transactions processed after the last sample pull and additional assurances, MiSDU believes that the risk is minimal. MiSDU indicated that 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.

FINDING

3. Service Provider's Bond and Insurance Coverage

MiSDU did not ensure that the service provider's procedures for providing documentation of bond and insurance coverage complied with the contract. As a result, the State does not have assurance that sufficient bond and insurance coverage continued beyond the expiration dates.

Section 2.131 of the contract requires the service provider to provide general liability insurance with designated coverage amounts. The contract further states that the service provider is required to provide proof of the minimum levels of insurance coverage. In addition, Section 2.133 of the 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 policy not less than 20 days before the insurance expiration date.

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.

The service provider's process stipulates that it provides a copy of the most recent insurance certificates on file to MiSDU on a yearly basis, every June 30th. We reviewed the required bond and insurance certificates for our audit period and determined that they expired at different times throughout the year, some as early as nine months prior to the June 30th due date.

MiSDU staff informed us that they rely on the service provider to develop adequate procedures to meet contract requirements. Reviewing the service provider's procedures and reviewing the bond and insurance 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.

RECOMMENDATION

We recommend that MiSDU ensure that the service provider's procedures for providing documentation of bond and insurance coverage comply with the contract.

AGENCY PRELIMINARY RESPONSE

MiSDU agrees with the finding and recommendation.

MiSDU indicated that the service provider submitted documentation to the Department of Technology, Management & Budget in a timely manner and maintained appropriate coverage for the audit period.

MiSDU informed us that it 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. 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.

FINDING

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.

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 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 Michigan Child Support Enforcement System (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 the annual disclosure form, or require inclusion of the new or additional cases in subsequent monthly disclosed case reviews. In our review of MiSDU's monitoring process, we 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.

MiSDU informed us that Office of Child Support (OCS) staff have 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 hotline 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.

RECOMMENDATION

We 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.

AGENCY PRELIMINARY RESPONSE

MiSDU agrees with the finding and recommendation.

MiSDU informed us that it will issue quarterly announcements to the MiSDU service provider to update the Michigan child support case disclosure form (DHS-428). MiSDU must rely on self-disclosure because of variables that do not allow for any other means to identify a case in which a conflict of interest could be present (a staff person's neighbor, a relative with a different last name, etc.).

**EFFECTIVENESS IN MONITORING
THE ACCURACY AND COMPLETENESS
OF THE BANK ACCOUNTS USED TO ACCOUNT
FOR CHILD SUPPORT ACTIVITIES**

COMMENT

Background: OCS monitors the accuracy and completeness of the bank accounts used to account for child support activities in a number of ways, including obtaining and reviewing daily bank account reconciliations of the service provider and reconciling service provider activity with MiCSES and the MiSDU bank accounts (see supplemental information).

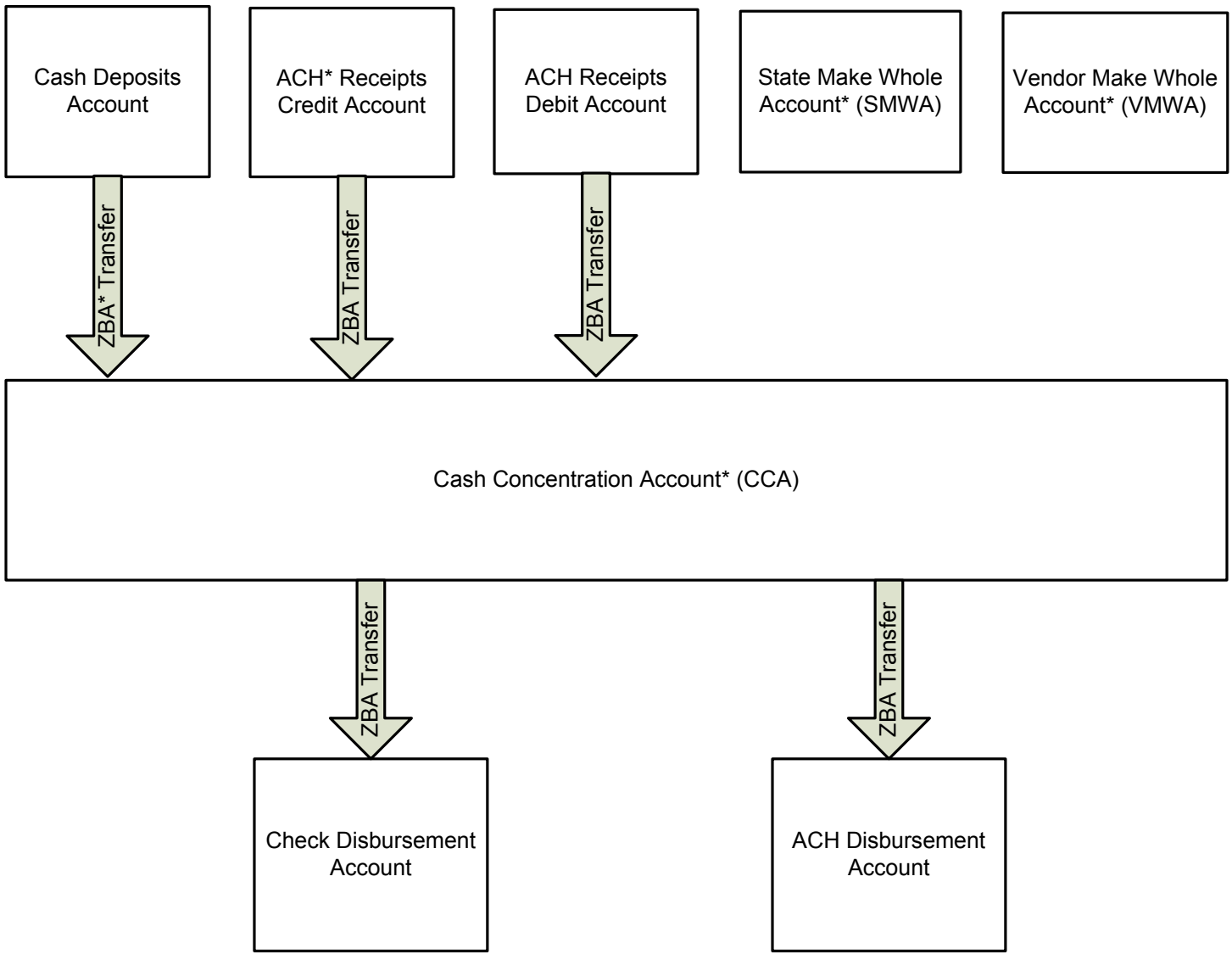
Audit Objective: To assess the effectiveness of OCS's efforts in monitoring the accuracy and completeness of the bank accounts used to account for child support activities.

Audit Conclusion: We concluded that OCS's efforts in monitoring the accuracy and completeness of the bank accounts used to account for child support activities were effective. Our audit report does not include any reportable conditions related to this audit objective.

SUPPLEMENTAL INFORMATION

MICHIGAN STATE DISBURSEMENT UNIT (MiSDU)
Office of Child Support
Department of Human Services

MiSDU Banking Model



Source: Informatix (MiSDU service provider).

* See glossary at end of report for definition.

GLOSSARY

Glossary of Acronyms and Terms

Automated Clearing House (ACH)	A system of the U.S. Federal Reserve Bank that provides electronic funds transfer (EFT) between banks. It is used for all kinds of fund transfer transactions, including direct deposit of paychecks and monthly debits for routine payments to vendors.
Cash Concentration Account (CCA)	A cash management account in which funds are periodically transferred from various bank accounts, wire transfer, or ACH into a single account so that cash can be fully invested when not needed for disbursement.
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.
DHS	Department of Human Services.
effectiveness	Success in achieving mission and goals.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
make whole funding	Monies used to fund matters such as the correction of errors made, insufficient funds, and fraudulent activity.

Michigan Child Support Enforcement System (MiCSES)	A Statewide automated information system that OCS, county prosecuting attorney offices, and county Friend of the Court offices use to perform critical child support functions, including case initiation, parent locate, paternity establishment, court order establishment, and child support collection and distribution.
Michigan State Disbursement Unit (MiSDU)	The centralized collection, processing, and disbursement unit for child support payments in Michigan.
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 (OCS)	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 program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.
pre-10 items	Items held for 10 days or less for further research due to insufficient identifying information. See definition of "unidentified child support remittances."
reportable condition	A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are

inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

SAS 70 report

Statement on Auditing Standards (SAS) No. 70 report. SAS No. 70 provides guidance for independent auditors who issue reports on the processing of transactions by a service organization for use by other auditors. There are two types of SAS 70 reports. A "report on controls placed in operation" contains a description of the service organization's controls that may be relevant to a user of the service organization's internal control. A "report on controls placed in operation and tests of operating effectiveness" states whether controls were suitably designed to achieve specified control objectives, whether they had been placed in operation as of a specific date, and whether the controls that were tested were operating with sufficient effectiveness.

State Make Whole Account (SMWA)

Monies retained by the State to fund matters such as the correction of errors made, insufficient funds, and fraudulent activity.

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.

**Vendor Make Whole
Account (VMWA)**

Monies maintained by the vendor service provider to fund matters such as the correction of errors made, insufficient funds, and fraudulent activity.

**Zero Balance Account
(ZBA)**

A checking account that maintains a zero balance. At the close of each business day, funds are automatically transferred from the accounts used to collect child support and to the cash concentration account. In addition, funds are transferred into disbursement ZBA accounts in amounts only large enough to cover amounts presented for payment during the day.

