



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

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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:
431-0142-12

Released:
October 2012

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. This performance audit was required by Section 400.238(3) of the Michigan Compiled Laws.

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. Our audit report does not include any reportable conditions related to this audit objective.

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Audit Objective:

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

Audit Conclusion:

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

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Audit Objective:

To assess the effectiveness of MiSDU's efforts to optimize electronic remittances of child support withheld by employers for noncustodial parents.

Audit Conclusion:

We concluded that MiSDU's efforts to optimize electronic remittances of child support withheld by employers for noncustodial parents were effective. Our audit report does not include any reportable conditions related to this audit objective.

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

October 18, 2012

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 is issued pursuant to Section 400.238(3) of the *Michigan Compiled Laws*, which requires an audit to be conducted of the Michigan State Disbursement Unit no less than every two years by the Auditor General or an independent public accounting firm appointed by the Auditor General.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and prior audit follow-up; comments; the Michigan State Disbursement Unit banking model, presented as supplemental information; and a glossary of acronyms and terms.

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

Sincerely,


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

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Description of Agency

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 654B 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.

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. In April 2010, OCS renewed the contract with the service provider to continue its operation of MiSDU through September 2016. MiSDU, within OCS, oversees the contract with the service provider and the service provider's operations.

MiSDU's service provider receives child support remittances from, and on-behalf of, noncustodial parents in a variety of methods, including paper payments (personal checks, cashier's checks, certified checks, money orders, and cash) and electronic payments (Automated Clearing House* [ACH] transfers, wire transfers, and credit card payments through the telephone and Internet). The majority of remittances come from

* See glossary at end of report for definition.

employers of noncustodial parents. Michigan does not mandate employers of noncustodial parents to remit child support electronically. Fourteen states in the United States have such mandates.

MiSDU's service provider develops a daily electronic file of child support remittances that is transferred to the Michigan Child Support Enforcement System* (MiCSES). Based on the remittance information transferred from MiSDU, MiCSES determines the appropriate allocation and distribution of the daily remittances based on federal regulations and then returns a disbursement file to MiSDU. The service provider distributes disbursements of child support remittances to the custodial parent by means of a check, debit card, or direct deposit. MiSDU's service provider also operates a research department, customer call center, employer outreach department, and quality assurance department.

DHS paid the service provider \$15.1 million during the period June 1, 2010 through May 31, 2012 for services it 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 \$2.6 billion of child support remittances received during the period June 1, 2010 through May 31, 2012.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology 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 for child support activities.
3. To assess the effectiveness of MiSDU's efforts to optimize electronic remittances of child support withheld by employers for noncustodial parents.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan State Disbursement Unit administered by the Office of Child Support. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives. Our audit procedures, conducted from May through August 2012, generally covered the period June 1, 2010 through May 31, 2012.

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.

* See glossary at end of report for definition.

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 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 MiSDU's contract with the service provider.

To accomplish our first audit objective, we examined the contract between MiSDU and its service provider, including amendments to the contract. We assessed and observed MiSDU's internal control* related to the accurate and timely processing of child support remittances and disbursements, including MiSDU's efforts to monitor the service provider's processing of remittances and disbursements. We examined the SAS 70 report* and SSAE 16 report* of the service provider and assessed MiSDU's review of the service provider's reports. We selected and tested a random sample and performed analytical review of child support remittances with sufficient, identifying information processed at MiSDU. We assessed various processes in identifying, correcting, and reporting processing errors, including assessing the validity of the service provider's random sampling quality assurance process. We performed analytical review procedures to analyze processing errors identified by the service provider's quality assurance processes. We assessed the appropriateness of MiSDU staff access and capabilities within 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 processes related to reconciling the bank accounts used for child support activities. We selected a random sample and performed reviews 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 staff access and capabilities related to the MiSDU bank accounts.

* See glossary at end of report for definition.

To accomplish our third audit objective, we examined the contract requirements between MiSDU and its service provider applicable to the service provider's activities to optimize electronic remittances of child support withheld by employers. We assessed the service provider's processes and procedures and evaluated MiSDU's efforts to monitor the service provider's outcomes* related to these activities. We reviewed documentation of MiSDU's past efforts to seek legislation to mandate electronic remittances by employers. We obtained and reviewed information for other states' reported electronic remittances of child support and reviewed other states' legislative requirements for mandating employer electronic remittances.

Prior Audit Follow-Up

We released our prior performance audit of the Michigan State Disbursement Unit, Office of Child Support, Department of Human Services (431-0142-10), in April 2011. DHS complied with 2 of the 4 prior audit recommendations, and we determined that the other 2 recommendations were no longer applicable.

* See glossary at end of report for definition.

COMMENTS

EFFECTIVENESS OF EFFORTS 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. MiSDU's service provider obtains an annual SSAE 16 examination conducted by an independent service auditor. MiSDU reviews the annual SSAE 16 report to determine if there are any items noted that would require further follow-up from the service provider. In addition, MiSDU generally looks to ensure that deficiencies noted in the SSAE 16 report are not identified again in the subsequent SSAE 16 report.

MiSDU's 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 service provider's 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 collection and disbursement information provided in the reports to monitor 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 help MiSDU identify errors in payments and system processing after the payments have occurred.

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. Our audit report does not include any reportable conditions* related to this audit objective.

* See glossary at end of report for definition.

EFFECTIVENESS OF EFFORTS IN MONITORING THE ACCURACY AND COMPLETENESS OF THE BANK ACCOUNTS USED FOR CHILD SUPPORT ACTIVITIES

COMMENT

Background: The Office of Child Support (OCS) monitors the accuracy and completeness of the bank accounts used 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 the Michigan Child Support Enforcement System (MiCSES) and the MiSDU bank accounts (see MiSDU banking model, presented as supplemental information).

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

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

EFFECTIVENESS OF EFFORTS TO OPTIMIZE ELECTRONIC REMITTANCES OF CHILD SUPPORT WITHHELD BY EMPLOYERS FOR NONCUSTODIAL PARENTS

COMMENT

Background: MiSDU's service provider is contracted to increase employers' use of electronic methods to remit child support withholdings to MiSDU. Each quarter, MiSDU's service provider identifies the top 100 employers that remitted child support withholdings using nonelectronic methods and employs outreach activities and support efforts designed to encourage the employers to convert to electronic remittance methods. MiSDU monitors the service provider's outcomes related to increasing employer electronic remittances by obtaining and reviewing performance information provided by the service provider.

Audit Objective: To assess the effectiveness of MiSDU's efforts to optimize electronic remittances of child support withheld by employers for noncustodial parents.

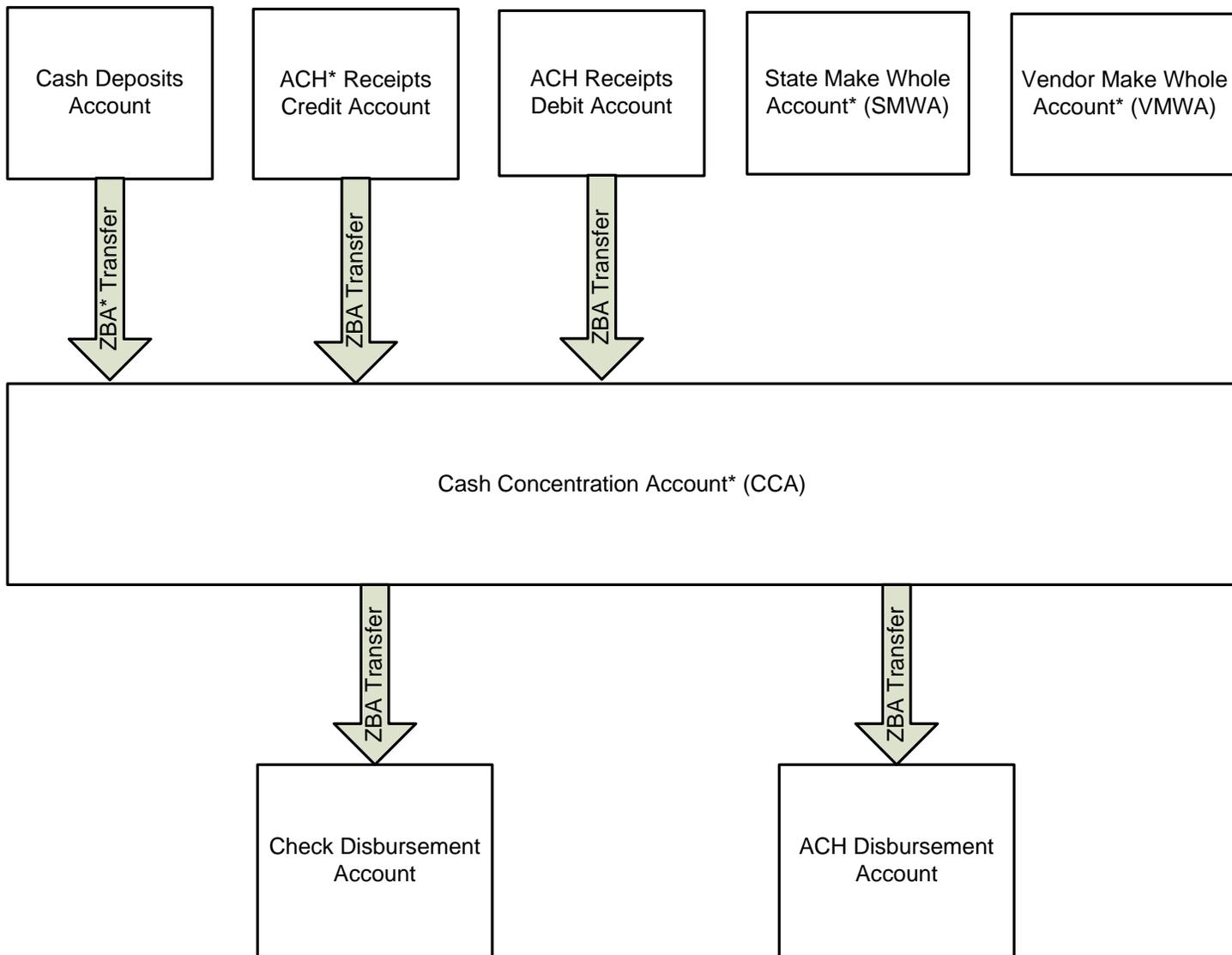
Audit Conclusion: We concluded that MiSDU's efforts to optimize electronic remittances of child support withheld by employers for noncustodial parents were effective. Our audit report does not include any reportable conditions related to this audit objective.

SUPPLEMENTAL INFORMATION

MICHIGAN STATE DISBURSEMENT UNIT (MiSDU)

Office of Child Support
Department of Human Services

MiSDU Banking Model



Source: 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 funds 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, 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.
outcome	An actual impact of a program or an entity.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and 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 audit objectives; 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 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.

SSAE 16 report

Statement on Standards for Attestation Engagements (SSAE) No. 16 report. SSAE No. 16 provides guidance for independent auditors who issue reports on the controls at a service organization. There are three Service Organization Control (SOC) reports. The SOC 1 report is a report on controls at a service organization relevant to user entities' internal control over financial reporting. The SOC 2 report is a report on controls at a service organization relevant to security, availability, processing integrity, confidentiality, or privacy. The SOC 3 report is a trust services report for service organizations. This is similar to a SOC 2 report but does not contain all the details of controls and detailed tests of controls that a SOC 2 report contains.

State Make Whole Account (SMWA)	Monies maintained by the State to fund matters such as correction of State errors, insufficient funds, and fraudulent activity.
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.
Vendor Make Whole Account (VMWA)	Monies maintained by the vendor service provider to fund the correction of vendor service provider errors.
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 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.

