



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF THE

MICHIGAN STATE DISBURSEMENT UNIT

OFFICE OF CHILD SUPPORT
DEPARTMENT OF HUMAN SERVICES

August 2014



Doug A. Ringler, C.P.A., C.I.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

Report Number:
 431-0142-14

Michigan State Disbursement Unit

*Office of Child Support
 Department of Human Services*

Released:
 August 2014

The Office of Child Support (OCS), Department of Human Services (DHS), contracts with a vendor to operate the Michigan State Disbursement Unit (MiSDU). The MiSDU vendor 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		Audit Conclusion	
Objective 1: To assess the effectiveness of OCS's efforts to ensure the accurate and timely disbursement of child support collections.		Effective	
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Our audit report does not include any findings related to this audit objective.	Not applicable	Not applicable	Not applicable

Audit Objective		Audit Conclusion	
Objective 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.		Effective	
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Our audit report does not include any findings related to this audit objective.	Not applicable	Not applicable	Not applicable

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AUDITOR GENERAL

August 29, 2014

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; a description; our audit objectives, scope, and methodology; comments; and a glossary of abbreviations and terms.

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

Sincerely,

A handwritten signature in cursive script that reads "Doug Ringler".

Doug Ringler
Auditor General

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OFFICE OF CHILD SUPPORT
DEPARTMENT OF HUMAN SERVICES**

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Description

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.

Act 161, P.A. 1999, authorized the Department of Human Services (DHS) to establish the Michigan State Disbursement Unit* (MiSDU) as the State's centralized collection and disbursement unit for all child support remittances. The DHS Office of Child Support* (OCS) contracts with a vendor to operate the MiSDU. The contract between OCS and the vendor allows the vendor to continue its operation of MiSDU through September 2016. OCS staff oversee the contract with the MiSDU vendor and the MiSDU vendor's operations. The MiSDU vendor centrally collects and disburses child support remittances in accordance with federal child support enforcement program requirements.

The MiSDU vendor 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 employers of noncustodial parents.

* See glossary at end of report for definition.

The MiSDU vendor 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 MiSDU vendor distributes disbursements of child support remittances to the custodial parent by means of a check, debit card, or direct deposit. The MiSDU vendor also operates a research department, customer call center, employer outreach department, and quality assurance department.

DHS paid the MiSDU vendor \$15.0 million during the period June 1, 2012 through May 31, 2014 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 operations.

MiSDU collected and processed \$2.6 billion of child support remittances received during the period June 1, 2012 through May 31, 2014.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology

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 OCS's efforts to ensure the accurate and timely disbursement of child support collections.
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 records and processes related to the Department of Human Services' administration of the Michigan State Disbursement Unit. 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, which included a preliminary survey, audit fieldwork, report preparation, and quality assurance, generally covered the period June 1, 2012 through May 31, 2014.

Audit Methodology

We conducted a preliminary survey of MiSDU operations to gain an understanding of MiSDU activities in order to establish our audit objectives and methodology. During our preliminary survey, we:

- Interviewed OCS and MiSDU vendor staff.
- Reviewed and conducted an on-site observation of MiSDU processes and procedures.

* See glossary at end of report for definition.

- Obtained an understanding of applicable federal regulations, State statutes, and OCS and the MiSDU vendor's policies and procedures.
- Obtained an understanding of the requirements set forth in the contract between OCS and the MiSDU vendor.

We used the results of our preliminary survey to determine the extent of our detailed analysis and testing, which is described below.

To accomplish our first objective, we:

- Examined the contract executed between OCS and the MiSDU vendor, including amendments made to the contract.
- Assessed and observed OCS's and the MiSDU vendor's internal control* related to receipting and disbursing of child support remittances.
- Reviewed the SOC 1* type 2 reports of the vendor.
- Assessed OCS's review of the MiSDU vendor's SOC 1 type 2 reports to determine if OCS reviewed key general and application controls.
- Selected 65 child support remittances received by MiSDU and traced the remittances through the Michigan Child Support Enforcement System (MiCSES) to disbursement to determine the timeliness of remittance disbursement.
- Reviewed the MiSDU vendor's quality assurance processes to identify processing errors.
- Reviewed the MiSDU vendor's random sampling quality assurance process.
- Performed analytical review procedures of processing errors identified by the MiSDU vendor's quality assurance process to ensure that the vendor was reporting the correct accuracy rate to OCS.

* See glossary at end of report for definition.

- Reviewed the MiSDU vendor's customer service operations, including its call center and Web site, to ensure compliance with contract requirements.
- Assessed the appropriateness of all OCS and MiSDU vendor staff access and functionality in the various information technology* (IT) systems used to process child support remittances.
- Selected 5 days of child support remittances sent to MiSDU research to determine the appropriateness of the additional research and follow-up.
- Selected 73 child support remittances sent to MiCSES for additional research to determine the appropriateness of the additional research and follow-up.
- Assessed the MiSDU vendor's business continuity/disaster recovery/plan, IT data systems backup procedures, and physical access controls.

To accomplish our second objective, we:

- Assessed and observed OCS's internal control related to monitoring the bank accounts used for child support activities.
- Selected 10 daily OCS bank reconciliations and conducted a review of the reconciliations performed on the various MiSDU bank accounts.
- Assessed the appropriateness of all OCS and MiSDU vendor staff access and capabilities in the MiSDU bank accounts.
- Reviewed quarterly collateral reviews conducted by OCS to ensure that the MiSDU vendor maintained sufficient collateral over the MiSDU bank balances throughout the audit period.
- Reviewed the MiSDU check stock inventory process and conducted an inventory of check stock.

* See glossary at end of report for definition.

COMMENTS

EFFECTIVENESS OF EFFORTS TO ENSURE THE ACCURATE AND TIMELY DISBURSEMENT OF CHILD SUPPORT COLLECTIONS

COMMENT

Background: The Office of Child Support (OCS) monitors the Michigan State Disbursement Unit (MiSDU) vendor's collection and disbursement of child support remittances in a variety of ways, including obtaining and reviewing the annual SOC 1 type 2 report of the vendor, obtaining and reviewing performance information provided by the vendor, and analyzing bank account information.

Audit Objective: To assess the effectiveness of OCS's efforts to ensure the accurate and timely disbursement of child support collections.

Audit Conclusion: **We concluded that OCS's efforts to ensure the accurate and timely disbursement of child support collections were effective.** Our audit report does not include any findings related to this audit objective.

Factors leading to this conclusion included:

- The MiSDU vendor disbursed child support remittances received for the period June 1, 2012 through March 31, 2014 at a 99.9% accuracy rate.
- The MiSDU vendor disbursed 98.5% of the child support remittances that we sampled within the two-day federal requirement.
- Only 1.3% of child support remittances that MiSDU received needed additional research in order to post to the correct case.
- MiSDU vendor's quality assurance process helps to ensure that child support payments are posted accurately.

EFFECTIVENESS OF EFFORTS 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 vendor and reconciling vendor activity with the Michigan Child Support Enforcement System (MiCSES) and the MiSDU bank accounts.

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 for child support activities were effective.** Our audit report does not include any findings related to this audit objective.

Factors leading to this conclusion included:

- OCS conducted daily bank account reconciliations of the MiSDU bank accounts.
- Our review did not identify errors in OCS's daily bank account reconciliations.
- OCS maintained sufficient internal control over access rights to the various bank accounts used by MiSDU.

GLOSSARY

Glossary of Abbreviations 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.
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.
information technology (IT)	Any equipment or interconnected system that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information. It commonly includes hardware, software, procedures, services, and related resources.
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 also 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.

material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
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 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.

SOC 1 report

A report prepared in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 16 in which an independent auditor reports on management's description of a service organization's system and the suitability of the design of controls (a type 1 report). The auditor may be engaged to also test and report on the operating effectiveness of those controls (a type 2 report).

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.

