

Office of the Auditor General
Performance Audit Report

Michigan State Disbursement Unit
Office of Child Support
Michigan Department of Health and Human Services

February 2019

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.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Report Summary

Performance Audit

Michigan State Disbursement Unit (MiSDU)

Office of Child Support (OCS) Michigan Department of Health and Human Services (MDHHS)

Report Number:
431-0142-18

Released:
February 2019

OCS contracts with a vendor to operate MiSDU. The MiSDU vendor centrally collects and disburses child support remittances in accordance with federal child support enforcement program requirements and Public Act 161 of 1999. The MiSDU vendor collected and processed 18 million child support remittances totaling \$2.6 billion between June 1, 2016 and May 31, 2018.

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

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of OCS's efforts to ensure the accurate receipt and timely disbursement of child support remittances by the MiSDU vendor.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.			Not applicable.

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of OCS's efforts in monitoring the accuracy and completeness of the bank accounts used to record child support financial activities.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.			Not applicable.

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Doug A. Ringler, CPA, CIA
Auditor General

February 21, 2019

Mr. Robert Gordon, Director
Michigan Department of Health and Human Services
South Grand Building
Lansing, Michigan

Dear Mr. Gordon:

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

This report is issued pursuant to Section 400.238(3) of the *Michigan Compiled Laws*, which requires an audit 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.

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

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

ACCURATE RECEIPT AND TIMELY DISBURSEMENT OF CHILD SUPPORT REMITTANCES

BACKGROUND

Federal law requires states to operate a central unit to collect and disburse certain child support* remittances. In addition, federal law requires that state disbursement units must be able to process all remittances received with complete information within two business days after receipt and to use automated data processing to the greatest extent possible.

The Office of Child Support (OCS), Michigan Department of Health and Human Services (MDHHS), 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. OCS staff monitor the vendor's operations and oversee the contract.

The MiSDU vendor receives child support remittances from, and on behalf of, parents in a variety of methods, including paper payments (personal checks, cashier's checks, money orders, and cash) and electronic payments (Automated Clearing House* [ACH] transfers, wire transfers, and credit card payments through telephone and Internet). The vendor processes the daily child support remittances and develops an electronic file that transfers the remittance information to MDHHS's Michigan Child Support Enforcement System* (MiCSES). MiCSES receives the daily remittance file and determines the allocation and distribution amount(s) based on the amount remitted, the child support order*, and various other factors related to the child support case. The MiCSES allocation process is external to MiSDU operations. MiCSES then transfers an electronic disbursement file reflecting the allocations and resulting distributions back to the MiSDU vendor for its disbursement of the child support remittances to parents by means of a check, debit card, or direct deposit.

In addition to processing child support receipts and disbursements, the MiSDU vendor's operations also include a research department, customer call center, and quality assurance department.

The MiSDU vendor collected and processed 18 million child support remittances totaling \$2.6 billion between June 1, 2016 and May 31, 2018.

AUDIT OBJECTIVE

To assess the effectiveness* of OCS's efforts to ensure the accurate receipt and timely disbursement of child support remittances by the MiSDU vendor.

* See glossary at end of report for definition.

CONCLUSION

Effective.

**FACTORS
IMPACTING
CONCLUSION**

- For child support remittances received from June 1, 2016 through May 31, 2018, the MiSDU vendor:
 - Accurately disbursed 99.9% of child support remittances received.
 - Timely disbursed 100% of sampled child support remittances requiring disbursement within two days.
 - Posted 98.6% of all of the child support remittances that it received to the appropriate child support case without any additional research efforts.
 - Maintained sufficient IT processes and controls to help ensure that child support payments were posted accurately.

MONITORING OF BANK ACCOUNTS USED TO RECORD CHILD SUPPORT FINANCIAL ACTIVITIES

BACKGROUND

OCS monitors the accuracy and completeness of the bank accounts used to record child support financial activities in a number of ways, including obtaining and reviewing daily bank account reconciliations of the vendor and reconciling vendor activity with 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 record child support financial activities.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- OCS conducted daily bank account reconciliations of the MiSDU bank accounts, and our review did not identify errors in the daily bank account reconciliations tested.
- OCS maintained sufficient internal control* over access rights to the bank accounts and check stock used by MiSDU for child support activities.

* See glossary at end of report for definition.

AGENCY 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. Also, 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*. Public Act 161 of 1999 authorized MDHHS to establish MiSDU as the State's centralized collection and disbursement unit for all child support remittances.

MDHHS paid the MiSDU vendor \$11.8 million between June 1, 2016 and May 31, 2018 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 operations.

* See glossary at end of report for definition.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the records and processes related to OCS's administration of MiSDU. 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.

OCS's MiCSES determines the amount of child support to be disbursed to a parent based on the amount remitted, the child support order, and various other factors related to the child support case. Our audit was not directed toward reaching a conclusion regarding the accuracy of the MiCSES determined distribution amounts and, accordingly, we provide no such conclusion.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, and quality assurance, generally covered June 1, 2016 through May 31, 2018.

METHODOLOGY

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

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

OBJECTIVE #1

To assess the effectiveness of OCS's efforts to ensure the accurate receipt and timely disbursement of child support remittances by the MiSDU vendor.

* See glossary at end of report for definition.

To accomplish this objective, we:

- Examined the contract executed between OCS and the MiSDU vendor, including amendments made to the contract.
- Observed and assessed OCS's and the MiSDU vendor's internal control related to the receipting and disbursing of child support remittances.
- Reviewed the System and Organization Controls* (SOC) 1 type 2 reports of the vendor, applicable to the audit period.
- Analyzed 65 randomly sampled child support remittances from the 18 million that MiSDU received and traced the remittances to the MiCSES disbursement file to determine the timeliness of disbursements.
- Reviewed the MiSDU vendor's methods to identify processing errors, including the vendor's random sampling quality assurance processes.
- Applied analytical review procedures to the population of identified processing errors to evaluate whether the MiSDU vendor was reporting the correct accuracy rate to OCS.
- Reviewed the MiSDU vendor's customer service operations, including its call center and Web site, to evaluate compliance with contract requirements.
- Analyzed a total of 50 judgmentally and randomly sampled child support remittances from the 251,036 remittances that the MiSDU vendor sent to MiCSES for additional research to determine the appropriateness of the vendor's requests for additional research and follow-up.
- Assessed the appropriateness of OCS and MiSDU vendor staff access to functionality in the various IT systems used to process child support remittances and disbursements.
- Reviewed the MiSDU vendor's business continuity and disaster recovery (BCDR) plan, IT data systems backup procedures, and physical access control and observed a test of the BCDR conducted by the vendor during the audit period.
- Reviewed the MiSDU vendor's employee background check process. In addition, using the Michigan Department of State Police's Internet Criminal History

* See glossary at end of report for definition.

Access Tool (ICHAT), we conducted checks for 17 key MiSDU vendor and OCS staff to verify the effectiveness of the background check process.

Our random samples were selected to eliminate any bias and enable us to project the results to the population. We selected other samples judgmentally and, therefore, could not project those results to the respective populations.

OBJECTIVE #2

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

To accomplish this objective, we:

- Observed and assessed OCS's internal control related to monitoring the bank accounts used for child support financial activities.
- Judgmentally sampled and examined 4 of the 730 daily OCS bank reconciliations performed for various MiSDU bank accounts during the audit period.
- Judgmentally sampled and analyzed 10 daily bank deposits to verify the timeliness of the deposits.
- Assessed the appropriateness of all OCS and MiSDU vendor staff access to and capabilities in the MiSDU bank accounts.
- Reviewed the MiSDU check stock inventory process and performed an inventory of the check stock.
- Analyzed 1 of the 9 quarterly collateral reviews conducted by OCS and examined the daily collateral balance for the entire audit period to ensure that the MiSDU vendor maintained sufficient collateral over the MiSDU bank balances throughout the audit period.

The results from our judgmental samples could not be projected to the respective populations.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions*.

**AGENCY
RESPONSES**

Not applicable.

**PRIOR AUDIT
FOLLOW-UP**

Our prior performance audit of MiSDU, issued in October 2016, contained no findings.

* See glossary at end of report for definition.

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 fund transfer transactions, including direct deposit of paychecks and monthly debits for routine payments to vendors.
BCDR	business continuity and disaster recovery.
child support	The payment of money for a child that is ordered by the circuit court. Child support may include the payment of medical, dental, other health care, child care, and educational expenses.
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, child care, confinement expenses, custody, and parenting time.
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 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.
IT	information technology.
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. Our assessment of materiality is in relation to the respective audit objective.
MDHHS	Michigan Department of Health and Human Services.
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.

OCS

Office of Child Support.

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.

System and Organization Controls (SOC) report

Designed to help organizations that provide services to user entities build trust and confidence in their delivery processes and controls through a report by an independent certified public accountant (CPA). Each type of SOC report is designed to meet specific user needs:

- SOC 1 (Report on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting) - Intended for user entities and the CPAs auditing their financial statements in evaluating the effect of the service organization's controls on the user entities' financial statements.
- SOC 2 (Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy) - Intended for a broad range of

users that need information and assurance about a service organization's controls relevant to any combination of the five predefined control principles.

There are two types of SOC 1 and SOC 2 reports:

- Type 1 - Reports on the fairness of management's description of a service organization's system and the suitability of the design of the controls to achieve the related control objectives included in the description, as of a specified date.
- Type 2 - Includes the information in a type 1 report and also addresses the operating effectiveness of the controls to achieve the related control objectives included in the description, throughout a specified period.
- SOC 3 (Trust Services Report for a Service Organization) - Intended for those needing assurance about a service organization's controls that affect the security, availability, or processing integrity of the systems a service organization employs to process user entities' information, or the confidentiality or privacy of that information, but do not have the need for or the knowledge necessary to make effective use of a SOC 2 report.
- SOC for Cybersecurity - Intended to communicate relevant information about the effectiveness of an organization's cybersecurity risk management programs.

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.



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