

Office of the Auditor General

Performance Audit Report

Michigan State Disbursement Unit

Office of Child Support
Michigan Department of Health and Human Services

September 2022

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



OAG

Office of the Auditor General

Report Summary

Performance Audit

Michigan State Disbursement Unit (MiSDU)

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

Report Number:
431-0142-21

Released:
September 2022

MDHHS's 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. Between June 1, 2018 and May 31, 2021, MiSDU vendors collected and processed 27.8 million child support remittances totaling \$4.1 billion.

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
For the MiSDU staff we reviewed with access to systems for the receipt, processing, and disbursement of child support payments: <ul style="list-style-type: none">14% lacked a required confidentiality agreement.18% were assigned conflicting roles.14% had privileged access that did not align with their job responsibilities (Finding 1).		X	Agrees

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.

Obtain Audit Reports

Online: audgen.michigan.gov

Phone: (517) 334-8050

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

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

September 21, 2022

Ms. Elizabeth Hertel, Director
Michigan Department of Health and Human Services
South Grand Building
Lansing, Michigan

Dear Ms. Hertel:

This is our performance audit report on the Michigan State Disbursement Unit, Office of Child Support, Michigan Department of Health and Human Services. This performance audit is required by Section 400.238(3) of the *Michigan Compiled Laws*.

We organize our findings and observations by audit objective. Your agency provided the preliminary response to the recommendation at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendation and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.

Sincerely,

Doug Ringler
Auditor General

TABLE OF CONTENTS

MICHIGAN STATE DISBURSEMENT UNIT

	<u>Page</u>
Report Summary	1
Report Letter	3
Audit Objectives, Conclusions, Findings, and Observations	
Accurate Receipt and Timely Disbursement of Child Support Remittances	8
Findings:	
1. Improved monitoring of child support information system user access needed.	10
Monitoring of Bank Accounts Used to Record Child Support Financial Activities	13
Agency Description	14
Audit Scope, Methodology, and Other Information	15
Glossary of Abbreviations and Terms	19

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. In addition, the MiSDU vendor's operations include a research department, customer call center, and quality assurance department. OCS staff monitor the MiSDU vendor's operations and oversee the contract. During the audit period, MiSDU transitioned operations to a new contracted vendor.

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 telephone and Internet). The MiSDU 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, determines the appropriate allocation and distribution amounts for each remittance, and returns to the MiSDU vendor an electronic disbursement file reflecting the allocations and distributions to custodial parents by means of a check, debit card, or direct deposit. The MiCSES allocation and distribution determination process is external to MiSDU operations.

The primary information systems used by the MiSDU vendor to process child support collections are MiCSES, KidSTAR, and OpenKey. MiCSES is MDHHS's child support case management system that tracks all child support collection and distribution activities. KidSTAR and OpenKey are the MiSDU vendor developed systems used to receipt, process, and disburse child support payments. These systems contain sensitive and confidential child support data, including personally identifiable, financial, and/or federal tax information.

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

The MiSDU vendors collected and processed 27.8 million child support remittances totaling \$4.1 billion between June 1, 2018 and May 31, 2021.

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.

CONCLUSION

Effective.

**FACTORS
IMPACTING
CONCLUSION**

- The MiSDU vendors:
 - Accurately posted the amount received and disbursed the MiCSES calculated payment amounts for all child support remittances reviewed.
 - Timely disbursed 99% of sampled child support remittances requiring disbursement within two days.
 - Consistently provided OCS with required reports to monitor compliance with significant contractual requirements.
- OCS:
 - Contractually required and ensured the MiSDU vendors regularly reported on compliance for significant activities including, but not limited to, payment processing and disbursement activities, quality assurance activities, IT operational activity, mailroom activities, and customer service activities.
 - Took appropriate actions for all instances of significant noncompliance in sampled reports.
- Reportable condition* related to OCS's monitoring of child support information system user access controls* (Finding 1).

* See glossary at end of report for definition.

FINDING 1

Improvements needed in monitoring MiSDU vendor staff access to child support information systems.

Confidentiality agreements were not in place for 14% of sampled users.

OCS should enhance its monitoring of child support information system user access controls for MiSDU vendor staff. Doing so would provide increased assurance that access to sensitive and confidential child support data is appropriate for MiSDU users' job responsibilities and the integrity* of child support collections and disbursement information is protected.

MDHHS's information systems access control policy requires it to protect the confidentiality* and integrity of information by implementing safeguards to manage and enforce authorizations to information and system resources. This policy is reinforced by MDHHS's Michigan IV-D Child Support Manual regarding access to systems with child support data and by the contract between MDHHS and the MiSDU vendor that requires the vendor's systems to comply with applicable Department of Technology, Management, and Budget (DTMB) policies outlined in the State of Michigan (SOM) technical standards.

We reviewed OCS's monitoring and selected access controls related to MiSDU vendor staff for MiCSES, KidSTAR, and OpenKey. MiSDU had 90 unique users with access to one or more of these systems as of the date of our review. We noted:

- a. Confidentiality agreements were not in place for 10 (14%) of the 74 unique sampled users reviewed.

MDHHS's Michigan IV-D Child Support Manual requires all MiSDU staff to complete a confidentiality agreement at hire and annually to be allowed access to systems with child support data.

- b. OCS did not ensure the MiSDU vendor fully complied with SOM technical standards regarding access controls and/or had in place compensating monitoring controls for its KidSTAR and OpenKey systems. Our review determined:

- (1) Four (18%) of 22 sampled user accounts were assigned conflicting roles, and the vendor had not maintained documentation to support that it monitored these users' activities to ensure adequate segregation of duties* existed.

SOM technical standards indicate that segregation of duties must be implemented through assigned information system access. In addition, the U.S. Government Accountability Office's Federal Information System Controls Audit Manual* recommends that compensating controls, such as additional monitoring and supervision, should be in place where segregation of duties' conflicts exist.

- (2) Three (14%) of 22 sampled user accounts had privileged access that did not align with the user's job responsibilities to comply with the principle of least privilege*.

* See glossary at end of report for definition.

SOM technical standards require employment of the principle of least privilege that permits only authorized access for users which are necessary to accomplish assigned tasks in accordance with roles and responsibilities of job functions.

- (3) A semiannual review of all user accounts with privileged access was not conducted to ensure the users' access remained appropriate.

SOM technical standards require a review of accounts for compliance with account management requirements at a minimum of semiannually for privileged accounts.

OCS informed us the lack of confidentiality agreements was an oversight, and it relied on the MiSDU vendor to determine appropriate access for a user's job responsibilities and conduct periodic monitoring of users' access to KidSTAR and OpenKey.

RECOMMENDATION

We recommend that OCS enhance its monitoring of child support information system user access controls for MiSDU vendor staff.

AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

MDHHS agrees.

The oversight for maintaining confidentiality agreements and compliance with access control standards occurred during and soon after a complex transition to a new MiSDU vendor pursuant to a competitive rebid of the contract. The complexity of transition activities was exacerbated due to global COVID-19 pandemic related restrictions in place during the time. Assigning conflicting roles temporarily is essential for critical and time-sensitive tasks. The vendor monitored user activity daily, however, the monitoring activities were not documented. Privileged user access is now reviewed upon initial access request and quarterly thereafter for appropriateness. Pursuant to the successful transition and implementation of all services to the new vendor, procedures and practices have been strengthened to maintain compliance and document monitoring activity.

- a. *The vendor has implemented a process that ensures confidentiality forms are included as part of the onboarding process for all new hires.*
- b. *MDHHS has implemented periodic reviews of vendor documentation of evidence of monitoring of conflicting roles and reviews of user accounts with privileged access.*
 - *Assigning conflicting roles temporarily is essential for critical and time-sensitive tasks. The vendor did have in place daily monitoring of activities of the*

users. The vendor, however, did not document the completion of these activities.

- *Pursuant to implementation and stabilization of transition activities the vendor has implemented additional steps and reviews to ensure that privileged user access, when requested, is appropriate and authorized. Additionally, the vendor has implemented periodic review procedures for ensuring principle of least privilege.*

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 several 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 reconciliations of the MiSDU bank accounts, and our review did not identify errors in any sampled daily bank account reconciliations.
- OCS provided limited access rights to the MiSDU bank accounts used by the MiSDU vendor and OCS staff for child support activities, commensurate with their assigned duties.
- OCS ensured that all sampled outgoing ACH transfers initiated by the MiSDU vendor were properly approved by OCS staff.

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 the establishment of MiSDU as the State's centralized collection and disbursement unit for all child support remittances.

MDHHS paid the MiSDU vendors \$16.5 million from June 1, 2018 through May 31, 2021 for services provided. The Office of Child Support Enforcement*, U.S. Department of Health and Human Services, and the State General Fund provide 66% and 34%, respectively, to fund 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 MDHHS'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 findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

MDHHS'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 allocation and distribution amounts and, accordingly, we provide no such conclusion.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined all components were significant.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered June 1, 2018 through May 31, 2021.

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.
- Obtained an understanding of the requirements set forth in the contracts between OCS and the MiSDU vendors.
- Gained an understanding of applicable federal regulations, State statutes, and OCS and MiSDU vendors' policies and procedures.
- Reviewed and conducted on-site observations of pertinent MiSDU processes and procedures.
- Familiarized ourselves with OCS's transition activities related to the change in MiSDU vendors that occurred during the audit period.

* See glossary at end of report for definition.

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.

To accomplish this objective, we:

- Examined the contracts executed between OCS and each of the MiSDU vendors, including amendments made to the contracts.
- Observed and assessed relevant OCS and MiSDU vendor internal control* related to the receipting and disbursing of child support remittances including, but not limited to, significant quality assurance processes.
- Judgmentally selected 21 of 939 days from June 1, 2018 through May 31, 2021 in a manner to ensure we reviewed remittances reflective of MiSDU operations across the entire period. We randomly sampled a total of 100 child support remittances from the 734,679 processed by the MiSDU vendors on the selected days and traced the remittance amount to:
 - Supporting documentation to determine the accuracy of the remittance amounts posted by the MiSDU vendors and sent to MiCSES.
 - The disbursement date within MiCSES to determine the accuracy and timeliness of the MiSDU vendors' disbursement of the remittances.
- Analyzed selected MiSDU vendor contract and reporting requirements for key activities including, but not limited to, payment processing and disbursement activities, mailroom activity, IT operational activity, quality assurance payment processing and disbursement activities, and customer service activities. We reviewed a random sample of 100 required reports out of a population of 1,242 for the selected key activities from June 1, 2018 through May 31, 2021 to evaluate:
 - The MiSDU vendors' compliance with selected contractual and reporting requirements.
 - Whether OCS responded appropriately to occurrences of noncompliance.
- Assessed selected MiCSES, KidSTAR, and OpenKey user access controls related to MiSDU staff's processing of child support remittances and disbursements for:
 - All 67 MiSDU employees with MiCSES access as of May 31, 2021.

* See glossary at end of report for definition.

- 16 randomly and judgmentally selected KidSTAR users from the population of 57 users as of May 31, 2021.
- 6 randomly selected OpenKey users from the population of 60 users as of May 31, 2021.
- Evaluated the appropriateness of individuals' physical access to the current MiSDU vendor's payment processing and disbursement operations facilities.
- Observed the current MiSDU vendor performing a test exercise of its business continuity and disaster recovery plan that focused on demonstrating functionality of payment processing.

The results from our judgmental samples could not be projected to the respective population, and the use of random sampling enabled us to project the results to the respective population.

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 and randomly sampled and examined 5 of the 1,096 daily OCS bank reconciliations performed for various MiSDU bank accounts during the audit period.
- Assessed the appropriateness of OCS and MiSDU vendor staff access to and capabilities in the MiSDU bank accounts.
- Examined the daily collateral balance for the audit period to determine whether the MiSDU vendors consistently maintained sufficient collateral over the MiSDU bank balances.
- Judgmentally and randomly sampled 10 of the 394 ACH transfers out of State bank accounts that occurred between June 1, 2018 and May 31, 2021 to determine whether sampled outgoing transfers were properly initiated and approved according to OCS policy.
- Randomly sampled 5 days from the 132 days the current MiSDU vendor printed disbursement checks and verified the accuracy of the check stock inventory for each sampled day.

The results from our judgmental samples could not be projected to the respective population, and the use of random sampling enabled us to project the results to the respective population.

CONCLUSIONS

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

AGENCY RESPONSES

Our audit report contains 1 finding and 1 corresponding recommendation. MDHHS's preliminary response indicates that it agrees with the recommendation.

The agency preliminary response following the recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.

PRIOR AUDIT FOLLOW-UP

Our prior performance audit of MiSDU, issued in February 2019, contained no findings.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

access controls	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
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.
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, childcare, and educational expenses.
child support order	A written court order that provides for 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.
confidentiality	Protection of data from unauthorized disclosure.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
Federal Information System Controls Audit Manual	A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with <i>Government Auditing Standards</i> .
integrity	Accuracy, completeness, and timeliness of data in an information system.
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.
principle of least privilege	The practice of limiting access to the minimal level that will allow normal functioning. Applied to employees, the principle of least privilege translates to giving people the lowest level of user access rights they can have and still do their jobs. The principle is also

applied to things other than people, including programs and processes.

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: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.

segregation of duties

Separation of the management or execution of certain duties or areas of responsibility to prevent or reduce opportunities for unauthorized modification or misuse of data or service; also known as separation of duties.

SOM

State of Michigan.

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.



Report Fraud/Waste/Abuse

Online: audgen.michigan.gov/report-fraud

Hotline: (517) 334-8070