

Office of the Auditor General

Performance Audit Report

Michigan State Disbursement Unit

Office of Child Support
Michigan Department of Health and Human Services

January 2026

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



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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:
491-0142-25

Released:
January 2026

MDHHS's OCS contracts with a vendor to operate MiSDU. The vendor centrally collects and disburses child support remittances in accordance with federal child support enforcement program requirements and applicable State laws. Between June 1, 2023 and May 31, 2025, the MiSDU vendor collected and processed 15.1 million child support remittances totaling \$2.4 billion.

This performance audit is required by Section 400.238(3) of *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
OCS did not obtain, evaluate, or document its review of assurance reports and/or underlying support for security certifications related to third-party sub-servicers' relevant controls. Taking these actions would increase OCS's assurance regarding the existence and functioning of controls relied upon for the State's timely and appropriate receipt and disbursement of child support remittances (Finding 1).		X	Disagrees
OCS's monitoring practices were not always sufficient to ensure MiSDU staff with key operational and vendor oversight responsibilities disclosed potential conflicts of interest for OCS's consideration (Finding 2).		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
See <u>Finding 2</u> .			

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Doug A. Ringler, CPA, CIA
Auditor General

January 16, 2026

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

Director 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 preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* require an audited agency to develop a plan to comply with the recommendations and submit it to the State Budget Office (SBO) upon audit completion. State administrative procedures require the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to the Office of Internal Audit Services (OIAS), SBO. Within 30 days of receipt, OIAS will 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

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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 state disbursement units 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 vendor centrally collects and disburses child support remittances in accordance with federal child support enforcement program requirements. In addition, the vendor's operations include a research department, customer call center, and quality assurance department. OCS staff monitor the vendor's operations and oversee the contract.

The vendor receives child support remittances from, and on behalf of, noncustodial parents* in a variety of methods, including paper payments (i.e., personal checks, cashier's checks, certified checks, money orders, and cash) and electronic payments (i.e., 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 to transfer 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 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.

The MiSDU vendor collected and processed approximately 15.1 million child support remittances totaling \$2.4 billion between June 1, 2023 and May 31, 2025.

* See glossary at end of report for definition.

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 vendor:
 - Accurately posted the amount received and disbursed the MiCSES calculated payment amounts for all child support remittances reviewed.
 - Timely disbursed 100% 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 vendor 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 conditions* related to OCS's monitoring of the MiSDU:
 - Vendor's sub-service organizations* and relevant related controls (Finding 1).
 - Employees' conflict of interest disclosures (Finding 2).

* See glossary at end of report for definition.

FINDING 1

Improvements needed in monitoring of the MiSDU vendor's sub-service organizations and their relevant related controls.

OCS needs to strengthen its monitoring of the MiSDU vendor's sub-service organizations and the relevant related controls. Strengthened monitoring would increase OCS's assurance regarding the existence and functioning of controls relied upon for the State's timely and appropriate receipt and disbursement of child support remittances.

OCS and State of Michigan requirements include the following:

- OCS contractually required the vendor to annually provide the State a System and Organization Controls (SOC) 2, type 2 report*, which provides reporting relevant to the control principles for the applicable trust services criteria of security*, availability*, processing integrity*, confidentiality*, and privacy.
- The State of Michigan Financial Management Guide (FMG) (Part VII, Chapter 1, Section 1000) requires each department to:
 - Establish and maintain a sound internal control* system over activities and transactions, including those managed by service organizations.
 - Utilize the results of reports issued in accordance with the American Institute of Certified Public Accountants' SOC reporting framework or alternative acceptable reports to gain assurances service organization controls are present and functioning as needed to provide the State assurance its interests are protected in an acceptable fashion. Consultation with the Office of Internal Audit Services (OIAS) is recommended when alternative assurance reports are to be used.
 - Consider and document conclusions regarding whether the servicer's and any related sub-servicer's controls are relevant to the department's control environment and document in its evaluation of the assurance report(s) whether the department was able to gain assurances regarding the relied upon servicer's and sub-servicer's controls.

OCS performed and documented its review of the MiSDU vendor's 2023 and 2024 SOC 2, type 2 reports; however, we noted:

- a. OCS did not consider and document its conclusions regarding sub-service organizations included in (not carved out of) the MiSDU vendor's SOC 2, type 2 reports. This included the sub-servicer relied upon for printing and mailing the physical disbursements of child support remittances.

* See glossary at end of report for definition.

The FMG and OIAS-developed SOC evaluation tool outlines instructions and requirements for *inclusive* (not carved out) sub-servicers. These sources indicate MDHHS should consider and document its conclusions regarding whether sub-servicers' controls are relevant to MDHHS's control environment and document in their evaluation of the SOC 2, type 2 report how these were resolved. The tool defines a sub-service organization as ". . .any cases where the service organization has in turn outsourced some of their control processes. . ." and specifically designates a space for management to describe how they are reviewing inclusive sub-service organization controls.

OCS informed us it primarily reviewed the carved-out section of the vendor's SOC 2, type 2 reports to identify sub-service organizations for its review. OCS also informed us it believed inclusion of the sub-service organization in the MiSDU vendor's SOC 2, type 2 report eliminated the need for separate documentation or evaluation in accordance with the FMG, OIAS guidance, and industry standards. However, this understanding is not in alignment with FMG and OIAS publicized guidance for State agencies.

- b. For the carved-out sub-service organization OCS identified with controls relevant to MiSDU operations, we noted OCS did not:
- Obtain for review the sub-servicer's SOC 2, type 2 report or an alternative assurance report to assess the impact on OCS's internal control over the receipt and disbursement of child support remittances.
 - Document how OCS gained assurances regarding the relied upon sub-servicer's controls.

OCS's review documentation indicated this sub-service organization possessed a federally accepted certification related to security and protection of information; therefore, OCS concluded it could rely on the relevant controls related to the sub-servicer obtaining this certification. However, the limited certification documentation OCS obtained for its review did not include a description of any deficiencies identified within the certification assurance review, or indicate no deficiencies were noted, to allow for an evaluation and documentation of potential impacts on MiSDU operations. In addition, the certification review included an evaluation of the security and protection of information; however, it did not include an evaluation of all of the trust services criteria provided for in a SOC 2, type 2 examination report.

- c. OCS relied on the MiSDU vendor to review its sub-servicer's SOC 2, type 2 reports to ensure control performance and effectiveness; however, OCS did not obtain documentation of and/or evaluate the vendor's review process, nor did the MiSDU vendor's 2024 SOC 2, type 2 report indicate the independent auditors verified the MiSDU vendor's assertions regarding its review of sub-servicers' SOC 2, type 2 reports.

We reported a similar condition in our May 2024 report.

RECOMMENDATION

We recommend OCS strengthen its monitoring of the MiSDU vendor's sub-service organizations and the relevant related controls.

**AGENCY
PRELIMINARY
RESPONSE**

MDHHS disagrees. Given the length of MDHHS's preliminary response, the response and our auditor's comments to Finding 1 are presented on the next page.

AGENCY PRELIMINARY RESPONSE

MICHIGAN STATE DISBURSEMENT UNIT Office of Child Support

Finding 1 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains MDHHS's preliminary response to Finding 1 and our auditor's comments providing further clarification and context where necessary.

Finding 1: Improvements needed in monitoring of the MiSDU vendor's sub-service organizations and their relevant controls.

MDHHS provided us with the following response:

AGENCY PRELIMINARY RESPONSE

MDHHS disagrees with the audit finding. MDHHS has complied with Financial Management Guide (FMG) requirements specific to monitoring the MiSDU vendor's sub-service organizations and relevant related controls. MDHHS properly documented MDHHS's review of the MiSDU vendor's contractually required Service Organization Control (SOC) assurance report and submitted the results to the Office of Internal Audit Services (OIAS) in accordance with the FMG.

Regarding item "a", the independent Certified Public Accounting (CPA) firm's inclusion of the subservice vendor in the SOC report, including a specific test conducted related to assurance that printing and mailing services were completed by the third-party vendor with no deviations noted, provides direct assurance to MDHHS that this activity was reviewed by the CPA firm, eliminating the need for separate documentation or evaluation in accordance with the FMG, OIAS guidance, and industry standards. MDHHS reviewed the results of this specific test and all other tests included within the SOC report and documented no exceptions noted on the SOC report review template that was submitted to OIAS.

AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE

As noted in the Finding, MDHHS did not comply with FMG requirements for monitoring the MiSDU vendor's sub-service organization. Specifically, MDHHS did not consider and document its conclusions regarding the MiSDU vendor's sub-service organizations and relevant related controls.

MDHHS's assertion that separate documentation or evaluation of the inclusive sub-service vendor was eliminated is contradictory to FMG and OIAS published guidance.

The FMG requires departments to **consider and document conclusions regarding** whether the servicer's and **any related sub-servicer's controls are relevant to the department's control environment and document in its evaluation of the assurance report(s) whether the department was able to gain assurances regarding the relied upon servicer's and sub-servicer's controls.** In addition, the OIAS-developed SOC evaluation tool provides further guidance for reviewing **inclusive** sub-servicers, including:

- Defining sub-service organizations as "any cases where the service organization has in turn outsourced some of their control processes."
- Dedicating and signifying an area within the review tool template specifically for describing how management is reviewing inclusive sub-service organization controls.

Further, as noted in the Finding, MDHHS's review documentation did not include information regarding its consideration of the CPA firm's evaluation and/or results for this sub-servicer.

MDHHS properly evaluated the sub-service organization that was identified as a carved-out organization in the independent auditor's report. The FMG does not require departments to address all five common criteria in a SOC 2 evaluation report, and it does not state that a SOC 2 evaluation report is the only certification acceptable. MDHHS complied with the FMG requirement specific to use of sub-services providers by evaluating the impact of the sub-service organization on the department's control environment and documenting conclusions in the SOC report review, in alignment with FMG expectations. MDHHS verified the federally approved FedRAMP certification of the subservice provider and determined that this certification was sufficient because the certification process explicitly addresses any identified deficiencies as part of its structured security assessment and continuous monitoring. FedRAMP certification also requires ongoing monitoring and testing to maintain/retain certification and it provides a high level of assurance that a cloud service provider meets rigorous federal cybersecurity standards for protecting sensitive government data. This determination was made in consultation with the OIAS.

As reported in part b. of the Finding, OCS did not obtain the sub-servicer's SOC 2, type 2 report nor the report(s) underlying the sub-servicer's Federal Risk and Authorization Management Program (FedRAMP) certification. In addition, although OCS concluded it could rely on the relevant controls within the sub-servicer's FedRAMP certification, OCS did not describe the relied upon controls and their relevance to MiSDU's control environment or establish the assurances gained through the sub-servicer's FedRAMP certification.

FMG Sections 4.1 and 4.2 establish the expectation that regardless of whether OCS uses a SOC report or another assurance report (such as FedRAMP), it must document its consideration and conclusions about the relevance of the subservice provider's controls to the department's control environment and explain in its evaluation of the assurance report how these were resolved. Also, it is notable that MiSDU operations are impacted by all five common SOC 2 criteria principles including security, availability, processing integrity, confidentiality, and privacy and this sub-servicer's operational functioning impacts virtually every aspect of MiSDU operations. Therefore, prudent management practice would dictate OCS evaluate the relevance of these criteria principles in relation to the sub-servicer's controls, whether or not prescriptively required by the FMG. In addition, the significance of MiSDU's operations likely merits an assessment that exceeds OIAS's minimum requirements to fully evaluate the impact of the sub-servicers' controls on MiSDU operations and help ensure:

- MDHHS's continued ability to comply with federal and State mandates related to the timely and accurate disbursement of child support remittances.
- MDHHS consistently meets the needs of families dependent on MiSDU's operations.

Between June 1, 2023 and May 31, 2025, the MiSDU vendor collected and processed 15.1 million child support remittances totaling \$2.4 billion.

FedRAMP's website indicates that under certain circumstances certification can be achieved and maintained with identified deficiencies. In addition, OCS did not provide documentation to support it reviewed the underlying certification assurance report, or any other applicable sources, to identify any identified deficiencies and/or assess their relevancy to MiSDU operations. Further, although OCS's evaluation documentation stated reliance on the FedRAMP certification, the documentation did not:

- Delineate the sub-servicer's controls OCS relied upon.
- Describe how the sub-servicer's FedRAMP report (and/or a SOC 2 report) provided the State assurance related to relied upon controls.
- Indicate whether additional monitoring controls may be needed to fill any gaps not covered by the assurance reports (i.e., any of the common criteria relevant to MiSDU's controls but not covered in the assurance review reports).

We considered the agency response and based on our comments above, the finding stands as written.

FINDING 2

Improvement needed in OCS's monitoring of MiSDU employee conflict of interest disclosures.

OCS needs to improve its monitoring of MiSDU employees' conflict of interest disclosures to increase assurance it timely identifies employees with conflicts and implements applicable, mitigating controls.

The MDHHS Employee Handbook prohibits employees from engaging in actions that may constitute a conflict of interest with their employment. OCS MiSDU staff are responsible for various MiSDU operational and/or vendor monitoring activities.

We requested conflict of interest disclosure documentation for the 5 OCS employees responsible for MiSDU operational activities and/or oversight activities related to the MiSDU vendor. OCS was unable to provide a disclosure form or other relevant disclosure documentation for 1 (20%) of the 5 employees with a key operational and oversight role.

MDHHS informed us it did not have a process to monitor or periodically remind its employees of their disclosure responsibilities because it is the responsibility of the Michigan Civil Service Commission (MCSC) employees assigned to MDHHS's Office of Human Resources to gather and retain this information for MDHHS employees. MDHHS relied on MCSC processes, such as sending annual e-mails, to periodically remind its employees of their disclosure responsibilities. However, this practice was not sufficient to ensure MiSDU staff always disclosed conflicts of interest relative to the MiSDU vendor for OCS's consideration.

We reported this condition in our prior audit. In its August 2024 response, MDHHS indicated it agreed with the finding and had worked with MCSC to develop an internal process to obtain required conflict of interest disclosure forms for employees engaging with the MiSDU vendor.

RECOMMENDATION

We again recommend OCS improve its monitoring of MiSDU employees' conflict of interest disclosures.

AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

OCS agrees with the finding. OCS has submitted an updated conflict of interest disclosure form to MDHHS Office of Human Resources for the employee and no conflicts were identified. Since the prior audit, MDHHS Office of Human Resources established a process to send employees an annual reminder of disclosure responsibilities. OCS will continue to remind staff during required annual and quarterly trainings that conflict of interest forms must be submitted if there is a change in circumstances and a potential conflict exists.

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 MiSDU 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 bank accounts, and our review did not identify errors in any sampled daily bank account reconciliations.
- OCS provided limited access rights to the bank accounts used by the vendor and OCS staff for child support activities, in accordance with their assigned duties.
- OCS ensured all sampled outgoing ACH transfers initiated by the MiSDU vendor were properly approved by OCS staff.
- Reportable condition related to OCS's monitoring of MiSDU employees' conflict of interest disclosures (Finding 2).

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 each state to 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. MiSDU is directly responsible to OCS within MDHHS.

MDHHS paid the MiSDU vendor \$6.2 million from June 1, 2023 through May 31, 2025 for services provided. The Office of Child Support Services*, 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 that 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 custodial 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, 2023 through May 31, 2025.

METHODOLOGY

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

- Interviewed OCS and MiSDU vendor staff.
- Obtained an understanding of the requirements set forth in the contract between OCS and the vendor.
- Obtained an understanding of the applicable federal regulations, State statutes, and OCS and the vendor's policies and procedures.
- Reviewed and conducted on-site observations of pertinent processes and procedures.

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 vendor, including amendments made to the contract.
- Observed and assessed relevant OCS and vendor internal control related to the receipting and disbursing of child support remittances including, but not limited to, significant quality assurance and vendor monitoring processes.
- Randomly selected 20 of 627 days from June 1, 2023 through May 31, 2025 to ensure we reviewed remittances reflective of MiSDU operations across the entire period. We judgmentally and randomly selected a total of 60 child support remittances from the 510,695 processed by the MiSDU vendor on the selected days and traced the remittance amount to:
 - Supporting documentation to determine the accuracy of the remittance amounts posted by the vendor and sent to MiCSES.
 - The disbursement date within MiCSES to determine the accuracy and timeliness of the vendor's disbursement of the remittances.
- Analyzed selected vendor reporting requirements for key activities including, but not limited to, payment processing and disbursement activities, mailroom activity, IT operational activity, and quality assurance payment processing and disbursement activities. We reviewed a random and judgmental sample of 151 periodically required reports out of a population of 635 for the selected key activities from June 1, 2023 through May 31, 2025 to evaluate:
 - OCS's monitoring of the MiSDU vendor's compliance with selected reporting requirements.
 - Whether OCS responded appropriately to occurrences of noncompliance.
- Assessed selected MiCSES, KidSTAR, and OpenKey user access controls* related to MiSDU staff processing of child support remittances and disbursements for:
 - 12 randomly and judgmentally selected MiCSES users from the population of 55 with assigned roles during the audit period.
 - 16 randomly and judgmentally selected OpenKey users from the population of 64 with assigned roles during the audit period.

* See glossary at end of report for definition.

- 13 randomly and judgmentally selected KidSTAR users from the population of 47 with assigned roles during the audit period.
- 5 randomly and judgmentally selected terminated MiSDU and vendor employees from the population of 32 employees terminated during the period of June 1, 2023 through June 20, 2025.
- Reviewed all 9 MiSDU vendor quarterly user access review reports from April 1, 2023 through June 30, 2025 to verify MiSDU evaluated users' continued propriety of access to MiSDU systems.
- Verified MDHHS requested a fingerprint-based criminal history records check for 22 judgmentally and randomly sampled staff from the population of 69 MiSDU staff during the audit period.
- Evaluated the appropriateness of individuals' physical access to the MiSDU vendor's payment processing and disbursement operation facilities.
- Observed the MiSDU vendor performing 1 of 2 test exercises of its business continuity and disaster recovery plan conducted during the audit period that focused on demonstrating functionality of payment processing.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. We selected other samples judgmentally to ensure representativeness or based on risk and 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 key internal control activities related to monitoring the bank accounts used for child support financial activities.
- Judgmentally and randomly sampled and examined 8 of the 731 audit period calendar days to verify OCS:
 - Performed bank reconciliations for various MiSDU bank accounts.
 - Ensured the vendor consistently maintained sufficient collateral over the MiSDU bank balances and held allowable securities in accordance with the contract.

- Assessed the appropriateness of OCS and vendor staff access to and capabilities in the bank accounts as of May 2025.
- Judgmentally and randomly sampled and examined 8 of 76 ACH transfers out of State bank accounts occurring between June 1, 2023 and May 31, 2025 to determine whether outgoing transfers were properly initiated and approved according to OCS policy.
- Traced the 14 check disbursements from our sample of 60 child support remittances for Objective 1 to the applicable mailing reports to verify MiSDU's disbursement of the checks.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. We selected other samples judgmentally to ensure representativeness or based on risk and could not project those results to the respective populations.

CONCLUSIONS

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

AGENCY RESPONSES

Our audit report contains 2 findings and 2 corresponding recommendations. MDHHS's preliminary response indicates it disagrees with 1 recommendation and agrees with 1 recommendation.

The agency preliminary response following each 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* requires an audited agency to develop a plan to comply with the recommendations and to submit it to SBO upon audit completion. The State of Michigan Financial Management Guide (Part VII, Chapter 3, Section 100) requires the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to OIAS, SBO. Within 30 days of receipt, OIAS will either accept the plan as final or contact the agency to take additional steps to finalize the plan.

* See glossary at end of report for definition.

**PRIOR AUDIT
FOLLOW-UP**

Following is the status of the reported findings from our May 2024 performance audit of the Michigan State Disbursement Unit, Office of Child Support, Michigan Department of Health and Human Services (431-0142-23):

<u>Prior Audit Finding Number</u>	<u>Topic Area</u>	<u>Current Status</u>	<u>Current Finding Number</u>
1	Improvements needed in monitoring of the MiSDU vendor's sub-service organization controls.	Rewritten*	1
2	Improvements needed in OCS's monitoring of MiSDU employee conflict of interest disclosures.	Repeated*	2

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

access controls	Controls protecting data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
auditor's comments to agency preliminary response	Comments the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement.
Automated Clearing House (ACH)	A system of the U.S. Federal Reserve Bank providing 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.
availability	Timely and reliable access to data and information systems.
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 providing for periodic payment of money for the support of a child.
confidentiality	Protection of data from unauthorized disclosure.
effectiveness	Success in achieving mission and goals.
FedRAMP	Federal Risk and Authorization Management Program.
FMG	State of Michigan Financial Management Guide.
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, strategic plan, 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, in the auditor's judgment, which 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.

MCSC Michigan Civil Service Commission.

MDHHS Michigan Department of Health and Human Services.

Michigan Child Support Enforcement System (MiCSES) A Statewide automated information system 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 Services The agency within the U.S. Department of Health and Human Services that oversees the national child support program (formerly known as the Office of Child Support Enforcement).

OIAS Office of Internal Audit Services.

performance audit An audit which 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.

repeated	The wording of the current recommendation remains essentially the same as the prior audit recommendation.
reportable condition	A matter, in the auditor's judgment, 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.
rewritten	The recurrence of similar conditions reported in a prior audit in combination with current conditions warranting the prior audit recommendation to be revised for the circumstances.
SBO	State Budget Office.
security	Safeguarding an entity's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity.
sub-service organization	A service organization providing services to the primary service organization and may be specifically excluded in the scope and opinion of a SOC report. These organizations are usually mentioned in the audit opinion as a scope limitation of the report.
System and Organization Controls (SOC) 2, type 2 report	<p>Designed to help organizations providing services to user entities build trust and confidence in their delivery processes and controls through a report by an independent certified public accountant (CPA).</p> <p>SOC 2 (Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy) reports are intended for a broad range of users needing information and assurance about a service organization's controls relevant to any combination of the five predefined control principles.</p> <p>SOC 2, type 2, reports on the:</p> <ol style="list-style-type: none"> (1) Fairness of management's description of a service organization's system and the suitability of the design of controls to achieve the related control objective included in the description, as of a specified date. (2) The operative effectiveness of the controls to achieve the related control objectives included in the description, throughout a specified period.
Title IV-D	Refers to Title IV-D of the federal Social Security Act, which requires each state to create a program to locate noncustodial parents, establish paternity, establish and enforce child support obligations, and collect and distribute support payments.



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