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# **GUIDE FOR AUDITING STATE DISBURSEMENT UNITS**



**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**OFFICE OF CHILD SUPPORT ENFORCEMENT**

**OFFICE OF AUDIT**

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# **AUDITS OF STATE DISBURSEMENT UNITS (SDUs)**

## **CHAPTER I - INTRODUCTION**

### **PREFACE**

This guide presents background information and recommended audit steps for performing audits of a State's central collection and disbursement unit operated under the Title IV-D program as part of the systems certification review. This document provides guidance and standards to be used by the OCSE auditors during the PRWORA systems certification reviews under Objectives F-2 and H-2 of the document entitled, "Automated Systems for Child Support Enforcement: A Guide for States," revised April 1999, and updated December 1999 and August 2000. An audit will be performed in circumstances where a State received conditional certification due to SDU deficiencies, and the certification condition has not been lifted by August 2003. OCSE will conduct an audit of the SDU under the authority of section 452(a)(4)(C)(iii) of the Social Security Act. This guide parallels work that is performed by the OCSE Office of Audit during the SDU review as part of the Systems Certification Team during certification reviews. It expands upon that work.

This guide contains (1) background and authority for performing such audits; (2) the objectives of SDU audits; and (3) auditing standards and procedures that apply to this type of audit.

### **BACKGROUND**

Section 454B of the Social Security Act required States to establish a State Disbursement Unit (SDU) for the collection and disbursement of child support payments by October 1, 1998, or October 1, 1999, if payments were received by the courts. The SDU must process payments in all IV-D cases and in non-IV-D income withholding orders issued on or after January 1, 1994. The SDU must be operated by the State IV-D Agency or a contractor directly responsible to the agency. The SDU must post collection information directly into the State's automated child support enforcement system in IV-D cases, or post collection information to a front-end system and provide collection information in IV-D cases to the child support system through an electronic interface.

The SDU must use automated procedures, electronic processes, and computer-driven technology to the maximum extent feasible, efficient, and economical, for the collection and disbursement of support payments. Procedures usually include receipt and disbursement of all payments; accurate identification of payments; prompt disbursement of the custodial parent's share of any payment; and furnishing to any parent, upon request, timely information on the current status of payments under a support order. States are not required to convert and maintain in automated form records of payments in non-IV-D withholding cases before the effective date of the SDU. Refer to AT-97-13

“COLLECTION AND DISBURSEMENT OF SUPPORT PAYMENTS,” for more detail regarding SDU requirements.

As part of the PRWORA systems certification review, the auditors will perform an on-site visit of the SDU, even if the SDU functions are partially or fully performed by an outside entity, such as a contractor or another State agency.

## **OBJECTIVE**

This audit is not an audit of Child Support collections. The objective of the State Disbursement Unit Audit is to obtain reasonable assurance that the internal controls implemented by the IV-D Agency to safeguard assets including the recording, authorization, custody and execution of collections and the corresponding payments are functioning effectively as intended. However, because of inherent limitations in any internal control, errors or fraud may occur and not be detected by this audit.

## **SCOPE OF THE AUDIT**

### **AICPA Generally Accepted Auditing Standards**

The State Disbursement Unit Audit will be conducted in accordance with American Institute of Certified Public Accountants (AICPA) Generally Accepted Auditing Standards (GAAS). Although Certified Public Accountants (CPAs) are licensed by the state in which they practice, the most important influence on CPAs is exerted by their national professional organization, the American Institute of Certified Public Accountants (AICPA). The AICPA sets professional requirements for CPAs, conducts research, and publishes materials on many different subjects related to accounting, auditing, attestation and assurance services, management consulting services, and taxes. The AICPA is empowered to set standards (guidelines) and rules that all members and other practicing CPAs must follow. There are four major areas in which the AICPA has authority to set standards and make rules - auditing standards; compilation and review standards; other attestation standards; and the Code of Professional Conduct.

Auditing standards are general guidelines to aid auditors in fulfilling their professional responsibilities in the audit of financial statements. The Auditing Standards Board (ASB) is responsible for issuing pronouncements on auditing matters. These pronouncements are called Statements on Auditing Standards (SASs). The ASB and its predecessor organizations have been responsible for a considerable portion of the existing auditing literature used by the profession.

GAAS are too general to provide meaningful guidance to auditors in specific areas. More specific guidance is found in the SASs issued by the ASB of the AICPA. SASs interpret GAAS and are the most authoritative references available to auditors. These statements have the status of GAAS and are often referred to as auditing standards or GAAS, even though they are not part of GAAS. OCSE Office of Audit will conduct SDU

audits in accordance with SAS 55, "Consideration of the Internal Control Structure in a Financial Statement Audit" and SAS 60, "Communication of Internal Control Related Matters Noted in an Audit." SAS 60 requires the independent auditor to report to the audit committee (or its equivalent) all "reportable conditions" noted in the audit. A reportable condition is defined in SAS 60 as "a matter that represents a significant deficiency in the design or operation of the internal control which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements" (or Federal reports). The Auditing Standards Board recently issued SAS 78, which amends SAS 55. The purpose of the SAS 78 is to conform the definition of internal control to the one developed by the Committee of Sponsoring Organizations (COSO) in its document "Internal Control - An Integrated Framework." In so doing, the ASB concluded that internal control is not a structure. It is more of a process. Hence, the reversion to just "internal control."

Professional judgment must be used to adapt the standards to the specific environment being used. (Required per the General Standards of GAAS). **Elements of internal control of any organization include the control environment, the accounting system, and control procedures.**

**The control environment reflects management's attitude, awareness and actions taken concerning the importance of controls within the entity.** The accounting system consists of methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities. **Control procedures are those policies and procedures other than those in the control environment and accounting system that management has established to provide reasonable assurance that specific entity objectives will be achieved.** These procedures may be integrated into specific components of the control environment and accounting system.

Generally, control procedures pertain to:

- **Proper authorization of transactions and activities.**
- **Segregation of duties to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties – assigning different people to the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets.**
- **Design and use of adequate documents and records to help ensure the proper recording of transactions and events.**
- **Adequate safeguards over access to and use of assets and records, such as secured facilities and authorization for access to computer programs and data files.**
- **Independent checks on performance and proper valuation of recorded amounts, such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review**

**of periodic reports that summarize the detail of account balances, and user review of computer-generated reports.**

The auditor needs to consider factors that affect the risk of material misstatement of accounting records in attempting to understand the organization's internal control. Procedures to obtain an understanding of the controls within the SDU include inquiry of appropriate management, supervisory and staff personnel; inspection of entity documents and records; and observation of entity activities and operations.

SAS 55 states that internal control objectives can best be analyzed based on specific business activities. Groupings of similar functions are known as transaction cycles. SAS 55 specifies internal control policies for handling receipts and suggested tests of the control policies. These policies deal with Authorization, Validity, Proper Recording, Accountability and Comparison, and Protection and Limited Access. OCSE Office of Audit incorporates these procedures into our review of how the SDU processes and records child support collections.

**General Accounting Office Government Auditing Standards**

Audits will be performed in accordance with the "Government Auditing Standards, 1994 revision," issued by the Comptroller General of the United States as prescribed by section 452(a) 4 of the Social Security Act and this Audit Guide. The Government Auditing Standards, written by the General Accounting Office (GAO), also known as the "Yellow Book," are known as Generally Accepted Government Auditing Standards (GAGAS). The Yellow Book deals with internal controls over receipts in the Sections that deal with Internal Controls, specifically Sections 4.21 through 4.29. Section 4.21 states that AIPCA standards and GAGAS require that, "Auditors should obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed."

GAGAS do not prescribe additional internal control standards for financial statement audits. However, they provide guidance on aspects of internal control that are dealt with in SAS 55, including the control environment (Sections 4.23 and 4.24) and safeguarding controls (Sections 4.25 through 4.29).

**Compliance with the Code of Federal Regulations (CFR)**

45 CFR 302.20 "Separation of Cash Handling and Accounting Functions," specifically Section 302.20(a) states, "The IV-D agency will maintain methods of administration designed to assure that persons responsible for handling cash receipts of support do not participate in accounting or operating functions which would permit them to conceal in the accounting records the misuse of support receipts. Such methods of administration shall follow generally recognized accounting standards."

## **AUTHORITY FOR SYSTEMS CERTIFICATION REVIEW AND AUDIT**

The PRWORA systems certification process, including review of the State SDU, is conducted under the authority of section 454(24)(B) of the Act, and 45 CFR 302.85 (a)(2), which requires each State, by October 1, 2000, to have a Statewide computerized Child Support Enforcement system that meets all of the requirements of Title IV-D of the Act enacted on or before the date of enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, in accordance with 45 CFR 307.5, 307.11, and the document entitled, "Automated Systems for Child Support Enforcement: A Guide for States," revised April 1999, and updated December 1999 and August 2000.

State SDU audits are conducted under the authority of Section 452(a)(4)(c)(iii), Title IV, Part D of the Social Security Act (the Act). This authority provides that the Secretary's designee shall "conduct audits in accordance with the Government Auditing Standards of the Comptroller General of the United States...of the adequacy of the financial management of the State plan approved under this part for such other purposes as the Secretary may find necessary." The authority for OCSE to conduct such audits is also contained within 45 CFR 305.60(c).

## **CORRECTIVE ACTION PROVISION**

If the State fails the audit, the State will be subject to the corrective action and penalty provisions of section 409(a)(8) of the Act, which can result in a financial penalty and the amounts otherwise payable to the State under Title IV-A of the Act being reduced. In accordance with 45 CFR 305.66, if a State is found by the Secretary to be subject to a penalty, OCSE will notify the State in writing of such a finding. The State will have one year to make corrective action. If the State is found to have failed to correct the deficiency or deficiencies cited in the notice during the automatic corrective action year, a penalty will be assessed.

## **CHAPTER II - FUNCTIONS OF THE SDU**

The State Disbursement Unit is responsible for all facets of processing IV-D and employer withheld non-IV-D payments for the State's IV-D agency. The operational functionality at the SDU can typically be separated into 3 distinct, but related, areas:

- Collection processing and posting of payments, including Electronic Funds Transfer (EFT). **Our audit will focus on this area.**
- Customer Service, exceptions processing, research.
- Non-Sufficient Funds collections.

This audit is clearly not any review of the distribution of child support payments. The SDU is not responsible for distribution of IV-D collections. For those States with SDU exemptions that permit local disbursement, the OCSE audit will include a review of the disbursement at local offices. Most States use front-end systems to post payments and related information. At night, information on posted payments is entered to the State child support system through an electronic interface. The State system then runs Distribution daily for non-TANF collections and monthly for TANF collections.

Processes within the SDU include the following:

### **Mail Opening**

Mail Opening comes under the "custody" transaction component under Segregation of Duties. Unopened mail must come to the SDU. The mail will either be delivered by a bonded courier who picks up the mail from the post office in the early morning or picked up from the post office box by a designated employee. Only one post office box is required, but it is preferable for a State to have three different boxes – one for employer wage withholding payments, one for out-of-state payments, and one for noncustodial parent payments.

Mail should be opened, restrictively endorsed, sorted by type of remittance (wage withholding, out-of-state, NCP) and placed into batches of payments ready for posting. Any correspondence, such as coupons, should be kept with the check, for payment identification and entry. Batches should contain: a designated number of payments (often between 25 and 50); a batch card that states the number of items and total dollar amount in the batch; and a batch number. The batch should be logged in. During the process, items that cannot be receipted should be posted to an "unidentified" account and later processed by personnel that work "unidentified collections".

Each batch of payments should contain the same number of checks. As each batch is ready for processing, the mail opener should fill out a batch header card and the batch control log. These two items often provide the operation's initial accounting of payments received, and therefore serve as the basis of accounting controls throughout the operation. An individual who is not involved in opening the mail should run an

adding machine (or electronic spreadsheet) total of the checks in each batch. This person can also create a batch on the system, before posting. Once the batch header and control log have been completed, the batches should be passed on to another person or section for receipt posting.

### **Receipt Posting**

Receipt Posting comes under the recordkeeping transaction component under Segregation of Duties. This function should provide an efficient and accurate method for accurately capturing child support information included with each payment, while maintaining strict accounting controls. The receipt posting system should be designed specifically for processing child support payments. Many SDUs use a front-end system to initially post the payment. This is interfaced at night into the Statewide automated child support system, usually daily for non-TANF and monthly for TANF.

Some SDUs use a motorized check scanner, with software that recognizes payments based on the bank routing and bank account numbers identified by the scanner line on the bottom of the check. Using the information captured by the scanner, the application software is able to select and display child support payment information from a database. The application software should assign a unique transaction number to each payment processed. These unique numbers can be comprised of batch date, batch number, check within the batch, and transactions within the batch. Transaction numbers appear on the check endorsement and are transferred to the State system for a sound audit trail and simplified research.

The standard audit trail for each check received can contain the following information:

- Depositor bank name, depository bank routing number, depository bank account #;
- The unique transaction number assigned;
- Operator ID for the person processing the payment;
- Date and time processed.

If automated equipment is not used, checks and correspondence with the remittance may be copied. This is not a requirement of the SDU. At a minimum, each payment should be assigned a unique transaction number.

- Accounting controls must be an integral part of any application software used.
- The number of checks in the batch and/or the total dollar amount of checks in the batch should be compared to the totals actually processed by the system. (The adding machine tape (or electronic spreadsheet) totals should be compared to the totals produced by the system.) If totals from the posting are not equal, the user should receive a message indicating the discrepancy.

The application software may incorporate a database containing client information from both the State IV-D system and the court's mainframe application. This database can be used for data validation and to reduce data entry keystrokes and, subsequently, misposted payments.

Specific transaction data should be posted next. If money is posted to a case that is not on the database, a warning should be displayed. The database eliminates data entry keystrokes the first time a payment is processed at the SDU. This reduces time and error.

Steps in posting the receipt, using automated methods, usually include:

- Retrieve a batch. Record the worker taking the batch.
- Log onto the system's payment processing application.
- Enter the batch information (batch date, batch type, mail date, # of checks in batch).
- Scan the payment instrument – bank routing #, bank account #, check #. Verify that all necessary information was scanned.
- Manually enter items that cannot be scanned.
- Identify the payor: Case ID; SSN; court order number; name; account.
- Post the amount.
- Print the audit trail on the payment instrument.
- Close the batch.

NOTE: The "Automated Systems for Child Support Enforcement Guide for States," updated August 2000, under Section F-2 (f), requires that for each case, the system must maintain a payment history containing the following information on each payment: amount of the payment; date of collection; method of payment; date initially received in the State; and date of disbursement.

### **Imaging/Encoding**

This is used if the State has imaging technology. It is not a systems certification requirement. Once the checks have been entered onto the system, the checks may be amount-encoded and imaged and the source documents imaged. Encoding the checks provides an indexed, softcopy image of the item that can be used for future payment research. Tasks under this function include:

- Prepare batch separator pages.
- Encode payment instruments.
- Image payment instruments - This process captures images of the payment instruments by batch and encodes each payment instrument with the dollar amount of the payment instrument.
- Image source documents.

### **EFT Processing**

The system must offer all employers the option of using Electronic Funds Transfer/Electronic Data Interchange (EFT/EDI) using the CCD+ and CTX formats for the transmittal of income withholding. The system must also support the acceptance and disbursement of payments using Electronic Funds Transfer (EFT)/Electronic Data Interchange (EDI). The process for receiving and sending payments using EFT/EDI should briefly be reviewed during this audit.

**Deposit Preparation and Reconciliation**

Deposit preparation and reconciliation come under the authorization transaction component under Segregation of Duties. A section or person that is independent of the above processes should perform this process. The system should provide for prompt deposit of all collections, and for independent bank reconciliation. There also should be a daily reconciliation of the front-end system with the Statewide child support enforcement system.

## **CHAPTER III – AUDIT PROGRAM**

The steps to be performed in an SDU audit about the effectiveness of the SDU's internal controls are as follows:

### **Preliminary Audit Work**

1. Prior to initiation of the fieldwork, auditors should perform preliminary steps that will be of assistance in the overall performance of the audit. These steps should include a review of the OCSE Office of Audit "Guide for Auditing State Disbursement Units as Part of the Systems Certification Review" and prior OCSE audit findings, if applicable. Review any State auditor, Single Audit, or other audit reports. Review any updates to the PRWORA Certification Guide that may be posted on the OCSE website at [www.acf.dhhs.gov/programs/cse](http://www.acf.dhhs.gov/programs/cse). States should give particular attention to Appendix B, Guidance in Preparing for PRWORA Certification Reviews, and Appendix E, Questions and Answers. In addition, review the most recent version of the PRWORA certification findings to date. Consult with the DSTS National Lead person in charge of PRWORA certification to discuss any known SDU issues.
2. The auditor should discuss with Regional Office staff issues that may impact the audit.
3. Review the State responses to the systems certification questionnaire for Section F, "Financial Management and State Disbursement Unit." This should describe whether the SDU is part of the statewide CSE system or a separate system. The functions performed by the SDU (i.e. billing, EFT/EDI) should be explained. The questionnaire for this objective should provide a breakout of the number of payments processed by the SDU categorized by IV-D, Non-IV-D, wage withholding, EFT/EDI, mailed payments, cash payments, and the number and percentage of payments still being sent to the wrong address.
4. If the SDU is outside the statewide system, obtain a description of the interface between the front-end system and the State system, including transmission medium, frequency. Review the description of the interface between the State or contractor front-end system and statewide system as it relates to providing payment information to the statewide CSE system, including how that information is transmitted to the statewide CSE system. (i.e. frequency and method).
5. If the SDU is contracted out, obtain a copy of the State's contract with the vendor to see what functions the SDU is required to perform.
6. If the State was granted an exemption for SDU requirements by OCSE, obtain a copy of the exemption. Evaluate the type of exemption, any time-oriented limitations and special conditions stated in the exemption. If the State has an exemption for a portion of the SDU function, specific audit steps would then be written to provide for the review of this exemption or alternative process or configuration that does not

meet the standard SDU definition or requirements. The remaining audit steps in the guide would be followed as applicable in reviewing the State's SDU.

## **Obtain an Understanding of Internal Control**

The auditor should obtain detailed information about the transactions, their flow through the system, transaction related audit objectives, and control activities used to achieve control. The following auditing procedures will be performed to obtain an understanding of the internal controls:

1. Complete the OCSE Office of Audit's SDU Internal Control Questionnaire. This will highlight processes and procedures used within the system and the personnel that perform various functions. This document can also be used to respond to the PRWORA systems questionnaire objectives F-2 and H-2.
2. Review the vendor's or State's written procedures manual for operations within the SDU. This should summarize processes within the SDU, job functions within the SDU and levels of responsibility, among others.
3. Review the SDU's written procedures to determine if they require that all SDU employees with access to or control over funds collected under the child support enforcement program are covered by a bond against loss resulting from employee dishonesty in an amount which the State IV-D agency deems adequate to indemnify the IV-D program for loss. This is required under 45 CFR 302.19.
4. Walk through the SDU facility to determine whether internal controls that address the physical security access to the facility have been implemented. During the walk-thru, the auditor should determine whether the following security requirements have been met:
  - a) The SDU area should be restricted and located in a self-contained area that only performs SDU functions.
  - b) It must be locked to outsiders. Cameras are encouraged, but not required.
  - c) Have floor to ceiling walls, or walls that are 7 to 8 feet high.
  - d) Security type doors, and a locking system for all doors, such as card key locks or push button code locks.
  - e) Access to the SDU must be limited to SDU staff and other appropriate accounting and management personnel.
  - f) All payment processing activities that involve checks, money orders, etc, including the opening of mail, must take place within the SDU. (In a few States, mail is received and sorted elsewhere. However, it must be opened within the SDU by authorized staff.)
  - g) The SDU must have a safe for keeping processed checks, money orders and cash until taken to the bank. In addition, checks, money orders and cash not processed during the day received must be stored in a safe overnight.

- h) If support payments are received at a cashier's window outside of the SDU, the cashier must have a safe or security type file cabinet to keep the payments until taken to the SDU for processing.
  - i) SDU personnel should work at desks without drawers, where funds could be concealed. Preferably, personal belongings should be kept outside the SDU.
5. The SDU should issue a standard form letter to all non-custodial parents and employers directing them to send payment to the SDU Post Office Box address and to make checks payable to the State Child Support Enforcement Agency. This letter should have been sent when the SDU was established. However, the letter should be sent to new employers and non-custodial parents who send support payments to the wrong location, such as a local clerk of court. Payment in person should be discouraged unless the SDU or State office has a cashier's window where payments can be made. If not, clients should be directed to make their next payment to the appropriate post office box number. Obtain a copy of the standard letter.

### **Evaluate the Operating Effectiveness of Controls**

1. Ensure that immediately upon opening the mail, all checks should be endorsed "for deposit only" to the appropriate bank, "to be credited to the account of the State of XXXXX." This is usually done as part of an automated process.
2. Ensure that when dealing with cash or checks over the counter, a prenumbered receipt should be issued to the person making the payment, with one copy filed for review by an independent person. A person receiving payment at a cashier's office cannot post a payment to a batch due to required segregation of duties.
3. Ensure that payments received by mail are:
  - Date stamped with date of receipt. (This is part of restrictive endorsement.)
  - Recorded to a department-maintained batch log, listing the date, the initials of the employee opening the mail, and the amount of the payment.

NOTE: Some parts of this step may be performed in a more highly automated environment, but similar results should be obtained through the automated equipment, such as scanners.

4. Ensure that all collections are secured in a safe that is not movable.
5. Ensure that duties are segregated in accordance with 45 CFR 302.20, "Separation of cash handling and accounting functions," which says that the State is required to maintain methods of administration to assure that persons responsible for handling cash receipts of support do not participate in accounting or operating functions which would permit them to conceal in the accounting records the misuse of support receipts. As stated in the "Objectives of the Audit" section, an individual should not have responsibility for more than one of the three transaction components: authorization, custody, and recordkeeping. Specific segregation of duties include:

- a) Opening mail, preparing batches
- b) Running an adding machine tape (or electronic spreadsheet) of checks in a batch and creating a batch on the system;
- c) Posting the batch, including unidentified collections;
- d) Depositing the collections;
- e) Preparing daily and monthly reconciliations;
- f) Working unidentified collections.

An individual should not participate in more than one area of payment processing, to the greatest extent that this is possible considering the size of the SDU and staff resources. If the SDU staffing is very limited, it is the responsibility of management to seek ways to most reasonably segregate job functions using available resources.

- 6. Ensure that individuals receiving collections or making deposits should not be involved in reconciliations.
- 7. Ensure that an audit trail exists for when receipts are transferred from one individual to another or from one unit of the SDU to another. All information should be documented, logged and periodically reviewed.
- 8. Ensure that all pertinent documentation related to receipts is maintained. This may include deposit tickets, coupons, and other memoranda supporting the transaction.
  - a) For several payments posted recently verify that the system maintains a payment history containing the following information on each payment: amount of the payment; date of collection; method of payment; date initially received in the State; and date of disbursement.
- 9. Follow several payments through the entire SDU process for collections received on the day of your visit.
- 10. Ensure that there is a process in place to research payments that can't be posted to a case. Ask the State to describe the process used to handle unidentified collections, methods used to research unidentified payments and measures taken to minimize the number of unidentified collections. The SDU should have a separate unit (or designated person not involved in processing of payments) that handles unidentified collections. This process is often handled in the SDU, but not always. It varies as far as how it is handled and who handles it. Sometimes, unidentified collections are handled in the SDU for a short time, and then handed over to the States for further work. Sometimes the SDU works every unidentified payment until it is identified. In all cases, unidentified payments must be recorded and deposited as a subsequent part of the mail opening process and the persons working these payments cannot be involved in processing these or other collections.
  - a) Trace several unidentified collections through the entire SDU process.

11. For SDUs that issue checks, review the policy for handling checks returned from the Post Office, for example due to an incorrect custodial parent address. These checks are only good for a certain number of days. Review the process in place for handling these checks. The checks must be kept in a safe. An individual should be assigned to work those checks to try and find the correct location of the custodial parent. Once, the check is stale, it should be passed on to the State for processing. Note: Sometimes returned checks are handled in the SDU and sometimes they are not, so this step may not apply.
  - a) Trace several returned checks through the SDU process.
12. Determine which personnel handle financial adjustments for correction of errors or for identifying previously unidentified collections. Review the financial adjustment process.
13. Review the procedure for non-sufficient fund checks.
14. Ensure that receipts are deposited within 24 hours to the appropriate depository. This must be independent of the posting process. All receipts, including exception items, must be deposited. Mail that comes in on one day and is not able to be processed must be kept in a safe overnight.
15. Review the interface between the SDU front-end system and the Statewide system. The daily deposit total that comes off the front-end system should reconcile with the totals per the Statewide system, which should reconcile with the daily deposit records. When all batches for each bank deposit are processed, the deposit report should be generated by the front-end or State system. This report supports and accompanies the deposit document to the bank.
16. Ensure that bank reconciliations are reviewed and approved in writing by the appropriate official. An authorized official should resolve any discrepancies within a reasonable time period after the discrepancies have been noted.
17. All unaccounted for variances should be immediately reported to the appropriate supervisor. Exception reports for any part of the process must be resolved and signed off by the appropriate supervisor.
18. Determine if the contract with the SDU provides that the SDU will disburse checks to the family. If the SDU disburses checks, find out the types of checks that are cut (i.e.; collections in former TANF cases to the custodial parent or pass through of State share in TANF cases). Review the controls over the disbursement of checks.
  - (a) Are pre-numbered checks used?
  - (b) Is the disbursement process independent of all receipt functions?
  - (c) Review posting to the non-custodial parent's account to reflect the disbursement. (This may or may not be a possible step to do at the SDU).
  - (d) Examine supporting documentation for case type.
  - (e) Examine checks for authorized signatures.

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- (f) Inquire as to the frequency of mailing out checks after they are cut. (This will affect the timeframes discussed in the next step.)
  - (g) Determine if timeframes required by 45 CFR 302.32, "Collection and disbursement of support payments by the IV-D agency" are being met.
    - If the 2-business day timeframe for disbursing payment to non-TANF families is not being met, determine if there are systemic problems or other processes that prevent the SDU from meeting the 2-day timeframe. For example, insufficient resources in the SDU.
19. Inquire as to the SDU's record retention policy. The State can meet the 3-year record retention policy required under 45 CFR 74.53 with information maintained on the front-end system and/or the State Child Support Enforcement system.

## **CHAPTER IV - OCSE AUDIT REPORT**

At the completion of the Audit, OCSE Office of Audit will issue a written report to State and Federal officials detailing the results of audit. The OCSE Office of Audit will issue a suggested format for this report in the future.