

ATTACHMENT B

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The following performance criteria are deemed to be a measure of critical activities and events that define the successful operation of the MISDU. Reporting on the criteria shall be weekly. To invoke Liquidated Damages, the State will apply an escalation process as follows:

1. Informal review of the problem area with the vendor
2. Provide a warranty letter to the MISDU vendor
3. If no action or adequate resolution within 24 hours, corrective action plan requested
4. If no resolution with corrective action plan within 5 business days, Liquidated Damage(s) invoked
5. Escalation may be accelerated by the State due to severity of the problem

Item	Reference Area	Task	Measurement	Exceptions	Stat Measurement	Liquidated Damages	State Comment
1P	Open envelopes at 2 daily intervals	All items scanned each business day	Yes or No	No Mail at the PO Following holidays when the PO doesn't work. During conversion periods by as approved in advance by the State.	Report # of envelopes at each interval	Impedes Service \$1,000/event	Incident report whenever not completed
2P	Production in Pay Proc	Ensure that federal 2 day timeframe is met	99.9% of payments processed and 100% sent to MiCSES within 2 business days (counting day of receipt)		1) 2 days to MiCSES when postable-no exceptions; 2) FIDM Stats	Impedes Service \$1,000/event and for each 5% of daily work not completed	Incident report whenever not completed
3P	Accuracy in Pay Proc	Percent of accuracy for processing	99.80%	Information supplied by the payor is inaccurate	Sample size of at least 2,000 items	Impedes Service Sampled for a one month period. \$10,000 for each tenth of 1.0% greater than 0.2%	Incident report whenever not completed
4P	Receiving	Measure % and transactions received by type	100% of production in payment processing	Approved by the State in advance.	Stats on # and \$ of each type, per day, and breakdown on % of electronic vs paper.	Reporting: \$500/event	ACH - guidelines are limiting reports on electronic possibility
5P	Electronic Transactions	Electronic Marketing RAW	All need dates of completion and determination of savings impact on state if vendor is late	IF the State causes the item to be delayed	Track # metrics	Reporting: \$500/event	
6P	Electronic Transactions	Online Payments	All need dates of completion and determination of savings impact on state if vendor is late	IF the State causes the item to be delayed	Track # disbursed and # incoming by type and \$ for each	Impedes Service: \$10,000 per file event. \$500 per transaction event.	
7P	Out of Balance Items	Percent of out of balance items resolved within 3 to 5 business days.	100%	Following holidays when volumes are high.	Aging report on # of days checks are post dated.	Reporting: \$500/event	
8P	Banking Deposits	Deposits each day's processed checks with bank before close of bank's posting business day. Provide statistical count of dollars disbursed by check, DD, and stored value card and other.	Yes or No	Saturdays and holidays.	Amount deposited each day	Impedes Service: \$10,000 per event.	Incident report whenever not completed
9P	Disbursements/Payments		100%	As approved by the State in advance.	Report of dollars disbursed by paper, EFT, debit or other methods.	Reporting: \$500/event	Incident report whenever not completed

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10P	Incorrect County Correspondence	Mail correspondence back to counties w/ 2 business days.	State performs random monitoring	Exclusion of post holiday processing by 1 day	Tally daily the number of items sent back w/o being processed. # and % needed also of total returned.	Reporting: \$500/event	Refer to 12P. Incorrect County correspondence
11P	Employer Merge	# of employers merged at weekly intervals	100% of file on weekly basis	Volumes exceeds level of effort and extended level of effort	Assumes reasonable business process places workload within level of effort.	Not Applicable	Incident report required whenever error occurs in transmission or creation.
1O	Production in Pay Proc	Data transmissions complete end of day process to MiCSES by 6 PM	Yes or No	When MiCSES and/or gateway unavailable to accept receipt file	Tracking of request by MiCSES for file earlier than typical	Impedes Service: \$10,000 per event.	Incident report required whenever error occurs in transmission or creation.
2O	Transmit Check print disbursement files	Files transmitted to check print vendor by 12 noon daily	Yes or No	When MiCSES delays. approval required by State beyond 12 noon. If MiCSES does not deliver the check print file by 8 am.	Track of times when multiple files or no files are sent to vendor.	Impedes Service: \$10,000 per event.	Incident report whenever error occurs in transmission or creation.
3O	Check Disbursements	100% of properly submitted MiCSES disbursements printed, mailed and postmarked same day	Yes or No	Files delivered after 12 noon by MiCSES following holiday when volumes may be extreme or MiCSES delay, approval required by vendor beyond 12 noon of if MiCSES doesn't send properly formatted file	Track # of checks printed each day, and # of EFTs that went out each day	Impedes Service: \$10,000 per event.	Overlaps with task 2O: Transmit check print disbursement files.
4O	Transmit Check Confirmation file	Files transmitted to MiCSES from vendor or check printer daily by 6 pm	Yes or No	Systems issues with gateway or MiCSES		Impedes Service: \$10,000 per event.	Incident report whenever error occurs in transmission or creation.
5O	Transmit Electronic disbursement files	Files transmitted to electronic disbursement vendor by TBD time daily	Yes or No	Files delivered after established time by MiCSES following holidays when volumes may be extreme or MiCSES delay. Approval required by vendor beyond a time to be determined or if MiCSES doesn't send properly formatted files.	1. Track of times when multiple files or no files are sent to vendor. 2. If electronic disbursement doesn't go.	Impedes Service: \$10,000 per event.	1. Incident report whenever a "No".

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1CS	Call Center	Totals call offered	100% of IVR daily and 100% of ACD daily	in the event of non standard maintenance time requirements	Measuring # of calls passed to Tier 2 each day. # of calls, per hour, per day.	Reporting: \$500/event
2CS	Call Center	Total calls answered	90% of calls offered from the ACD and waiting more than 30 seconds	Calls abandoned within 30 seconds are deemed not intended for the SDU.	Total calls answered and total calls abandoned on all 4 lines.	Reporting: \$500/event
2CSa	Call Center	Total calls resolved in 3 minutes	100% of calls each day involving a CSR excluding any call deferred for extended research	100% closure or deferral for extended research. No exceptions	Comparison of incoming IVR metrics and disposition factoring in calls deferred for extended research	Reporting: \$500/event
2CSb	Call Center	Total calls established as Extended Research Calls	total calls deferred for extended research and follow up	95% closure the next business day. Exceptions allowed for MiCSES downtime	Report output from vendor call management system based on date and disposition status	Reporting: \$500/event
3CS	Call Center	Average speed to answer or wait time on financial contacts	Average wait time on line before calls abandoned/drop to be less than 2 minutes	Exceptions to be noted in incident report and approved by the State.	<2 minutes average for CP/NCP and employer lines. <1 minute for FOC	Impedes Service: \$1,000 per daily average
4 CS	Call Center	Average talk time per call on the 4 lines (payer/payee, FOC, and employer).	Average 3 minute of talk time averaged across all lines.	As approved by the State in advance.	Measure of 3 of calls to each CSR. Use productivity # reporting. Talk time, wait time, and abandoned #s need for all 4 lines.	Impedes Service: \$1,000 per daily average. Reporting \$500 per event
5 CS	Call Center	Aging in Tier 2 for CP and NCP callers	75% resolved in first call with client closure. 80% of remaining calls reviewed after 24 hours and responded to same day. 100% reviewed after 48 hours. 100% resolved after 5 business days.	As approved by the State in advance.	Measure of the % of total calls for each and number of calls for each. Aging report for all 5 days.	Vendor to provide guidance if necessary. Reporting: \$500/event
6CS	Call Center	Respond to voice mail messages left by customers waiting X, currently 5 minutes, minutes or more.	100% within 1 business day	As approved by the State in advance.	Avg cycle time for resolving VM messages. # of VM messages in the general, forms, and address change mailboxes. # of items resolved with 1 call.	Possibly use voice mail numbers deducted from dropped calls metric
7 CS	Correspondence forwarded within 2 business days	Mail requested forms within 2 business days.	State performs random monitoring of vendor	Exclusion of post holiday processing by 1 business day	Report on # of requests daily. Report amount of forms carryover.	Forms: change of address, EFT, Cred. Letter, Pin Change, Wayne Co Impedes Service: \$100 per item not mailed next business day

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8 CS	Call Center	Identify the top 5 reasons for the calls	100%	As approved by the state in advance. Excludes simple calls that don't generate ticket.	% of total calls for each and number of calls for each within call center tracking system	Reporting: \$500/event	Anecdotal information is needed for nontracking ticket calls
9 CS	Change of address/PIN change request	Entry of change of address requests and change of employer address, and PIN changes in MICSES within 2 business days of receipt	100%	Following holidays when volumes are largest.	Report on the 3 of requests daily. Report amount of address change carryover. # of EFT/PIN requests per day.	Reporting: \$500/event	Procedure needed for SDU and Counties. Pending IVR WAP input
10CS	Call Center	IVR emergency requests	100% resolved by the greater of 8 am or 2 hour window during business hours	As approved by the State.	# of times counties request IVR change each day	impedes service: \$500 per item for each delayed notice	
11 CS	Reissue checks - VOIDS	Accomplish reissue within 2 business days of notification or returned check	100% in 2 days for voids		# of void checks that caused the daily # of reissued checks	impedes Services: \$100 per item not entered over 15 days.	
12 CS	Suspense or Receipt Adjustments	Respond to county/state requests for receipt adjustments or suspense releases	70% within 5 business days and 100% within 7 business days	When request volume exceed contract level of effort estimates. MICSES downtime in managerial metrics does not exceed 30 minutes per day.	Track how many requests were made for adjustments and suspense release holds. Track average time (weekly) each transaction takes. # of items that go back to payor.	Impedes Service: \$100 per item not entered in 5 days unless resulting from State systems or environment issues	
13 CS	Reissue checks - Lost	Accomplish reissue within 15 business days of notification	100% in 15 days for lost check		# of lost checks that caused the daily # of reissued checks.	Impedes Service: \$100 per item no entered over 15 days.	Affidavit to be sent out for stop pay claims for lost checks.
14CS	Bank reissued checks - stolen	Accomplish stop pay within 15 business days of notification.	100% in 15 days for stolen checks	When the bank or plaintiff delays the process beyond an acceptable timeframe	# of stolen checks that caused the daily # of reissued checks	Impedes Service: \$100 per item not entered over 15 days	This timeframe is very dependent on the banking system. Use of affidavit required.
1AS	Ancillary Services	Process bad address returns	100% within 2 business days for bad address	Volumes exceeds both original contract level of effort and extended level of effort	Track # of bad address returns. Track level of effort.	impedes Service: \$1,000 per each day's delay.	11CS - reissue checks voids links to this item.
2 AS	Ancillary Services	Process stop payment requests	100% within 2 business days for stop pay request (10 days after initial request)	Volumes exceeds both original contract level of effort and extended level of effort	Track # of stop pay requests. Track level of effort.	impedes Service: \$1,000 per each day's delay.	11CS - reissue checks voids links to this item.

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3 AS	Ancillary Services	Process lost check requests	100% within 2 business days for lost check requests (10 days after initial request)	Volumes exceeds both original contract level of effort and extended level of effort	Track # lost check requests. Track level of effort.	Impedes Service: \$1,000 per each day's delay.	13CS - reissue checks - voids links to this item
4 AS	Ancillary Services	Process stolen check requests	100% within 2 business days for stolen check requests and return of bank packet	Volumes exceeds both original contract level of effort and extended level of effort	Track # stolen check requests. Track level of effort. G9	Impedes Service: \$1,000 per each day's delay	This is for request only. Once provide to the bank, this measure excludes bank processing time and time to refund money.
5 AS	SDU Research	Percent of SDU research items resolved in 10 business days	100%	Resolution includes returning payment to the payer due to lack of information or response or MiCSES	1) #/\$ resolved within 10 business days. 2) Oldest in research	Impedes Service: \$1,000 per each day's delay in closure of a day's research over 10 days.	
6 AS	Suspense Backlog	Clean up of suspense backlog inherited from Wayne County as of 2/18/03	100% by a date to be determine if this service is accepted by the State		# of Wayne County items resolved each day	NA	
1M	Receipts and disbursements reconciled within 10 business days	All collections reconciled daily and bank account reconciled monthly within 10 business days.	State review of daily and monthly recon reports. Yes or No.	During unusual circumstances that would not be reflective of ongoing operations. Exceptions to be noted in incident report and approved by the State.	Aging report on each day's reconciled items within 10 days. Yes or no or under review. If beyond 11 days, and item noting reason will be entered.	Impedes Fiscal Integrity: \$10,000 per event	
2M	Stolen, misapplied, wrong payment amount (see note), lost funds, walk in cash or other	Vendor responsible for all penalties and recovery costs. Vendor to reimburse State for amount of loss.	100% (timeframe based on systematic process.) Within 2 days from determination of vendor error. From opening of call center tracking ticket.	payer provides incorrect data or validation information is incorrect.	Report on how many funds are stolen, misapplied, misdirected, or lost on a weekly basis. Track #/\$ of vendor make whole on a weekly basis	Impedes Service: Vendor makes whole on all related costs.	Incident report required whenever outage on vendor system occurs.
3M	System Operation	Track all non-productive time due to system downtimes	100%	Total system downtime per week (MiCSES, vendor, etc.)	Reporting: \$500/event		

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SECTION III
INFORMATION REQUIRED FROM BIDDER

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ACRONYMS

ACH.....	Automated Clearinghouse
ACD.....	Automated Call Distributor/Distribution
ACSES.....	Automated Child Support Enforcement System
ADA.....	Americans with Disabilities Act of 1990
AIC.....	Application Integration Component
AKA.....	Also Known As
APA.....	Alabama Payroll Association
API.....	Application Programming Interface
APS.....	Allison Payment Systems
ARC.....	Accounts Receivable Conversion
AROM.....	ACD Routing Optimization Methodology
ANSI.....	American National Standards Institute
ASA.....	Average Speed to Answer
ATM.....	Automated Teller Machine
AVR.....	Automated Voice Response
BIA.....	Business Impact Assessment
BPO.....	Business Processing Outsourcing
CAR.....	Courtesy Amount Recognition
CASS.....	Coding Accuracy Support System
CBT.....	Computer-Based Training
CCB.....	Change Control Board
CCITSE.....	Common Criteria for Information Technology Security Evaluation
CDA.....	Controlled Disbursement Account
CEU.....	Central Enforcement Unit
CIC.....	Customer Interaction Center
CFU.....	Central Functions Unit
CMM.....	Capability Maturity Model
CMP.....	Conversion Management Plan
CMS.....	Centers for Medicare and Medicaid Services
COA.....	Change of Address
CP.....	Custodial Parent
CRM.....	Customer Relationship Management
CSC.....	Customer Service Center
CSE.....	Child Support Enforcement
CSMS.....	Child Support Management System
CSPC.....	Child Support Processing Center (Ohio SDU)
CSR.....	Customer Service Representative
CSU.....	Customer Service Unit
CV.....	Cost Variance
Derog.....	Derogatory Note

DES.....	Data Encryption Standard
DIT.....	Department of Information Technology
DLEG.....	Department of Labor and Economic Growth
DMB.....	Department of Management and Budget
DOB.....	Date of Birth
DRP.....	Disaster Recovery Plan/Procedures
EAL4.....	Evaluation Assurance Level 4
EBP.....	Electronic Bill Presentment
EBPP.....	Electronic Bill Presentment and Payment
EBT.....	Electronic Benefits Transfer
EDI.....	Electronic Data Interchange
EDRO.....	Eligible Domestic Relations Order
EFT.....	Electronic Funds Transfer
EPLN.....	Electronic Parent Locate Network
FAQ.....	Frequently Asked Question
FCR.....	Federal Case Registries
FEIN.....	Federal Employer Identification Number
FI.....	Financial Instrument
FIA.....	Family Independence Agency
FIDM.....	Financial Institution Data Match
FIFO.....	First In First Out
FSPC.....	Family Support Payment Center (New Jersey)
FTE.....	Full-Time Equivalents
FTP.....	File Transfer Protocol
FMS.....	Financial Management System
FOC.....	Friends of the Court
FPLS.....	Federal Parent Locator Service
GAAP.....	Generally Accepted Accounting Procedures
GUI.....	Graphical User Interface
HCFA.....	Health Care Financing Administration
ICR.....	Interstate Case Reconciliation/Intelligent Character Recognition
ID.....	Identification
IDB.....	Invoice-Derived Billing
IDM.....	Integrated Document Management
IEEE.....	Institute of Electronic and Electrical Engineers
INSYNC.....	Information Network Supporting the Young in North Carolina
IP.....	Implementation Plan
IRS.....	U.S. Internal Revenue Service
IT.....	Information Technology
ITB.....	Invitation to Bid
IVR.....	Interactive Voice Response
IWN.....	Income Withholding Notice

JDS.....	Joint Application Development Session
LAN.....	Local Area Network
LAR.....	Legal Amount Recognition
MAIN.....	Michigan Automated Information Network
MICR.....	Magnetic Ink Character Recognition
MiCSES.....	Michigan Child Support Enforcement System
MiSDU.....	Michigan State Disbursement Unit
MPI.....	Misapplied Payment Indicator
MRDF.....	Mail Run Data File
MSPY.....	Misapplied Payment
NACHA.....	National Automated Clearinghouse Association
NCP.....	Non-Custodial Parent
NIAP.....	National Information Assurance Partnership
NOC.....	Notices of Change
NSF.....	Non-Sufficient Funds
OCR.....	Optical Character Recognition
OCS.....	Office of Child Support (Michigan)
OCSE.....	Office of Child Support Enforcement (federal)
OFIS.....	Office of Financial and Insurance Services
OFS.....	Office of Family Support
OMR.....	Optical Mark Read
OPC.....	Official Payments Corp.
ORS.....	Online Resolution System
OTHP.....	Other Third-Party
OTR.....	Office of Tax and Revenue
PAVE.....	Presort Accuracy Validation and Evaluation
PGP.....	Pretty Good Privacy
PIN.....	Personal Identification Number
PIP.....	Performance Improvement Plan
PMBOK.....	Project Management Body of Knowledge
PMI.....	Project Management Institute
PMM.....	Project Management Methodology
PMP.....	Project Management Plan/Planning
PRWORA.....	Personal Responsibility and Work Opportunity Reconciliation Act
PPAR.....	Performance Planning and Review
PPC.....	Payroll Processing Center
PPD.....	Prearranged Payment and Deposit
PTO.....	Paid Time Off
QA.....	Quality Assurance
QAI.....	Quality Assurance Institute
QDRO.....	Qualified Domestic Relations Order
RCK.....	Returned Check

RDBMS	Relational Database Management System
RDI	Return Deposit Items
RFP	Request for Proposal
SACWIS	Statewide Automated Child Welfare Information System
SAS	Statement of Accounting Standards
SDA	Service Design Associates
SDD	Software Design Document
SDLC	Software Development Lifecycle
SDU	State Disbursement Unit
SEI	Software Engineering Institute
SES	Support Enforcement Services
STP	Simple Transaction Processor
SIU	Special Initiatives Unit
SME	Subject Matter Expert
SR	Service Request
SSA	Social Service Analyst
SSL	Secure Socket Layers
SSN	Social Security Number
STEP	Strategies to Empower People
STP	Simple Transaction Processor
SV	Schedule Variance
TANF	Temporary Assistance to Needy Families
TAWPI	The Association for Work Process Improvement
TCCSRU	Tennessee Centralized Child Support Receiving Unit
TDD	Telephone Device for the Deaf
TLPP	Teller Line Positive Pay
TP	Training Plan
TSI	Tailored Solution Implementation
UAT	User Acceptance Testing
UI	User Interface
UIFSA	Uniform Interstate Family Support Act
UNC	Unidentified Check
UNID	Unidentified
URL	Uniform Resource Locator
USPS	U.S. Postal Service
VPN	Virtual Private Network
WBS	Work Breakdown Structure

SECTION IV-A BUSINESS ORGANIZATION

IV.A.1 TIER TECHNOLOGIES [ITB IV.A]

Tier Technologies, Inc. (Tier) is a vertically focused consulting firm that provides business and information technology (IT) consulting, systems design and integration, transaction processing, business process outsourcing, and business process reengineering for its clients primarily in the state and local government market. Tier brings specific industry knowledge, proven delivery capability and proprietary applications to its client relationships. The combination of domain expertise and technical capability allow Tier to provide solutions that link increased operating efficiencies with systems and technology improvements. Tier is included in the Russell 3000[®] Index and recently was named to the 2004 VARBusiness 500 List of the top IT professional service firms. Additionally, *Forbes Magazine* ranked Tier as one of the “200 Best Small Companies” in America in 2002.

Tier was established in 1991 as a corporation under the jurisdiction of the State of California. Our headquarters are located at 10780 Parkridge Boulevard, Suite 400, Reston, VA 20191. Formed to provide IT professional services to Fortune 1000 companies and government agencies, Tier went public in 1998. The company is publicly traded (NASDAQ symbol TIER) and had net revenues of more than \$127 million for the fiscal year ending September 2003. Approximately 91.2% of our net revenues are derived from sales to government agencies. Tier has included our Annual Report as an appendix. The report can also be found on our website at www.Tier.com. Additionally, we can provide a copy of our Dunn & Bradstreet Report upon request. Our Annual Report is also available under the Investors link from our website (www.Tier.com).

Tier will act as the prime contractor for the Michigan State Disbursement Unit (MiSDU) project. Tier’s experienced and knowledgeable staff

will perform all required transition, operational, and turnover functions. Tier is licensed to operate in the State of Michigan.

All questions regarding this proposal should be addressed to:

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IV.A.2 PROPOSED SUBCONTRACTOR(S) [ITB IV.A]

Tier has selected Fifth Third Bancorp as its banking subcontractor for the Michigan project. As a Michigan-chartered bank, Fifth Third has a vested interest in the success of the MiSDU. Paying over \$900,000 per year in examination fees to the State of Michigan, Fifth Third is quite familiar with Michigan banking regulations and is innovative in developing banking solutions for the 21st century.

Fifth Third Bancorp, a diversified financial services company, operates 17 affiliate banks and other financial service subsidiaries principally in Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, West Virginia, and Tennessee. Fifth Third provides a broad array of products and services through four primary businesses: Commercial Banking, Retail Banking, Investment Advisors, and Fifth Third Bank Processing Solutions. Fifth Third has \$84 billion in assets, \$189 billion in custody assets, and actively manages \$29 billion for its personal, corporate, and not-for-profit clients. Fifth Third serves its 5.5 million customers through more than 900 full-service locations and nearly 2,000 automated teller machines (ATMs).

SECTION IV-B STATEMENT OF THE PROBLEM

IV.B.1 UNDERSTANDING THE PROBLEM [ITB II.B]

Tier believes any problem associated with the MiSDU can be succinctly stated by acknowledging the State's desire to provide its constituents with the best possible services while understanding the budget constraints under which the State will be operating in FY04 and FY05. The child support program in Michigan has a significant impact on the lives of many families in Michigan. The child support professionals responsible for the program and for the MiSDU have an innate desire to ensure these families are provided the services they deserve.

Tier believes that three noteworthy problems can be associated with this project, each affected by the State's budget and desire to provide the best services possible:

- ◆ Transition failure
- ◆ Inability to increase the current level of service
- ◆ Failure to provide a cost-efficient solution

The MiSDU solution proposed by Tier and discussed in detail in the remainder of this proposal is designed to answer each of the defined problems with a pragmatic and cost-effective solution.

Every state has heard the stories of State Disbursement Unit (SDU) implementations that did not go well. These difficult implementations resulted in angry clients who had not received their child support, legislative and executive intrusion into the child support program, and loss of overall program effectiveness as an "all hands on deck" response was required to address the SDU implementation issues. Tier is proposing a solution based on our experience implementing, either as the prime or subcontractor, 11 SDUs. This experience provides Tier with an understanding of what will be successful and what might add risk to the implementation.

Our implementation plan for Michigan takes into account each of these risks and provides mitigating solutions through the use of experienced staff. For example, our proposed project director and implementation manager have each participated in the implementation or reengineering of over 15 SDUs. No other vendor can provide this depth of experience.

However, Tier is unwilling to rely solely on the experience of our team to ensure our success. We have also selected some of the latest in remittance processing technology to improve the efficiency of the operation, which ensures that we can both handle the volume and reduce staff requirements in order to reduce the overall cost of our operation. For example, Tier is proposing the use of the AS3600i integrated Rapid Extraction Desk and Scanner. Using the 3600 not only increases the accounting controls in the operation, but also provides an increased processing capacity as the number of image exceptions is significantly reduced. Coupled with the technology like the 3600, Tier has developed a comprehensive staffing model over the last 6 years that provides exact detail on the number of individuals required to staff the operation not only by function, but also by day of the week. Tier understands that payment volumes fluctuate in any remittance processing operation. To smooth as many of the transaction peaks and valleys as possible, Tier's MiSDU operation will operate 7 days per week. However, we still realize that we will receive more payments on Monday than any other day of the week. Utilizing our staffing model we can ensure that we have adequate to staff to meet the processing requirements as outlined in the State's Invitation to Bid (ITB). Tier takes seriously our commitments under each of our SDU contracts and believes that based on our experience, technology, and staffing model the transition from the current vendor to Tier will be seamless and transparent to the families in Michigan and the State's child support professionals.

In addition to being able to meet the State's current volume, the new SDU vendor must be able to increase the current level of service provide

to the SDU's stakeholders. Tier believes that service increases will be recognized in two distinct areas. First, the technology proposed must meet the requirement of the new e-commerce economy. This includes the ability to image everything and provide easy access to those images to any stakeholder throughout the project. Moreover, the images should be available in a format that is understandable to viewers and delivered through a channel with which they are familiar. To this end, Tier is proposing the use of an image archive solution that can not only display images of electronic transactions, but that can also integrate those images directly into MiCSES without significant programming on the IV-D system. Allowing caseworkers access to payment images from MiCSES means there is one less application they have to learn. Furthermore, caseworkers do not have the extra effort of looking in another application for the image, which ultimately saves time and money. Finally, the new SDU must provide initiatives to increase the level of electronic participation. Tier has included plans for a significant outreach program including a semiannual newsletter to the State employers about the SDU. We are also providing an electronic bill presentment (EBP) program to provide web-based access to payment coupons for individuals who desire to use them.

Second, Tier has proposed a comprehensive training program including a dedicated training department and fully functional training room for our MiSDU operation. Ensuring that each of our MiSDU employees has the best possible training provides the best possible service to the State and its constituents as well as making our staff more effective. Again, effectiveness provides a direct benefit in making the operation more efficient and less expensive.

While ensuring the success of the transition and the continuous improvement in the services provided to Michigan and its families are our paramount concerns, the solution proposed cannot ignore the State's current budget constraints. Using the best technology and well-trained staff

provides a more effective SDU solution and ultimately reduces the overall cost of the project. As the State reviews Tier's proposal, it will become apparent that there are a significant number of solutions offerings designed not only to improve service, but to also make that service more efficient. In evaluating Tier's price, we believe the State will recognize the positive financial impact of a well-conceived, well-implemented, and well-operated solution. Tier and our partners are proud of this solution and look forward to working with the State on its successful implementation.

IV.B.2 TASKS [ITB II.C]

IV.B.2.1 Financial Considerations [ITB II.C.1]

Bank Requirements [ITB II.C.1]

Tier will follow the requirements set forth in the Michigan Constitution: Article 9 Section 20. Tier's banking partner, Fifth Third Bank meets all of the requirements set forth in the Michigan Constitution: Article 9 Section 20. Fifth Third Bancorp, a diversified financial services company, operates 17 affiliate banks and other financial service subsidiaries principally in Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, West Virginia and Tennessee. Fifth Third provides a broad array of products and services through four primary businesses: Commercial Banking, Retail Banking, Investment Advisors, and Fifth Third Bank Processing Solutions. Fifth Third has \$84 billion in assets, \$189 billion in custody assets and actively manages \$29 billion for its personal, corporate and not-for-profit clients. Fifth Third serves its 5.5 million customers through more than 900 full-service locations and nearly 2,000 automated teller machines (ATMs).

Collateral [ITB II.C.1]

Tier will provide collateral to cover all monies left in the bank account through Fifth Third's third-party safekeeping, Bank of New York. The pledged collateral will be held in the name of the Michigan Department of Treasury at the Federal Reserve.

Tier will provide an initial list of the par amount, type, cusip number, and current market value of the collateral to the State Treasurer Administrator of Short-Term Investments. Tier will send updates if collateral is added.

If the collateral is deemed unsatisfactory and thus rejected by the Michigan Department of Treasury Tier will provide approved substitute collateral within one business day. Tier will only provide collateral in accordance with Bulletin BT-10001.

Tier will not switch collateral at any time without first obtaining approval from the State Treasurer Administrator of Short-Term Investments.

Float Earnings [ITB II.C.1]

The earnings credit is a “soft-dollar credit” applied to the State’s investable balance, which may be used to offset all or a portion of the cost for services rendered as designated by the monthly analysis statement. The earnings credit allowance will be applied to the average investable balance held by the State-owned MiSDU accounts. The State’s average investable balance available for services is calculated as follows:

Average Collected Balance - Reserve Requirement (10% of Avg. Collected Balance) = Average Investable Balance Available for Services

Fifth Third’s earnings credit rate is determined in accordance with current market conditions. Fifth Third offers several earnings credit rate options and has offered to the State of Michigan for this Invitation to Bid (ITB) an **earnings credit rate of 50 basis points above the 90-day T-Bill index**. The earnings credit rate will be indexed off the T-bill rate, which is pulled from the *Wall Street Journal* weekly (Tuesday for Monday’s auction results). All weekly rates for each month are averaged to get the 90-day T-Bill index and the earnings credit amount is calculated as follows:

Average Investable Balance Available for Services x ((Earnings Credit Rate / 365) x 30) = Earnings Credit

Considering the current interest rate market, First Third Bank's earnings credit rate being offered to MiSDU currently is 1.534 percent. When applied to the estimated available balance level of \$90 million in the MiSDU account structure, the State could anticipate an earnings credit allowance of approximately \$113,473.97 for the current month.

SAS 70 Audit

Two of our operations, Kansas and Idaho child support receipting units, have undergone the *Statement of Accounting Standards No. 70 (SAS 70): Reports on the Processing of Transaction by Service Organizations* audits. The results of those SAS 70 audits are "unqualified opinions." Tier has demonstrated consistency in the implementation and application of controls pertinent to the operational safeguarding of state funds. Our consistency originates from a conscientious management approach dedicated to strict internal controls, and Tier has demonstrated our continuous commitment to being a quality partner to the States of Idaho and Kansas. Tier has demonstrated willingness and cooperation with audit activities through our participation with the numerous audits conducted by the Legislative Audit, Division of State Audit. These audits were conducted as part of the statewide audit falling under the guidelines of the Single Audit Act, dictated by the Office of Management and Budget Circular A-133. Our participation included the completion of quality control questionnaires, aiding the selection and drawing of representative samples for auditors, and promptly responding to specific control and operational inquiries.

Tier is proud to have Balukoff, Lindstrom & Co., P.A, conduct our annual independent financial audits. Their auditing credentials are impeccable. They are a well-established regional CPA firm located in Boise, Idaho, with clients throughout the United States. They have completed several independent SAS 70 audits of Tier SDU operations in the past and are very familiar with Tier's internal controls. Tier will engage Balukoff-Lindstrom to complete the State-required audits over the lifecycle of the

new contract. Tier chose Balukoff-Lindstrom because we share their commitment to "Excellence in Service." Furthermore, Tier recognizes the extensive experience in providing accounting, auditing, tax, and consulting services that Balukoff-Lindstrom offers.

Balukoff-Lindstrom's auditing methodology will be threefold, and the auditing firm will examine procedures to obtain reasonable assurance about the following points:

1. The accompanying procedural description represents, in all material respects, the aspects of Tier's child support receipting controls that may be relevant to the organization's internal control.
2. The internal controls included in the procedural description are suitably designed to achieve the control objectives specified in the said description, if these controls were complied satisfactorily.
3. The controls have been placed in service during the period of the audit.

Balukoff-Lindstrom will perform tests of specific transaction processes. To complete the examination, the testing approach will be conducted via a thorough inquiry of all the policies and procedures, as well as through the observation of how these policies and procedures are implemented. The test will be conducted to ensure that all appropriate controls are in place. Once all the internal controls are reviewed and the test is performed, Balukoff-Lindstrom will present a written, independent audit report that will describe the control objectives, control, and the tests of operating effectiveness. Following each significant component will be a summary of the specific testing procedures to determine the operating effectiveness of the controls and the related test results.

The audit examination will be performed in accordance with standards established by the American Institute of Certified Public Accountants. Included in the examination will be those procedures we consider necessary to obtain a reasonable basis for rendering an opinion in accordance to SAS 70 standards.

Balukoff-Lindstrom's auditing methodology has been successful in obtaining reasonable assurance that our internal controls are suitably designed to achieve the control objectives of our state clients, the controls are satisfactorily implemented, and the controls are in place for the duration of our operations (see Figure IV.B.2.1-1).



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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Tier Technologies

We have examined the accompanying description of the controls related to the processing of Idaho Child Support Receipting transactions of Tier Technologies (the Company). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of the Company's Idaho Child Support Receipt controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the internal controls included in the description were suitably designed to achieve the control objective specified in the description, if these controls were complied with satisfactorily, and (3) such controls had been placed in service as of September 30, 2002. The Company uses the ICSES (Idaho Child Support Enforcement System), maintained by the State of Idaho, to support the processing of transactions for Idaho Child Support Receipting. Our examination did not extend to controls at the State of Idaho. The control objectives were specified by management of the Company. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls presents fairly, in all material respects, the relevant aspects of the Company's Idaho Child Support Receipt controls that had been placed in operation as of September 30, 2002. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specific control objectives would be achieved if the described controls were complied with satisfactorily.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, listed in Section III, to obtain evidence about their effectiveness in meeting the control objectives described in Section III, during the period from July 1, 2001 to September 30, 2002. The specific controls and the nature, timing, extent and results of the tests are listed in Section III. This information has been provided to the user organizations of the Company and to their auditors to be taken into consideration, along with information about the internal control at the user organization, when making assessments of control risk for user organizations. In our opinion, the controls that were tested, as described in Section III, were operating with sufficient effectiveness to provide reasonable, but not absolute,

To the Board of Directors
Tier Technologies

assurance that the control objectives specified in Section III were achieved during the period from July 1, 2001 to September 30, 2002.

The relative effectiveness and significance of specific Idaho Child Support Receipt controls at the Company and their effect on assessments of control risk at user organizations are dependant on their interaction with the controls, and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.

The description of Idaho Child Support Receipt controls at the Company is as of September 30, 2002, and information about tests of operating effectiveness of specified controls covers the period from July 1, 2001 to September 30, 2002. Any projections of such information to the future are subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specific Idaho Child Support Receipt controls at the Company is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for use by management of the Company, its user organizations, and the independent auditors of its user organizations.

Balukoff, Lindstrom & Co., P.A.

December 27, 2002

-2-

Figure IV.B.2.1-1. Balukoff-Lindstrom conducts independent annual financial audits of Tier's operations. As this report of our Idaho operations shows, our internal controls are suitably designed to achieve the control objectives of our state clients, the controls are satisfactorily implemented, and the controls are in place for the duration of our operations.

IV.B.2.2 Functional Requirements [ITB II.C.2]

Lockbox, Payment Processing, Imaging Mail Services [ITB II.C.2.a]

Receipting [ITB II.C.2.a.1, II.C.2.a.2, II.C.2.a.4]

Overview

In the challenging economic times our world is experiencing, it becomes a matter of fiduciary responsibility to our stakeholders to provide a higher level of service and efficiency at a more cost effective price. This objective becomes even more critical when we are dealing with child support. The Michigan Office of Child Support's (OCS) vision of "child support for every child" clearly defines the desired goal. All children deserve to be supported financially. The money receipted and disbursed at the MiSDU is money that already belongs to the designated children or is to be recovered for support that has already been provided by the State. The MiSDU is the interim caretaker of those funds and we at Tier take our caretaker responsibility seriously. Our Kids1st[®] system and our policies and procedures were designed specifically for child support to enable us to receipt and disburse child support funds efficiently and accurately.

At Tier we are always looking for innovative ways to improve our efficiency, accuracy, and use of technology. Because of this we can offer the following requested enhancements from the first day we begin processing payments.

- ◆ Web-based debit authorization—both employer and obligor
- ◆ Credit card payments
- ◆ One time and recurring use with automatic billings to credit card
- ◆ Automatic recurring withdrawals
- ◆ Western Union payments

Tier firmly believes in partnering with the State to identify and resolve issues. Without this partnering, the tendency for an "Us vs. Them" attitude can exist. Such an attitude is never conducive to a successful project.

If you don't look good,
we don't look good.

Tier understands the key importance of a collaborative effort among all partners. In all our projects, Tier has successfully proven our commitment to collaboration. Some examples of our collaboration with states include:

- ◆ Kentucky—Tier is participating in joint sessions to assist in resolving issues regarding posting all wage payments to social security number (SSN) only. To expedite communications between the state/county child support workers and our State Disbursement Unit (SDU) customer service, Tier created a central email address enabling faster responses to inquiries from the child support staff. Tier also accommodated financial institution data match (FIDM) receipts and wire transfers from county offices without any additional costs to the State.
- ◆ New Jersey—In conjunction with the state, Tier implemented the processing of Out-of-State Cost Recovery Fees in August of 2003. The processing of fees charged by out-of-state agencies required the addition of new Kids1st codes to allow the state's child support system to track these fees. This was accomplished without additional cost to the state.
- ◆ Tennessee—Using Kids1st, Tier has assisted the state in an ongoing effort to reduce the amount of state funds lost due to returned non-custodial parent (NCP) and employer checks. Relevant payer information such as bank account numbers and participant ID numbers are used to intercept repeat payments and the state is notified, thereby assisting their collection efforts.
- ◆ Alabama—In a collaborative effort with the state, county child support offices and Tier procedures were devised to allow Tier to assist the state with redirection notices. To accomplish this, copies of payments received directly by the counties are forwarded to Tier and Tier contacts the sender to assist getting future payments redirected to the SDU. This is being accomplished without additional cost to the state.

- ◆ Minnesota—To assist Minnesota in reducing the number of large dollar returned personal checks, Tier offered to review all personal checks over \$2,000. Tier reviews the case to determine if this is an abnormal payment amount. In instances where the payment amount is abnormal for the case, the check is given to the state's onsite research unit for verification. Once the payment is verified by the state, Tier processes the payment.
- ◆ Maryland—Collaborated to create procedures to handle interstate payment refunds received at the SDU. When Tier receives an interstate payment refund, the transaction is posted as unidentified and the state is notified so that the case can be corrected to stop the payment from being disbursed back to the refunding state. After 5 days, the transaction is released from its unidentified status to apply to the case and be refunded to the obligor.
- ◆ Idaho—When Idaho converted to debit cards for clients, Tier went beyond our contract to assist the state in getting the clients set up on debit cards and assisted the state with the increase of customer service calls.

To facilitate the reviewing of our proposal, the receipting section is presented in the following order:

- ◆ Collections Processing Overview
 - Mail Opening and Image Capture
 - Incoming receipts
 - Data Capture
 - Balance/Deposit/Reconcile
 - Transfers
 - Image archive
- ◆ Detailed Descriptions of Processes
 - Standard Payment Receipts
 - Non-Standard Payment Receipts
 - Data Capture

- Management Monitoring
- Posting and Deposits

Collections Processing Overview

When analyzing the needs of any remittance processing application, the remittance processor should ask three simple questions:

- ◆ Who is making the payment?
- ◆ Is there anything unique about how the entity makes the payment?
- ◆ As the remittance processor, what can we do to make the remitter's job easier?

In answering these questions, one realizes that the equipment, processes, and procedures used in a typical remittance processing operation (for example, for mortgage, credit card, or utility bills), do not constitute an adequate foundation for developing an effective and efficient operation for processing child support payments.

Processing child support payments differs in several ways from typical remittance processing. First, and perhaps most important, most child support payments are not made by the individual that is actually responsible for the payment. As illustrated in Figure IV.B.2.2-1, most child support payments are received from employers who are required to withhold child support payments from their employees' salaries. As more child support cases are subject to immediate income withholding, the percentage of payments received from employers will continue to rise. Although attempting to comply with the income withholding order, employers are not as invested in making sure that the payment includes all of the required information as the NCPs would be if making the payment directly.

Solution Highlights

- *Technically advanced solution designed for child support payments*
- *Solution and operations based on years of experience and millions of child support and other payments*
- *Seamless incorporation of the State's vision of data perfection, data capture, and payment identification*
- *Innovative technology that gives Michigan and other state child support workers access to the payment image*
- *Web site designed specifically to enable formalized communications between the SDU and Michigan child support workers.*

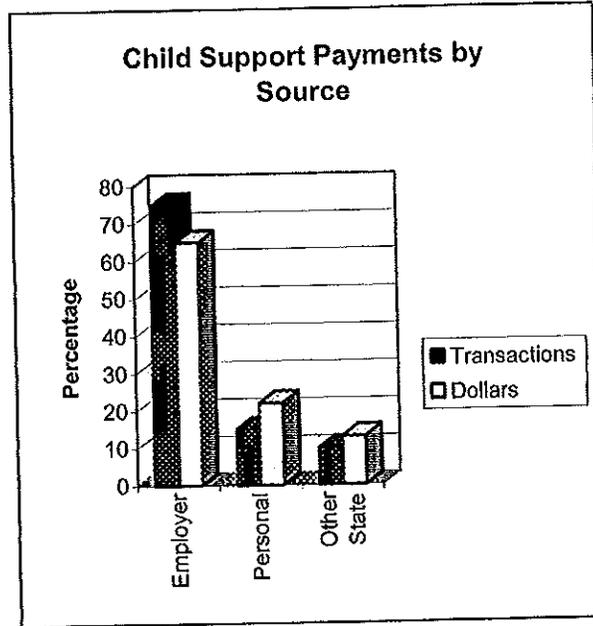


Figure IV.B.2.2-1. Most child support payments are received from employers who are required to withhold payments from their employees' salaries but who are not invested in making sure the payment includes all the required information.

Second, employers typically use their payroll or accounts payable systems to generate the child support remittance. When reviewing the remittance document received with the check in Figure IV.B.2.2-2, one concludes that, due to the "*GARNISHMENT WE 1/2*" reference that the employer used the payroll system to make the child support payments. If the reference was INVOICE #, we would know that the employer uses an accounts payable system to make the child support payments.

Unfortunately, neither a payroll system nor an accounts payable system incorporates a data field for child support case numbers or other specific numbers required for the SDU to post the payment to the appropriate child support case.

On this check, "WE" indicates Week Ending. A standard description of the payroll system was used to make the payment.

FIREBAUGH CONSTRUCTION, INC.						027208
DATE	INVOICE NO.	DESCRIPTION	INVOICE AMOUNT	DEDUCTION	BALANCE	
1-31-04	12704	GARNISHMENTS WE 1 / 2	632.31	.00	632.31	
CHECK DATE 2-04-04			CHECK NUMBER 27208	TOTALS	632.31	.00 632.31

FIREBAUGH CONSTRUCTION, INC.
 9393 WEST 110TH STREET
 OVERLAND PARK, KANSAS 66210
 (913) 551-6000

UNITED BANK OF KANSAS
 2000 W. 10TH ST.

Pay: Six hundred thirty-two dollars and 31 cents
 DATE February 4, 2004 AMOUNT \$632.31

PAY TO THE ORDER OF KANSAS PAYMENT CENTER
 P.O. BOX 758599
 TOPEKA, KS 66675-8599

#0040314 027208 27208 121-456 34

M. J. [Signature]
 AUTHORIZED

Figure IV.B.2.2-2. Employers generally use their existing payroll or accounts payable systems to remit child support payments.

Some SDU operations attempt to use remittance processing coupons like those received with credit card payments to confirm that they are receiving the required information. However, the additional effort required to match such coupons with the correct check, or to validate that the coupons are correct for each employee, discourages most employers from ever using them. The low coupon return rate for employers ultimately makes coupons cost-prohibitive as a mechanism for confirming that the correct information is received along with each child support payment.

We now know that employers remit most child support payments in this country—including almost 70 percent of the child support payments submitted in Michigan.

We also recognize that the methods typically used for tracking remittance processing (for example, coupons) and the applications used by employers (for example, accounts payable or payroll) are insufficient to guarantee that the SDU receives adequate information for easily posting the employer's child support remittance. Tier understands the dynamics here: As the operation grows in size, the importance of giving employers incentives to submit electronic payments escalates. If employers must continue to use checks, the SDU's remittance processing solution must recognize the limitations under which most child support payments are remitted.

Based on our nationwide remittance processing experience, Tier can recommend a collections solution that integrates our best practices with the latest technologies in remittance processing functionality. Moreover, understanding that the Michigan SDU confronts specific challenges due to both its size and implementation schedule, we have included additional innovations specific to our Michigan solution. Functionally, our remittance processing solution includes the following components, as detailed in Figure IV.B.2.2-3:

- ◆ Mail opening
- ◆ Imaging capture – Pass I
- ◆ Data capture
- ◆ Data perfection
- ◆ Unidentified payments
- ◆ Batch item reconciliation – Pass II
- ◆ Deposit preparation
- ◆ Electronic payments
- ◆ Image archive.

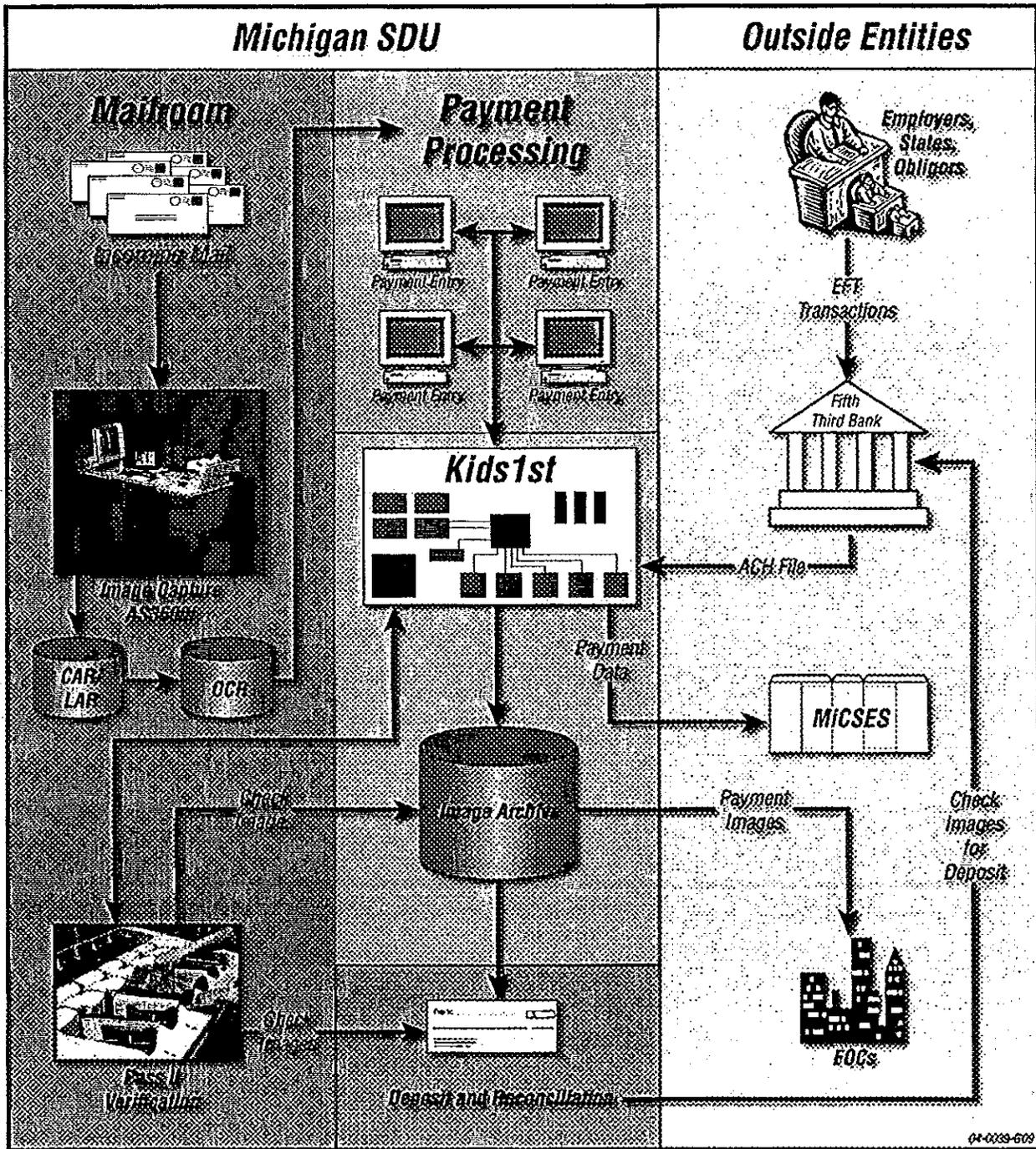
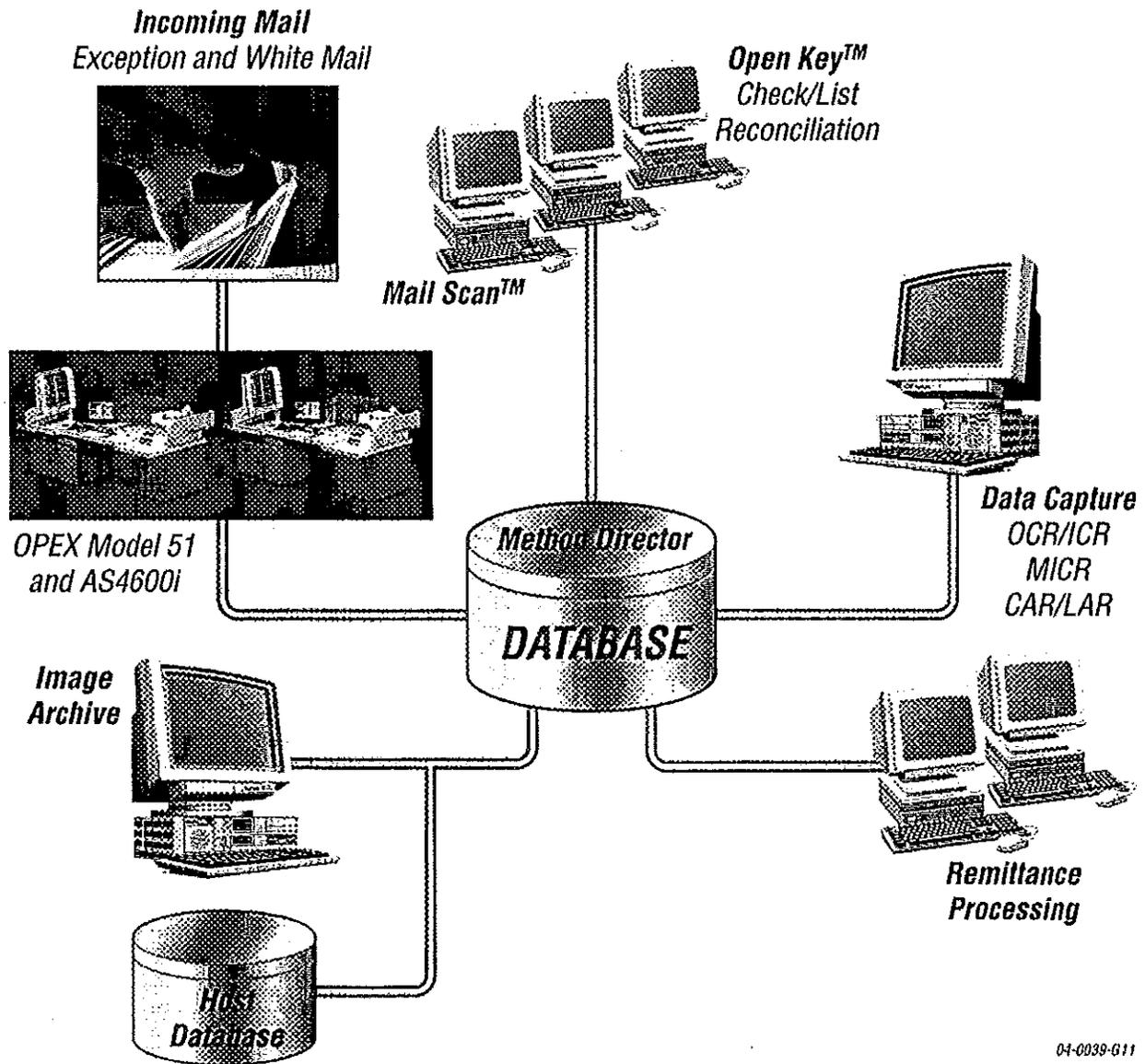


Figure IV.B.2.2-3. This functional overview of the Kids1st application includes the components required for the operation of the MiSDU.

Each of these functions is managed within our Kids1st remittance processing solution—which is an image-based remittance processing system designed specifically for child support payments. Using the latest in remittance processing technology, Kids1st offers the MISDU the following remittance processing technologies:

- ◆ Integrated imaging at the mail station by using the Opex Model AS 3600i
- ◆ Courtesy amount recognition/legal amount recognition (CAR/LAR)
- ◆ Magnetic ink character recognition (MICR)
- ◆ Optical character recognition (OCR)
- ◆ Intelligent character recognition (ICR)
- ◆ Functionally robust long-term image archive and retrieval.

These technologies support each of the functions required by the remittance processing component of the MISDU, while also furnishing integrated support for the MISDU help desk, Friends of the Court (FOC) offices, and other State child support agencies. Figure IV.B.2.2-4 traces the basic remittance processing operation proposed for the MISDU, moving clockwise from the top left corner. The following sections provide an overview of the Kids1st processing flow.



04-0039-G11

Figure IV.B.2.2-4. The technologies used in Kids1st support all functions required by remittance processing for the MISDU.

Mail Opening and Image Capture

By integrating the mail opening and imaging functions within the SDU, Tier reduces processing steps, paper handling, and exception processing and facilitates satisfaction of the State's deposit requirement.

Our interaction with the U.S. Postal Service (USPS) and our proven mailroom operations constitute significant differentiators for Tier's solution when compared with other proposals. The earliest time that we can pick up mail from USPS represents one of the most important considerations in managing the MiSDU mailroom function. In this way we can make sure that all collections received can be processed on the same day.

make sure that all collections received can be processed on the same day. Tier has already contacted the USPS representative in Lansing and has determined that we will be able to make at least three mail pickups at the 4800 Collins Road mail facility in Lansing. The pickups will begin at 3:30 a.m. and will include additional pickups at 5:30 a.m. and 7:30 a.m. on Monday through Sunday.

Our mailroom operations integrate the mail opening and imaging functions of the operation. In most large-scale remittance processing operations, considerable time is expended on opening the mail and preparing it for processing on high-speed remittance processing equipment. Preparing the mail this way not only slows down the initial capture of payment images and data, but also increases the number of exception items detected in the data capture and data perfection functions of the operation. Furthermore, the use of high-speed remittance processing transports increases the need for operations accounting controls by moving the initial point of receipt from the mail opening function to the image capture function. As illustrated in Figure IV.B.2.2-5, Initial Point of Receipt and Image Quality Assurance (QA), operations based on remittance transports may not be aware of a particular check until hours after the SDU facility receives it. Moreover, images captured on typical remittance processing equipment are not viewed—and the quality of the image is not assured by a staff member—until that transaction is presented to the payment processing staff for data capture. If the payment processor categorizes the image as unacceptable, the check and source documents that are by now in separate batches of documents, must be found and reassembled, and the image must be recaptured; this is a sidetrack that significantly decreases the efficiency of the operation.

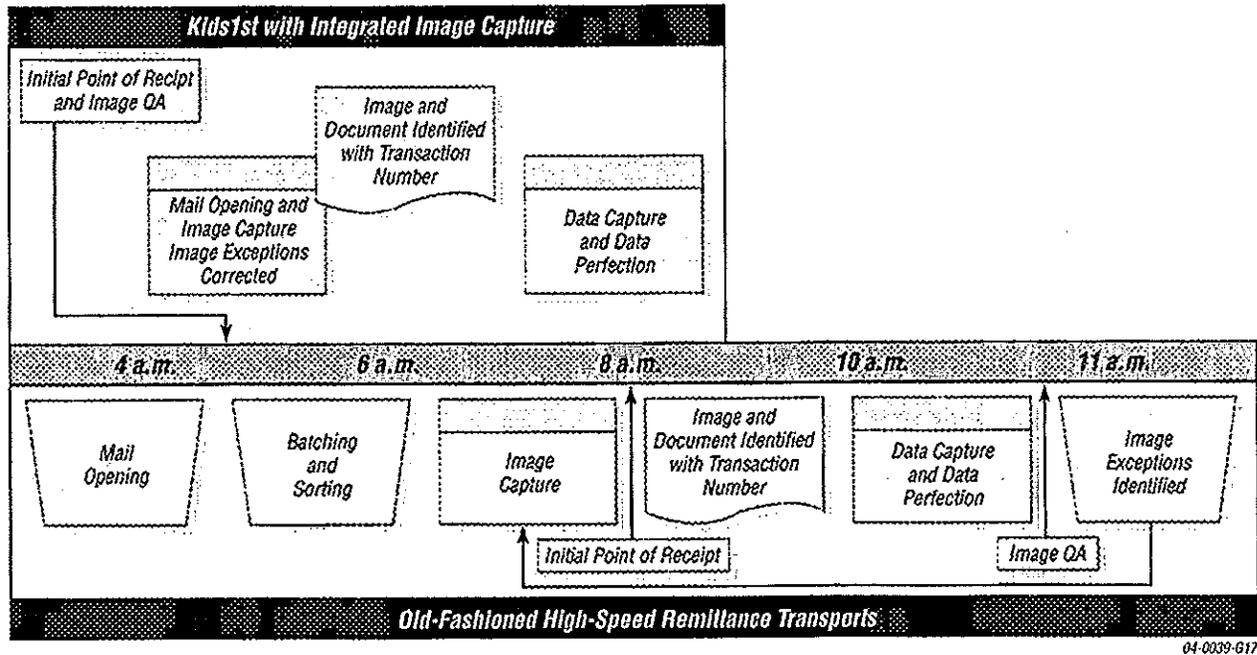


Figure IV.B.2.2-5. Kids1st offers many advantages compared with more traditional methods of handling remittance transports.

In contrast, Tier's solution moves both the initial point of receipt and the image QA process to the mail opening workstation. We are proposing the Opex Model AS3600i scanner, the latest in mail-opening technology, which is shown in Figure IV.B.2.2-6, OPEX AS 3600i. The 3600i high-speed scanner is incorporated in the industry-standard Opex Model 51 Rapid Extraction Desk. Together, the Model 51 and 3600i give the SDU a mailroom solution that enables a single operator to quickly open, extract, prepare, and capture images as well as perform image QA, orient images, read and sort images, create an audit trail, and batch the processed mail. Integrating the image capture and mail opening functions greatly reduces operator sorting errors and significantly increases operation throughput. The Tier mail solution eliminates processing steps, paper handling, and exception processing and also enhances the capability of our SDU operation to satisfy the State's deposit requirement.

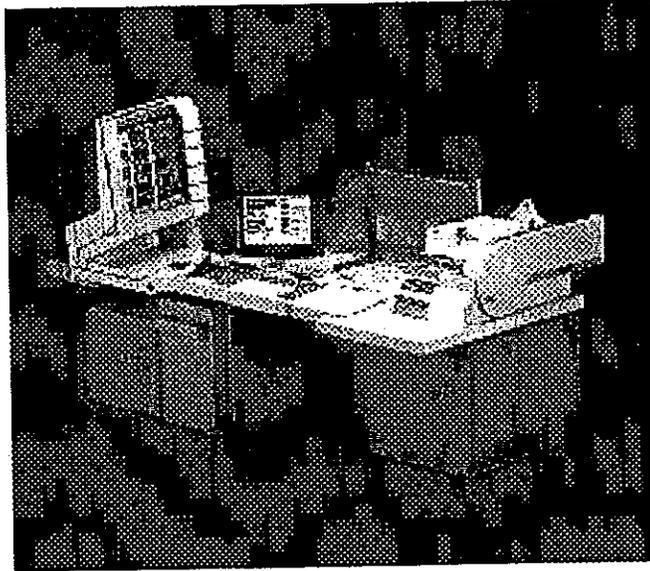


Figure IV.B.2.2-6. For the MISDU we are proposing the Opex AS3600I which is the latest in mail-opening technology.

Incoming Receipts

Standard Payment Receipts

Paper Payments

At Tier, we believe that stakeholders should only notice a vendor change at MISDU due to an increase in services offered, better efficiency, and better customer service. We have been involved in the startup of ten SDUs throughout the United States and understand the difficulties that can come with redirecting payments to new post office box numbers. Therefore, Tier proposes maintaining MISDU's existing post office boxes to facilitate a smooth, seamless transition.

The receipt of paper financial instruments requires strong accounting controls, defined procedures, and strict security in place prior to the first payment being received. Tier's solution encompasses all these requirements and has been tested and confirmed through multiple federal and state audits in our seven existing sites. Please refer to Section IV.B.2.1 Financial Considerations earlier in this proposal for more information regarding our audit results.

Mailroom Security and Accountability Highlights

- ◆ Secured keypad access—only persons with need of access provided the combination
- ◆ Video surveillance—tapes reviewed daily and kept for 1 month
- ◆ Mailroom staff provided lockers outside of the mailroom—no coats, jackets, purses, etc. allowed in the mailroom
- ◆ Financial instruments restrictively endorsed upon removal from envelope
- ◆ Financial instruments imprinted with an audit trail upon imaging
- ◆ Daily Mail Courier Log maintained documenting the amount of mail received
- ◆ Overnight Mail Log maintained documenting overnight items received
- ◆ Cash Log maintained documenting any cash received
- ◆ Batch Header cards printed after each batch imaged—indicating the number of financial instruments, the batch date and batch number, and the name of the operator that imaged the batch
- ◆ Scanning operator able to view image immediately, allowing for image QA

Receipt Electronic Payments [ITB II.C.2.a.3]

Electronic Payments—

- *Greater efficiency*
- *Greater accuracy*
- *Improved timeliness of payments*
- *Less costly*

Tier understands the State's desire to move to electronic processes wherever possible. Our solution includes a comprehensive suite of electronic payment options combined with an aggressive outreach and education campaign. The proposed options are in use or slated for implementation in our other remittance processing operations and provide choices for almost any type of electronic remittance. (See Figure IV.B.2.2-7 below.)

The options include the following:

- ◆ Employer EFT
- ◆ Creation of EFT files for employers on a secure website (currently slated for implementation in our New Jersey SDU)
- ◆ Automatic recurring withdrawals (ARW)

- ◆ Electronic check by phone or web
- ◆ Credit card by phone or web
- ◆ Western Union payments

These are solutions already working in our current remittance processing operations. When they are paired with the outreach described in our proposal, they will provide a significant positive impact on the number of payments submitted electronically.

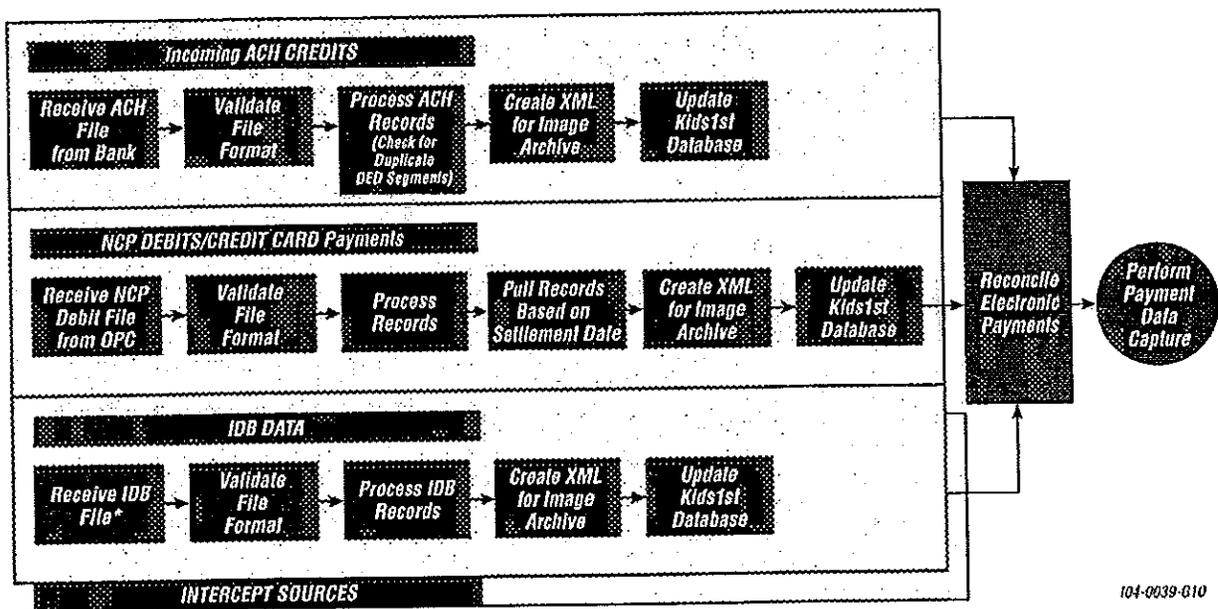


Figure IV.B.2.2-7. Our solution includes a comprehensive suite of electronic payment options combined with an aggressive outreach and education campaign.

Kids1st has been processing incoming ACH credits in Iowa, Maine, Tennessee, Alabama and Kansas since 1999. It handles CCD+ and CTX transactions. Kids1st® includes a flexible-parsing routine capable of accepting CTX DED segments presented according to Electronic Data Interchange (EDI) 820 standards. The parsing routing can also receive withholding dates in either 4- or 8-digit representations. Tier understands there is a CTX-Lite format that is not endorsed by the National Automated Clearinghouse Association (NACHA). Whenever that format is received,

we will work with the employer to assist them in submitting the EFT transaction in a format acceptable to NACHA.

Kids1st is currently being modified to include the following enhancements. These enhancements will be included in the Michigan Kids1st system.

- ◆ Extensible Markup Language (XML) is a simple, very flexible text format derived from SGML (Standard Generalized Markup Language. XML will be loaded into the OnBase image archive module so all ACH payments can be represented on the image archive. (Figure IV.B.2.2-8 below.) Pertinent ACH records include the company and batch header record, detail record and addenda record (DED segment). XML data will be presented by the image archive system as parsed data imposed upon a template. Data will also be presented in raw format to assist in the diagnosis of ACH formatting problems, on behalf of originators.

Addenda Record - Parsed Data													
Record Type	Addenda Type Code	Segment Identifier	Application Identifier	Case Identifier	Pay Date	Payment Amount	NCP Social Security Number	Medical Support Indicator	NCP Name	FIPS Code	Employment Termination Indicator	Addenda Sequence	Entry Detail Sequence
7	05	DED	CS	123456	12/01/02	\$ 125.55	111-22-3333	Y	ANYBODYJOH	1900100		0001	00000001
7	05	DED	CS	222222	12/01/02	\$ 100.00	222-33-4444	Y	ANDERSOGAR	1900100		0002	00000001
Addenda Record - Raw Data													
1 2 3 4 5 6 7 8 9													
12345678901234567890123456789012345678901234567890123456789012345678901234													
705DED*CS*123456*021201*0000012555*111223333*Y*ANYBODYJOH*1900100\000100000001													
705DED*CS*222226*021201*0000010000*222334444*Y*ANDERSOGAR*1900100\000200000001													

Figure IV.B.2.2-8. All ACH addenda information will be retained on image archive.

- ◆ A second enhancement to Kids1st is to add protection against duplicate ACH origination by employers or other states. Duplicate ACH transactions create serious problems where the original payment transactions have already been disbursed prior to the reversal transactions. Kids1st

will include a 5-business day duplication check whereby the complete DED segment—excluding trace number—will be stored on a database table. Each new DED segment received will be compared with entries received over the past 5 business days and the operator will be alerted if duplicates are detected. A supervisor will then make the determination in terms of whether the duplicates are true duplicates or not.

- ◆ A third Kids1st enhancement involves ACH originated by ADP on behalf of its clients. Currently, ADP's company identification number appears in the company identification field for the company and batch header record and is captured by Kids1st. The enhancement will be to capture ADP's client's company identification number from the first nine characters of the company discretionary data field.

Capture Data [ITB II.C.2.a.5]

Kids1st is designed to automate data capture for a significant percentage of the payments received at the SDU. The Kids1st solution separates the data capture function into two specific components, financial instrument and remittance document. This separation complies with and supports the accounting controls, and separation of duties requirements, in the Office of Child Support Enforcement (OCSE) audit guide. The separation is logical because the processes necessary for each component differs depending on whether the SDU is capturing data from a financial instrument or a remittance document.

The MICR data are captured during the imaging process on the 3600i. These data and the image are passed to Kids1st, which captures all other data directly, using the image of the check or remittance document as appropriate. After all the data elements have been captured, the data are then moved to the data perfection stage of the remittance process. Figure IV.B.2.2-9 shows these data elements and associated data capture methods.

Method	Purpose	Data Elements
Magnetic ink character recognition (MICR)	MICR ink contains fine iron particles in the toner. These particles allow the toner to be magnetized so that the characters can be easily read. The routing number, account number, and check number on the bottom of a check are all printed in MICR ink. This technology has been used by banks for years and enables Kids1st to easily read the MICR line on each check.	MICR line from check, including routing and transit number, account number, and check number
Courtesy amount recognition (CAR)	The courtesy amount is the numeric amount written on each check. CAR is used to read this amount, which is compared with the legal amount, read separately.	Numeric amount of the check
Legal amount recognition (LAR)	The legal amount is the amount of the check written in words. Although less accurate than CAR, when used in conjunction with the CAR read, LAR provides an accurate automated means for capturing the amount of the check.	Legal amount of the check as written in words
Intelligent character recognition (ICR)	ICR reads handwriting, typed words, or letters on a document, providing a way to automatically capture pertinent data elements, (for example, case number, SSN) from a remittance document.	Case, participant number, SSN
Optical character recognition (OCR)	OCR requires a special font. Words and numbers displayed in this font can be read automatically with a high degree of accuracy. OCR typically is used when reading the scan line of return billing documents.	Bar codes and special fonts

Figure IV.B.2.2-9. Data capture methods depend on the data being captured.

Designed to confirm that the data sent to MiCSES is accurate, data perfection verifies that the transaction data submitted satisfy the minimum requirements for processing. Data perfection relies on using a validation file (a file of demographic data from MiCSES), historical data stored on the Kids1st system, or some combination of these to facilitate data entry and to validate data for accuracy. Tier understands the business and technical challenges posed by transferring only accurate data to MiCSES. Specifically, as the owner of the information of record, OCS has addressed the challenge by implementing a common business rule for identifying a participant so that payments are positively identified.

As noted previously, Kids1st employs a number of automated methods for data capture. The captured data then are electronically perfected by using OCR technology, as illustrated by Figure IV.B.2.2-10. In Kids1st, the Method Director and grid processing queue components perfect the case identifiers and dollar amounts associated with each transaction.

Name	SSN	County ID	Court Order No.	Date of Withholding	Dollar Amount
Cison, Richard A	XXXXXXXXXX	SG	90D 00515	01/20/04	\$ 103.55
Paquette, Justin E	XXXXXXXXXX	SA	94D 694	01/20/04	\$ 57.70
Palen, Marnie E	XXXXXXXXXX	SG	02 D 75	01/20/04	\$ 125.00
Peterson, Scott C	XXXXXXXXXX	SG	91D 005801	01/20/04	\$ 115.62
Piper, Janet R	XXXXXXXXXX	SG	96D 003817	01/20/04	\$ 17.31
Pomer, Leonard J	XXXXXXXXXX	SG	87D 01542	01/20/04	\$ 81.47
Quigg, John D	XXXXXXXXXX	SG	97PA00345	01/20/04	
Radford, Justin	XXXXXXXXXX	SG	91D 06107	01/20/04	
Robinson, Perry L	XXXXXXXXXX	SG	95PA00881	01/20/04	
Rogers, Kenneth W	XXXXXXXXXX	BA	97D 00011	01/20/04	
Rouse, Denna M	XXXXXXXXXX	SG	91D 00374	01/20/04	
Ruaberg, John Wesley	XXXXXXXXXX	SG	02D 00383	01/20/04	
Seymore, John W	XXXXXXXXXX	SG	00D 00970	01/20/04	\$ 47.55
Seymore, John W	XXXXXXXXXX	SG	02D 00395	01/20/04	\$ 58.26
Seymore, John W	XXXXXXXXXX	HV	HV03D0860015	01/20/04	\$ 55.26
Siemers, William	XXXXXXXXXX	SG	92D 001718	01/20/04	\$ 70.00
Simb, Darrell	XXXXXXXXXX	SG	92PA00531	01/20/04	\$ 99.93
Simb, Russell O	XXXXXXXXXX	SG	94D 001335	01/20/04	\$ 136.16
Simb, Tony	XXXXXXXXXX	SG	93D 000172	01/20/04	\$ 69.47
Squire, Gregory A	XXXXXXXXXX	SG	93PA00166	01/20/04	\$ 69.93
Tabin, Franklin L	XXXXXXXXXX	SG	91PA00202	01/20/04	\$ 39.69
Tabin, Franklin L	XXXXXXXXXX	SG	91R 000395	01/20/04	\$ 46.16
Trefethen, Robert W	XXXXXXXXXX	SG	94PA00921	01/20/04	\$ 53.31
Vandyno, J. Robert	XXXXXXXXXX	SG	96PA238	01/20/04	\$ 71.31
Vesling, Vincent	XXXXXXXXXX	SG	92PA00235	01/20/04	\$ 64.23
Wador, Isaac	XXXXXXXXXX	SG	02 D 006818	01/20/04	\$ 152.70
White, Darin W	XXXXXXXXXX	RN	93D 000852	01/20/04	\$ 46.16
White, Darin W	XXXXXXXXXX	CL	91D 00158A	01/20/04	\$ 51.69
White, Darin W	XXXXXXXXXX	SJ	95D 000033	01/20/04	\$ 87.23
White, Darin W	XXXXXXXXXX	SG	96PA1198	01/20/04	\$ 40.58
White, Darin W	XXXXXXXXXX	SG	90D 01750	01/20/04	\$

Legal Amount (LAR): \$ 9,177.68

Case Identifier (ICR): 714751

Payment Amount (ICR): \$ 9,177.68

Courtesy Amount (CAR): \$ 0.00

Signature (OCR): [Handwritten Signature]

Routing and Account Number (MICR): 00010010 0111456100 123-456 78

Figure IV.B.2.2-10. The automated data capture is electronically perfected by using OCR technology.

Method Director

Tier developed the Method Director application, which controls the performance of the OCR and ICR engines. Based on the characteristics of the payment, Method Director determines how the information derived by the OCR and ICR will be compared to the remit items of the logical enve-

**Logical vs. Physical
(Envelopes, that is!)**

Logical Envelope: One payment instrument and associated documentation on Kids1st.

Physical Envelope: Actual paper envelope with one or many payment instruments included.

lope, in Kids1st. The instructions for this comparison are stored with the list information captured when the first payment from this remitter is processed. These instructions guide Kids1st in reading remittance documents for the appropriate case information, calling the list of historical cases, and querying information to validate cases on the list from the OCR (or our staff can simply call the list without any interaction with the OCR engine). Using OCR or ICR on the remittance document enables more rapid and more accurate processing of payments compared to manual entry of payment data. This image-based process allows the capture and perfection of a significant quantity of case data, with little or no human intervention. Coupons that are generated by MiSDU will be accepted and the data from these coupons will be captured and processed. The coupons aid the OCR and ICR functionality of the Kids1st system in data validation.

Method Director supports many data capture and perfection techniques, employing the one best suited to a particular remitter.

Grid Processing

The association of funds to a particular family case actually occurs in the grid processing stage of the Kids1st workflow. When a batch is moved to the grid processing queue, the payment application data read by OCR or ICR from the remittance document is displayed in the Kids1st application screen. If an associated remittance document cannot be found, the data from the last remittance associated with the check are displayed. The processor then validates the data to confirm applicability to the current payment; any required changes to the captured data can now be made. If the system does not include data for this particular remitter, the payment processor will enter new remittance data, which will be added to the database for use with subsequent payments. Figure IV.B.2.2-11 illustrates a sample grid screen.

Acronym Reminders

CAR: Courtesy Amount Recognition

LAR: Legal Amount Recognition

OCR: Optical Character Recognition

ICR: Intelligent Character Recognition

centage of payments are sent to the Michigan Child Support Enforcement System (MiCSES) with identifying information.

Tier's approach to data perfection and payment identification offers the State a comprehensive solution for satisfying OCS requirements for data and business rule ownership. In addition, our architecture provides a pragmatic solution for reducing the number of unidentified payments, minimizing unnecessary requirements on MiCSES resources, and reducing data entry loads at the SDU itself.

Pass II – Batch Item Reconciliation and Deposit Preparation

Pass II, or batch item reconciliation, accomplishes two separate functions and represents a standard process in any image-based remittance processing operation. First, each check is amount validated a second time. Second, Kids1st looks for duplicate Magnetic Ink Character Recognition (MICR) lines. If any duplicate MICR lines are found, the items are reported for a supervisor to research to determine if a financial instrument was mistakenly imaged twice. The batch is not allowed to be included in the file transfer until all discrepancies in the batch are resolved.

After Pass II is completed, the bank deposit is prepared. Tier is proposing to take advantage of the Check Clearing for the 21st Century Act (Check 21) for depositing financial instruments received at MiSDU. Check 21 allows banks to substitute a paper financial instrument with a machine-readable copy for forward collection or return. The substitute checks are legal and practical equivalents of the original check. By using Check 21, MiSDU can expect:

- ◆ Faster check clearing time
- ◆ Faster returned check notification
- ◆ Improved security
- ◆ Fewer bank adjustments

To prepare the deposit, Kids1st creates a file of the check images that have completed Pass II and transmits the file to Fifth Third Bank by 6 p.m. The file includes the deposit date, deposit amount, and number of items to provide a balancing check for the bank.

Unidentified Processing

Tier's solution provides access to payment images to the State's child support workers. In addition, we are proposing a dedicated website where child support workers can formally interact with the SDU to request information or identify payments.

Tier is proposing an interactive approach for payment identification that will reduce the number of unidentified payments, as we know that some payments will not be posted immediately after receipt. Kids1st includes built-in research tools as part of its design to accommodate the prompt resolution of unidentified receipts. These research tools include maintaining the history and effort associated with all unidentified payments and their resolution and the history of posted payments (by employer name, routing number, and account number).

Kids1st includes functionality that enables the operator to add notes to the unidentified payment, documenting research actions as they happen.

As a permanent part of the audit trail, we maintain files on all actions; dates of action, user IDs of the staff member performing the action, and all notes associated with the action are kept. These notes become a permanent part of the transaction record in Kids1st. When our research identifies the appropriate posting information for the unidentified payment, MiCSES will be updated by posting within Kids1st, for nightly update through a file transfer. In addition to serving as a component of the audit trail for an unidentified payment, the historical effort and contact information can offer clues on how to post a future payment, or whom to contact for posting instructions. Moreover, these posting instructions can be added as part of the posting instructions for future payments on the same case or from the same remitter.

Tier has concluded that providing a web-based reporting tool for the State's child support workers not only affords access to payment images (as discussed in Image Archive), but also furnishes an effective tool for re-

solving unidentified payments and other SDU issues that may arise. Specifically, we are proposing a secure website that child support workers can use to provide a myriad of information or to ask questions of the SDU help desk staff. To confirm that personnel are aware of the status of any request made through this tool, the website sends an email to the original requester to verify that the request was received. Another email is sent when the request is opened for working, and a final email is transmitted when the item has been resolved. Because the website includes specific required fields that the requester must complete, this communication tool has proven much more effective than an unstructured email.

Balance/Deposit/Reconcile

Maintaining proper accounting standards and controls is an integral component of Tier's reconciliation procedures. To maintain these controls, special attention is given to the end of day activities. Prior to sending each transaction file to MiCSES, Tier performs several reconciliation steps that include:

- ◆ Balance number of Financial Instruments processed to the number validated for the deposit.
- ◆ Balance the number of transactions (remits) identified in Kids1st to the number of transactions on the transaction file to MiCSES.
- ◆ Balance the dollar value of the current day's transactions identified on Kids1st, subtract the dollar value of the items sent to the Unidentified Module on Kids1st add the dollar value of the transactions coming out of the Unidentified Module that day to the dollar value of the transaction file being sent to MiCSES.
- ◆ Balance the dollar value of the financial instruments processed in Kids1st for that day to the dollar value in the bank file.

By performing a full daily reconciliation of the bank account, Tier can resolve any issues more quickly. Our project manager and accounting

specialist will have online access to the bank accounts in order to monitor the accounts daily. The accounting specialist duties include the following:

- ◆ Reconcile the bank accounts daily and resolve any discrepancies within 24 hours.
- ◆ Research and resolve all bank actions and discrepancies
- ◆ Initiate the “make whole” process for non-sufficient funds (NSF) checks, sends letter to payer, track and report NSF and Stop Payment collections and losses.
- ◆ Resolves issues when banks reject MiCSES-MiSDU checks and reports results to the State.

Transfers

Receipting payments timely and accurately is not accomplished until the transactions are successfully transferred to MiCSES. Tier understands that premise and knows the day is not complete until the file has been successfully transferred on time. Kids1st is designed to accommodate one or multiple file transfers each day. Tier’s SDU solution can accommodate the anticipated change in the MiCSES technical architecture to on-demand exchanges of collections and disbursement data. This approach will not mean that the collections and disbursements will not be batched, but rather that the batches will be smaller, more numerous, and exchanged with much greater frequency, as illustrated in Figure IV.B.2.2-12.

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
Percentage Received / Processed	24%	13%	12%	10%	16%	15%	10%
Paper Transaction Volume	104,447	56,675	52,224	43,520	69,631	65,279	43,520
Check Volume	65,279	35,360	32,640	27,200	43,520	40,800	27,200

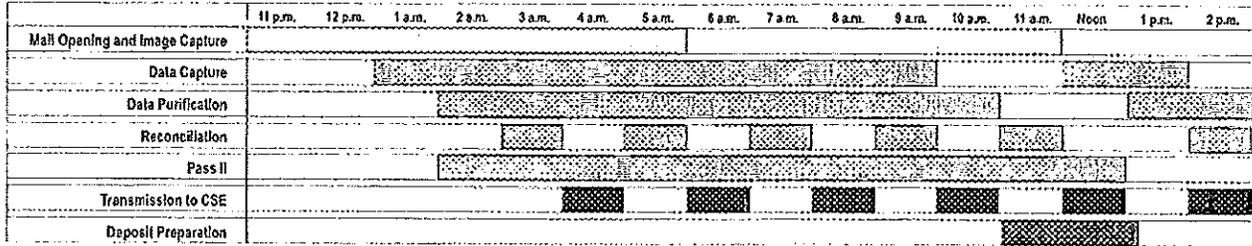


Figure IV.B.2.2-12. We anticipate multiple exchanges of payment data in our solution in order to accomplish timely and accurate receipting, so batches will be smaller, more numerous, and more frequent than in traditional receipting methodology.

The anticipated multiple file transfers solution generates a number of tangible benefits, including the following:

- ◆ This approach will exert a leveling effect on the MiCSES processing load during the day, especially on peak processing days when collections are received in the greatest number.
- ◆ Additional system resources will be available for high-volume processes such as Locate services, analytical reporting, and generation of notices.

To help make sure that these benefits will be achieved, we must minimize the number of unidentified collections that are sent to MiCSES in these small, on-demand batches. The process to minimize unidentified collections will work as follows:

- ◆ This process will use MiSDU business rules and MiCSES data in the form of a positive file to perform a preliminary identification so that we know whether to treat the collection as unidentified at that point in time.
- ◆ Collections that can be identified will be added to the queue of items ready for posting, and can be added to the next appropriate batch.
- ◆ Collections that cannot be identified will be flagged for attention by the SDU payment resolution staff. We will use documented procedures to

investigate these unidentifiable payments, employing an expedited, prioritized approach to identify as many of them as possible on the same day they are received. We will add the minimum quantity of data necessary to identify the payment on MiSDU. As these payments are successfully identified, we will add them to the queue for processing.

Image Archive

When we first designed Kids1st, a major requirement was to accommodate the need to search for payment information a variety of ways. We received input from our researchers and customer service agents on what they needed to locate payment information quickly and efficiently. Based on that input, Kids1st was designed to allow the following research methods:

- ◆ Batch date, batch number and logical envelope number
- ◆ Check number, amount, bank routing, bank account number or any combination of those
- ◆ Maker name, address, city, state or any combination of those
- ◆ IV-D number, obligor name, obligor SSN, docket number, remit amount or any combination of those

For MiSDU we will also add the capability to search by the Federal Employer Identification Number (FEIN).

In addition, the same indexes and search criteria are transferred to the OnBase archive system allowing for the same research capabilities as on Kids1st.

The purpose of the image archive is to add to the SDU operation the seamless short-term and long-term management of images and data, including managing storage devices and document retention. To accomplish this goal, Tier uses the OnBase product, a premier offering in the rapidly growing category of integrated document management (IDM) software. IDM systems manage virtually every type of document image, host-

generated report, application file, HTML forms, email, and video clips as well as every stage of the document life cycle, including creation and input, storage, retrieval, revision, and distribution.

Other IDM systems take a toolkit approach, supplying a set of building blocks that include a common front end for interfacing with several separate software packages. In contrast, OnBase is a single software application that uses a single SQL database, one configuration utility, and a single customizable user interface for all processing and retrieval. This unparalleled level of integration enables OnBase to offer an extensive out-of-the-box functionality to support the most sophisticated document management and workflow solutions.

OnBase is built on a highly evolved, web-enabled, client and server architecture that takes advantage of the openness and scalability of Microsoft SQL Server to deliver high-performance solutions for the department, division, or enterprise. OnBase offers users the flexibility of accessing the system through several types of thin (browser-based) clients, a traditional thick client (Windows Explorer), or even other enterprise applications.

OnBase places paramount importance on the user experience. All user activity is performed quickly, consistently, and securely by using one thin or thick client interface. The OnBase Client incorporates several methods of retrieval, including document type and keyword searching, searching in folders, text searching, and full-text searching. The custom query feature enables the creation of custom templates for specific, frequently conducted searches. The award-winning OnBase cross-referencing feature enables users to double-click on an open document and automatically retrieve any related documents, regardless of data type. With the OnBase application enabler modules, users can even initiate a cross-reference by double-clicking on a field within a third-party Windows or legacy application.

OnBase allows customers to decide how to display the search results list and what descriptive information to include. After a document is re-

trieved and opened, the OnBase Client provides an array of options for viewing (such as forms overlay, thumbnails, zoom), annotating (for example, revisions, markup, redaction, notes, electronic signatures), and revising and distributing the document (such as e-mail, fax, print).

The flexibility inherent in the OnBase solution enables Tier to offer a comprehensive image archive where not only the SDU, but also external stakeholders in the child support community, can access the operation's payment images. On the basis of our experience in other SDU operations, we know that providing image access to the State's child support professionals can greatly reduce the number of requests for information that the SDU receives. The child support worker responsible for the child support case typically requests information about an NCP's employer or address (which often can be obtained easily from a copy of the check) and often questions how a payment was posted. By accessing the payment images, the worker can easily access this information independently, without requesting the image from the SDU.

OnBase Architecture

OnBase incorporates sophisticated mechanisms for the production capture, index, and storage of literally any type of document, whether in hard-copy or electronic format. (See Figure IV.B.2.2-13.) For paper documents, faxes, and forms, customers choose from several capture methods to optimize speed and accuracy while minimizing user intervention.

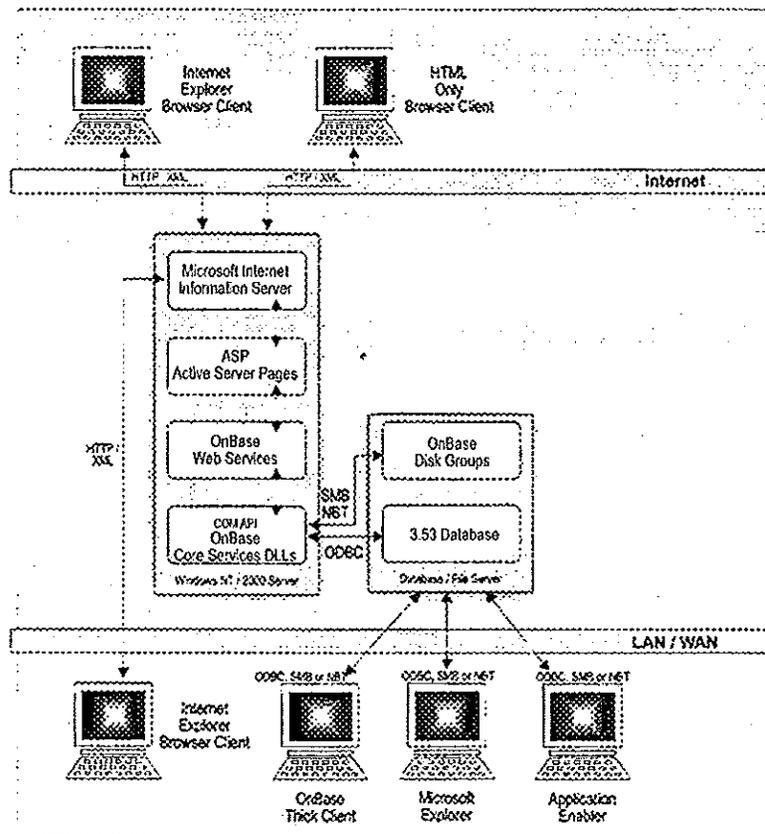


Figure IV.B.2.2-13. OnBase incorporates sophisticated mechanisms for the production capture, index, and storage of literally any type of document.

The OnBase document imaging module interfaces with Kofax and TWAIN compliant scanners to convert paper documents into a variety of standard image formats while providing several options for distributed capture and indexing. OnBase also can store files generated by third-party imaging and forms processing applications by using the OnBase document import processor for high-volume, batch input and the OnBase archival API for real-time input. Any image imported into OnBase can be converted into a searchable text rendition by using OnBase OCR and then can be indexed with OnBase full-text indexing. OnBase features and operations are summarized as follows:

◆ File storage

- Once captured and indexed, the documents are stored on a file server accessible by a driver letter, UNC path, or file transfer protocol

(FTP). OnBase platter management can be used to maintain a set of redundant copies of data and manages the migration of data into long-term storage devices. OnBase platter management can access most forms of data storage devices, including DVD, WORM, CD, RAID hard drive arrays, and storage area networks.

- The file server for document storage can be located either remotely or locally, as long as it is accessible by the methods previously described. If the file server is located on a remote site, OnBase can automatically cache required batches of files to a remote site file server during off-peak wide area network (WAN) cycles to improve network efficiency and reliability. The cached files then can be retrieved locally during peak WAN traffic periods, producing much faster throughput. This approach provides a form of redundancy that permits local file access if files are inaccessible because of the failure of a remote file server or network subnet.

◆ Security

- OnBase security and licensing provide a flexible means of controlling access to documents stored in OnBase. The OnBase security model allows control over the OnBase product functions that each user can use and access. Unique levels of security are achieved by creating a custom set of product rights and privileges for each OnBase user group. An OnBase administrator can rapidly implement a custom security profile for each user or group of users within an enterprise. To further ease installation and administration of OnBase, existing NT or Novell domain user information can be used to create new users with user group memberships mapped from their NT/Novell groups.

◆ Web access

- The OnBase web server is an N-tier application that provides true Internet access to OnBase document repositories, including back-

ward compatibility with existing OnBase document, security, user group, database, and file storage configurations. The OnBase Web server API exposes both Microsoft COM and Java programming interfaces to the OnBase core document management and workflow services.

- Standard Internet Explorer web browsers function as secure OnBase thin clients in both Internet and intranet environments for most client operating systems. An OnBase Active X control offers more advanced OnBase user features over the Internet, including OnBase standard features such as annotations, cross-referencing, custom queries, and server-side full text searching. An HTML-only web client also is available that provides a basic level web client without the need to deploy ActiveX controls to each client desktop machine.
- The OnBase web server requires an underlying Microsoft Internet information server 4.0/5.0 running on Microsoft Windows NT/2000. Multiple OnBase web servers can be deployed in parallel server web farms, including inexpensive web server appliances. All communications are performed using standard Internet network protocols that are compatible with secure socket layer (SSL) and virtual private network (VPN) secure connections.

Accessing the Images

The OnBase web server provides users with immediate access to their information and documents anywhere, anytime via standard Internet Explorer web browsers. Through a standard or customized intuitive user interface, users can view, print, annotate and distribute any information object stored within the OnBase system (Figure IV.B.2.2-14). By increasing operational efficiency and user responsiveness, OnBase web server dramatically changes the way companies do business with customers, suppliers, and remote offices. The OnBase web server enables an enterprise to create automated Customer Service applications that allow customers 24-

to eliminate repeated downloading. New control downloads will only occur if deployed by the system administrator.

An HTML-only web client is available to provide a base level web client without the need to deploy ActiveX controls to each client desktop machine. The OnBase Web Server 2002 is an N-tier application that provides true Internet access to existing OnBase document repositories, with backward compatibility with existing OnBase document, security, user group, database, and file storage configurations. The OnBase web server will co-exist in parallel with OnBase 3.5x configuration and input processing workstations. Multiple OnBase web servers can be deployed in parallel server web farms; including inexpensive web server appliances. The OnBase web server requires an underlying Microsoft Internet Information Server 4.0/5.0 running on Microsoft Windows NT/2000. All communications are performed using standard Internet network protocols that are compatible with SSL and VPN secure connections.

The OnBase API and XML Core Services exposes the Microsoft COM, .NET Interop, and XML programming interfaces to the core OnBase document management and workflow services.

Microsoft focused developers can create OnBase compatible ASP and ASP.NET websites, C# and VB applications, and COM/DCOM/.NET components. Mixed-shop developers can create loosely coupled Web Services that allow cross-platform, distributed access to subsets of the API object model via SOAP and XML.

Most portal frameworks can be integrated with the OnBase API and XML interface. An OnBase Software Development Kit (SDK) is available with interface details, sample scripts, and technical documentation. A full reference set of ASP web pages is provided with the OnBase Web Server 2002 for out-of-the-box document management, workflow, user administration, and remote diagnostic functionality through the web browser environment.

**Detailed Descriptions of Processes—Balance, Deposit, Reconcile
[ITB II.C.2.a.6]**

Standard Payment Receipts

Mail Services

Though not critical to the Tier solution, Tier proposes to maintain, support, and pay the fees associated with the existing USPS Caller Service accounts. Due to the functionality of the Kids1st system, all payments can be batched together; therefore, the need for separate post office boxes is not necessary but will be accommodated. Child support payment types, such as income withholding from employer, interstate child support agency, non-custodial payments, FIDM, etc. are designated during processing at the financial instrument processing level rather than the batch level. Also designated at the financial instrument-level is the identification of the payment type (i.e., cash, check, money order, credit card, etc.). Kids1st functionality to perform this function outside of mail preparation was specifically designed to eliminate the potential for child support payments to be batched in an incorrect batch type. This functionality also eliminates the need for sorting payments into five, six, or seven different batch types for processing, thereby reducing the risk of mingling payment checks with unassociated payment information. In addition, this functionality allows the mail clerk operating the extraction and imaging equipment to work quickly, with careful attention to removing and imaging the checks and documents accurately.

Tier's standard operating procedure is to separate the mail opening and processing functions as required by generally accepted accounting principles (GAAP) and the federal Office of Child Support Enforcement (OCSE) SDU Audit Guide. Our management team's operational approach meets state payment processing standards by clearly delineating the responsibilities of these tasks. Through its ongoing review of workflow procedures, the management team focuses on improving the process while

strictly adhering to the separation-of-tasks requirement. Tier makes sure there is separation of work between staff members who perform workflow tasks related to mail opening, processing, or Pass II validation, and staff members who have supervisory job responsibilities. The supervisory staff is expected to manage the workflow requirements and procedures, as well as assign job responsibilities.

Tier's continued success in payment processing is contingent upon our proven ability to conduct smooth, dependable, and accurate mail operations. Tier has established and refined mail opening and sorting procedures in our seven current SDU operations, and the strict operational processes in the mailroom are based upon management principles that support security, accuracy, and accountability throughout the payment-processing project. Leveraging our experience in managing our government payment processing operations, Tier has assembled management teams that maintain the kind of high-level service delivery the children and families of Michigan expect and deserve.

Mail Courier Delivery

Tier will use a local, bonded courier to provide the mail delivery service. The courier will begin to pick up the MiSDU mail at 3:30 a.m. from the 4800 Collins Rd, Lansing, Michigan mail facility and deliver it to the MiSDU facility no later than 4 a.m. Monday through Sunday, with supplementary pickups at 5:30 a.m. and 7:30 a.m. This schedule will provide adequate time to meet same-day posting of all payments received. The daily delivery will be made to the MiSDU mailroom. Both the courier and the supervisor will sign a receipt for the mail delivery. In addition to the standard mail delivery, twice weekly we will arrange for a bonded courier to obtain any mail erroneously directed to the Family Independence Agency (FIA) Grand Towers offices.

We know that the time window available for processing payments and meeting the performance standard for same-day processing of all pay-

Estimated Mail Volumes Per Delivery

- 3:30 a.m.—30%
- 5:30 a.m.—60%
- 7:30 a.m.—10%

ments received depends, to a great extent, on obtaining the day's mail as early as possible. The timely execution of these tasks is critical to the success of each day's payment processing workflow. That is why Tier will work closely with the courier service to make sure that mail delivery begins no later than 4 a.m.

One factor that distinguishes Tier from other vendors is the experience of our staff. Our supervisors routinely coordinate staffing levels by making proper adjustments corresponding with the mail volume's peaks and valleys. Our firsthand experience, ability to forecast mail flow, and the skill in handling unusual workflow issues are a hallmark of Tier's service to other states. The State of Michigan can depend on Tier to continue this standard of excellence and to offer a proven quality, low-risk solution to Michigan's payment processing needs.

Monitoring Incoming Mail

Tier uses several procedures to monitor incoming mail and to confirm that proper controls are in place. First, on receipt of the mail from the courier, the mailroom team completes the Daily Mail Courier Log (Figure IV.B.2.2-15), which documents each USPS mail pickup and subsequent delivery to the MiSDU. A sample log sheet is provided in Figure IV.B.2.2-16.



Figure IV.B.2.2-15. Based on our experience in this area, we have developed several mechanisms, such as this Daily Mail Courier Log, to monitor incoming mail.

Date Received	Time Delivered	Trays Received	Courier Initials	Mail Staff Initials

Figure IV.B.2.2-16. The MISDU Mail Courier Log completes the tracking of incoming mail.

The courier name is logged along with the mail pickup date. The receiving mailroom employee logs the mail delivery time and the amount of mail received. As Tier does expect to receive overnight items at the MISDU site, an Overnight Mail Log (Figure IV.B.2.2-17) will be employed to track overnight delivery items. In these cases, the mailroom employee's name will be logged along with the receipt date, receipt time, carrier name, tracking number, and sender name. In the event an overnight delivery item is received empty, a letter is sent to the sender informing them of the discrepancy.

MISDU Overnight Mail Log

Date Received	Time Received	Carrier Name	Tracking Number	Sender Name	Mail Clerk Initials

Figure IV.B.2.2-17. The Overnight Mail Log tracks overnight delivery.

The amount of mail received is documented and reported to the Tier management team. Reporting this information as early as possible in the day allows Tier's management to make necessary adjustments to the processing operation. If an unusually large amount of mail is received, Tier's management adjusts work, break, and lunch schedules in order to increase the processing capacity. If further increases are necessary, additional staff members are called in or the length of the workday is adjusted, while adhering to the separation of tasks requirement.

Tier's commitment to the safeguard of payments requires several levels of control. In addition to the outside access of the office being secured, the mailroom and imaging room will have a separate security keypad lock that allows only authorized staff access to the mailroom. When a payment enters the mailroom, it does not leave the secure area until all processing is complete, and it is either being moved to the storeroom or it has been logged as an exception item for return to the sender. The mailroom is equipped with security cameras throughout the room, allowing all workstations to be monitored. All security tapes are reviewed daily to validate successful recording and are stored for at least 1 month. In addition, mailroom personnel are provided with lockers for their personal items such as coats, jackets, purses, and bags, which are not allowed in the mailroom. Tier believes maintaining a strong management presence in the mailroom also contributes to the safeguard of payments. Our management team promotes this belief by ensuring a member of management is present in the mailroom throughout the day.

In addition to the above-mentioned logs, the Mail Log will be maintained in order to properly document the number of envelopes opened and returned as illustrated in Figure IV.B.2.2-18. This log will be completed at the end of the day to recap all the activities in the mailroom.

MISDU Mail Log					
Date	Received			Returned	
	Machine Opened	Hand Opened	Overnight Mail	Misdirected	Forward to FOC and other agencies
06/01/04					
06/02/04					
06/03/04					
06/04/04					
06/05/04					
06/06/04					
06/07/04					
06/08/04					
06/09/04					
06/10/04					
06/11/04					
06/12/04					

Figure IV.B.2.2-18. The Mail Log daily recaps all activity in the mailroom.

When correspondence is received which the MiSDU should answer, the mailroom staff will out-sort these items and forward them to our Customer Service Unit for resolution. The correspondence will be logged and a customer service agent will respond in writing to the inquiry within 10 days. The log will be updated to include the date the inquiry was resolved.

We at Tier look forward to the State's periodic visits to review the operations and logs. We encourage these visits as it allows us to assure the State that all expected controls are in place.

Imaging

Payment processing requires an efficiently run operation to meet all requirements and to make sure that all financial instruments are properly handled and available for deposit daily. Opening and batching payments is critical to a smooth, efficient, and accurate Kids1st posting. The opening and batching process confirms complete control of all financial instruments and cash receipts.

The mail will be opened and imaged on the day of receipt using the OPEX Model 51 Rapid Extraction Desk equipped with an AS3600i Image

Scanner (see Figure IV.B.2.2-19). Tier recommends using this equipment to provide an effective process for quickly and efficiently opening envelopes, extracting the contents, imaging the contents as a logical image envelope containing all of the contents of the physical envelope, and affixing an audit trail and restrictive endorsement. An additional benefit of using the AS3600i Image Scanner is the ability to immediately view the scanned document on the flat screen display. This allows the scanning specialist to determine if the image is acceptable or if the image needs to be retained in color. These critical functions will be performed using multiple mail extraction and imaging stations to provide redundancy in the mail receipting process, and to accommodate the large processing volume.

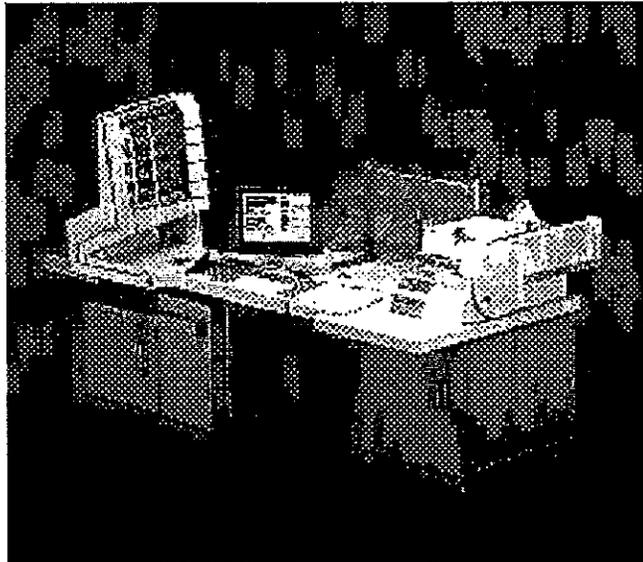


Figure IV.B.2.2-19. Tier recommends the Opex AS3600i to provide an effective process for quickly and efficiently opening envelopes, extracting the contents, imaging the contents as a logical image envelope containing all of the contents of the physical envelope, and affixing an audit trail and restrictive endorsement.

AS3600i Benefits

- ◆ Immediate restrictive endorsement and audit trail
- ◆ Immediate display of scanned documents allowing scanning specialist to perform quality control of images
- ◆ Immediate availability to correct skewed images

- ◆ Drop feed and roller bars keep documents aligned for proper imaging
- ◆ Checks are not lost due to inadvertently imaged as source documents
- ◆ Duplex imaging of all documents.

The mail opening team performs the following functions:

- ◆ Removing financial instruments and accompanying documents from the envelopes and separating the financial instruments, remittances, and correspondence. This may appear to be a routine task, however, our mail sorting team not only understands the importance of properly handling the financial instrument within the envelope, they also understand that, in many instances, important information is contained on the outside of the envelope as well. Thus, our team makes sure all pertinent information is imaged properly.
- ◆ Review image quality as each item is imaged. This allows the mail opening team to ensure quality images are available for the automated processes, the data entry specialists, and for archiving.

In addition to previously mentioned steps, during the imaging of child support payments the AS3600i will automatically tally the number of financial instruments within a mail-opening batch. This will result in an item count of each batch evidenced by an audit trail control number printed on the back of each and every financial instrument included in the count. The audit trail number printed on the back of the financial instrument is comprised of the Batch Date (date of collection by the SDU), Batch Number, Unique Batch ID, Envelope Number, Image Number within that envelope, Scanning Machine ID, User Number, and Scanning Specialist Initials. This provides the first and major control over the financial instruments. This control occurs as the items are removed from the envelopes, thus eliminating the need to have several persons handling the payments prior to applying controls over them.

This two-tiered control feature will reduce the risk of any financial instruments being stolen, as they are restrictively endorsed, and will provide

a clear and certain indication if an item is missing—for example, if one of the sequential numbers is missing from the batch. The separation of the processing and Pass II verification duties—along with the restrictive endorsement and audit trail numbering—will act together as a strong control to make certain the integrity of the entire payment process remains intact.

Batching

The following is a detailed explanation of how Tier batches financial instruments and source documents in preparation for payment processing.

1. Mail is loaded onto the Opex Model 51 mail-opening machine. The Model 51 slices the bottom edge of the envelope and opens the envelope allowing the operator to retrieve the contents of the envelope.
2. The financial instrument is removed from the envelope, scanned, restrictively endorsed, and an audit trail control number is printed on the back of the financial instrument. The audit trail control number consists of the batch date, batch number, unique batch ID, envelope number, image number, machine ID, user number, and scanning specialist's initials. The batch date, batch number and envelope numbers of the audit trail combine to create a unique receipt number for the financial instrument, allowing the financial instrument to be tracked throughout the Kids1st system. At the end of the processing day, the unique receipt number is transferred to the State with the payment transaction record. The specialist removes all source documents from the envelope. These documents are fed in the order removed onto the drop feed AS3600i for scanning into Kids1st. Kids1st links all documents found within the original envelope, such as the financial instrument, remittance, envelope, and all enclosed documents. This technique enables the clear association of all documents that are received within a single envelope. As the items are imaged, the specialists review the images for quality, rotating images as needed and re-imaging documents with poor image quality. Although not required by this In-

visitation to Bid (ITB), Tier will image all envelopes containing payments. We have experienced that identifying information and newer address information is often located on the envelope. By retaining this images we can provide additional locate information to the child support staff and additional payment identification information.

3. The mailroom processor will continue this imaging process until approximately 50 financial instruments are in the batch. Each financial instrument will be kept in printed audit trail sequence. The AS3600i will notify the scanning specialist when 50 financial instruments have been scanned into the batch, allowing the batch to be closed. In addition, the scanning specialist may close the batch at any time prior to the maximum count of 50 financial instruments.
4. When the batch is completed, two copies of the batch header card are printed (see Figure IV.B.2.2-20). The batch header card details the batch date, daily batch number, unique batch identifier, number of financial instruments, number of source documents imaged, and the name of the mail scan operator for that batch. The financial instrument count documented at this stage is the first control step in documenting the batch. At this point, the images are available for the Workflow Director to move to the next step in processing. This process is discussed in greater detail later in this section (Data Capture: Payment Processing and Posting— Kids1st Standard Workflow).

SDU	
Scanned Item Count by Batch	
Date:	20040518
Batch:	0026
Batch ID:	4183
Envelopes:	50
Credits:	50
Remits:	10
Pages:	50
Machine:	2
Operator : Eryan Boehm	

Figure IV.B.2.2-20. The Batch Header Card tracks all information pertaining to each batch.

5. The financial instruments are banded together with one copy of the batch header card and the source documents are banded with the second copy of the batch header card. The bundle of financial instruments will be placed in batch order in the Pass II staging area that is under the control of the Pass II team. The Pass II validation process is where the count of financial instruments and total amount for each batch is confirmed and is discussed in more detail later. The bundles of source documents are filed in batch order in the mailroom. The source documents are kept in the mailroom until the end of the processing day to allow for documents to be retrieved for return to the sender or rescanned if necessary. After the day's processing is completed, the source documents will be stored for 90 days and disposed of in accordance to the document retention guidelines issued by the State Court Administrative Office for the FOC. When permitted by State guidelines, Tier prefers to have all source documents destroyed onsite using a local shredding service. This allows Tier to monitor the destruction process and obtain a certificate of destruction documenting the disposal.

Handling Cash Receipts

In most SDUs, the receipt of cash payments in the mail occurs infrequently. But this infrequent occurrence demands careful attention and exacting adherence to internal controls to ensure the safekeeping of the cash. Tier takes its fiduciary responsibility for handling cash receipts seriously. Tier's receipting methods are fully compliant with GAAP. The method for the actual receipting and handling of cash is a textbook procedure. Sequentially numbered receipts, validation by senior mail staff, and controlled deposit and processing are part of our solution for cash handling.

Cash child support payments received by the MiSDU will be handled with expanded controls and safeguards. This is required because of the vulnerability of cash to be stolen without an exacting process. The steps for cash receipting are as follows:

- ◆ Cash extracted from an envelope during the opening process is brought to the attention of the senior team member in the mail area.
- ◆ The mail team member who encountered the cash payment stops opening mail.
- ◆ The senior team member and the mail team member count the cash and validate the amount received.
- ◆ The senior team member completes a pre-numbered cash ticket. A cash ticket is a check-sized document with a standardized, fictitious bank routing number printed in MICR on the scan line of the ticket (see Figure IV.B.2.2-21). The fictitious bank routing number on the cash ticket informs Kids1st this is a cash payment. On this cash ticket is documentation of the payer's name and case identifier(s), the date payment was received, dollar value of the payment, and the initials of both the mail opener and the senior mail team person. This receipt number will be used as the financial instrument number during the check processing portion of Kids1st, providing a solid audit trail to the Cash Payments Log.

MISDU Cash Payment Ticket			Receipt # <u>1001</u>
Date	Amount	Mail Clerk	Verified by
Obligor Name		Docket or IVD #	

Figure IV.B.2.2-21. The Cash Ticket plays an important role in providing an audit trail to the Cash Payments Log.

- ◆ The cash ticket, any remittance advice, and the envelope are imaged. The senior mail person then places the cash ticket and the cash in the safe.
- ◆ Receipt of cash payments are also recorded in the Cash Payment Log (see Figure IV.B.2.2-22).

MISDU Cash Payment Log					
Receipt #	Date	Amount	Mail Clerk	Verification Clerk	Accounting Clerk
1001					
1002					
1003					
1004					
1005					
1006					
1007					
1008					
1009					

Figure IV.B.2.2-22. The Cash Payment Log tracks payments, backing up the imaging procedures.

- ◆ After the mail-opening portion of the day is completed, an accounting team member removes all the cash payments from the safe, verifies amount and authenticity of the cash, initials the Cash Payment Log and creates the cash deposit.
- ◆ The cash payments log is reconciled with the total for cash processed on Kids1st. Comparing the total amount recorded in the Cash Payment Log to the Cash Deposit Report total of the cash posted in Kids1st for that day will confirm complete processing of all cash received. Individual payments can be examined from the log and receipts if there is a reconciliation discrepancy.
- ◆ If a cash ticket is completed improperly and must be voided, the ticket is marked void and kept with the Cash Payment Log since all cash tickets must be accounted for at all times.
- ◆ Cash deposits will be delivered to the local Fifth Third Bank branch by a member of management the same day received.

Once a cash payment is imaged, the posting within Kids1st follows the standard payment processing flow explained in later in this section. The differences in the processing flow in Kids1st for cash rather than checks are small. They include:

- ◆ The Cash Ticket serves as the financial instrument within the logical envelope and is processed during the check processing flow.
- ◆ Kids1st recognizes the payment as a Cash payment type because of the fictitious bank routing number. (The fictitious bank routing number is defined in the Administrative Controls portion of the Kids1st software.)
- ◆ The receipt number of the Cash Ticket is used as the check number during processing.
- ◆ The Cash Ticket is not deposited to the bank since it is not a negotiable instrument. It is sorted out after imaging and is retained with the cash until the bank deposit is completed.

Misdirected Mail and Correspondence

An everyday occurrence in a SDU is the receipt of misdirected mail and correspondence intended for the FOC. The disposition of these items must be handled quickly and accurately in order to accommodate an efficient mailroom. When misdirected mail is discovered, the imaging staff out-sorts the envelope and its contents. These items are counted, logged, and forwarded to the intended recipient at the end of the day. When correspondence intended for the FOC and other agencies is received, it will be forwarded the same day via express mail.

Quality Reviews in Mail Opening and Sorting

Mail opening and sorting is the process that sets the tone for daily operation efforts. Payment opening and batching should be performed in a consistent and accurate manner to facilitate payment posting efforts down the processing stream. Quality checks are performed periodically throughout the day, with a final inspection as part of the end of day procedures. The quality checks that are performed include the following:

- ◆ All priority envelopes received are torn open to make sure that checks or payment information are not mistakenly discarded.
- ◆ USPS-certified mail receipts are imaged.
- ◆ Courier receipts are imaged.
- ◆ Tier makes certain that payments from the mail operation are not lost in the trash by performing a QA review of the trash. To review the trash, the team member separates all paper to disclose any check inadvertently placed in the trash.
- ◆ The Overnight Mail Log is reviewed for completeness.
- ◆ The Cash Receipt Log is reviewed for completeness.
- ◆ The work areas and machinery are inspected for mail items.

Incoming Electronic Payments

Tier understands the State's desire to provide multiple quick and easy remittance options for its payer community and to keep pace with cutting-

edge payment remittance technology. Our experience with an extensive selection of remittance options will be advantageous to the State as it automates receipt of payments. Remittance options, which are available from beginning of the contract, include the following:

- ◆ EFT
- ◆ Creation of EFT files for employers on a secure website
- ◆ Electronic data transfers
- ◆ Wire transfers
- ◆ ARWs
- ◆ Western Union payments
- ◆ Official Payments Corp.[®] (OPC), which accommodates the following:
 - Web-based payments (via credit, PIN-less debit card, or ACH—electronic checks), recurring and single use)
 - Interactive Voice Response (IVR) system payments (credit, PIN-less debit card)

Tier recognizes that electronic payments will be received not only from employers, obligors, and other states' child support agencies, but also from the State of Michigan payroll. In order to validate that Tier is receiving EFT transactions from employers and states that have been certified to send EFT transactions, we recommend, as part of the transition activities, receiving a file containing the applicable information from the current vendor. Tier will work with the current vendor and the Michigan OCS to obtain the necessary information in a suitable format. The information will be loaded into our database to provide an edit for EFT payments. EFT payments received that fail to meet the certification requirement are rejected.

The following divisions detail Tier's approach to accepting and assisting payers in using the previously mentioned electronic payment options.

Electronic Funds Transfer

Tier is well aware of the advantages of using the ACH network to process child support payments by employing EFT, which offers an efficient and highly automated alternative to paper checks. EFT translates into savings for the state of Michigan as well as the employer or State IV-D agency employing this method. Because of the significant advantages accrued from using EFT, Tier has made EFT a cornerstone of its payment processing technology.

Tier's payment processing application, Kids1st, was designed from the very beginning to incorporate the capability to process all EFT transactions, whether from employers, individuals, or out-of-state IV-D agencies, using various online bill paying systems, commonly referred to as bank drafts. We can accommodate both NACHA-defined CTX and CCD+ formats for the child support addenda record, but these individual items must balance to the total credit submitted by the employer. Our system also easily accommodates the recognition of fees charged by interstate agencies. In addition, the Tier will furnish a website, as described below, where employers can access additional information on generating EFT files.

Three of Tier's current seven SDU operations process EFT payments by using Kids1st (see Figure IV.B.2.2-23). Each of these SDU operations experienced an increase in the number of EFT submissions received from January to December in 2003.

SDU Operation	No. of EFT Transactions Processed in 2003	Amount Collected in EFT Transactions for 2003	2003 Average % of Payments Received
Alabama	310,220	\$33,887,136.99	13%
Kansas	243,439	\$33,321,680.94	12%
Tennessee	344,734	\$37,024,540.45	11%

Figure IV.B.2.2-23. Three states used Tier's Kid1st in 2003 to process EFT payments and experienced an increase in the number of EFT submissions received over the year.

Creation of EFT Files for Employers on a Secure Web Site

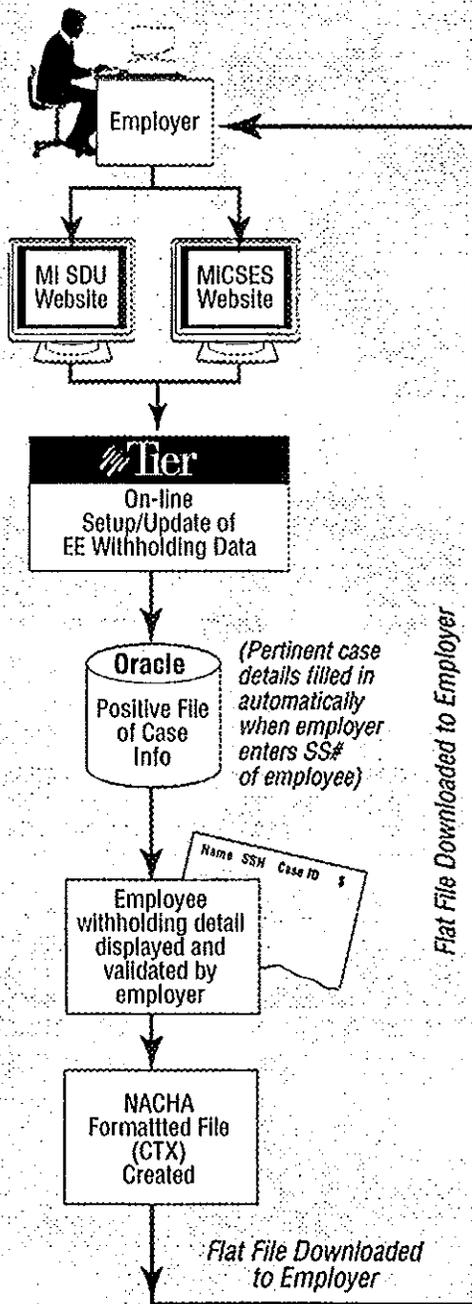
To better enable employers to use the ACH network, Tier has developed an online Internet-based system that takes the guesswork out of ACH setup for employers. Our objective in offering this service to employers is two-fold as follows:

1. To simplify and demystify the process of generating an ACH file.
2. To help the employers to maintain control over their payment submissions.

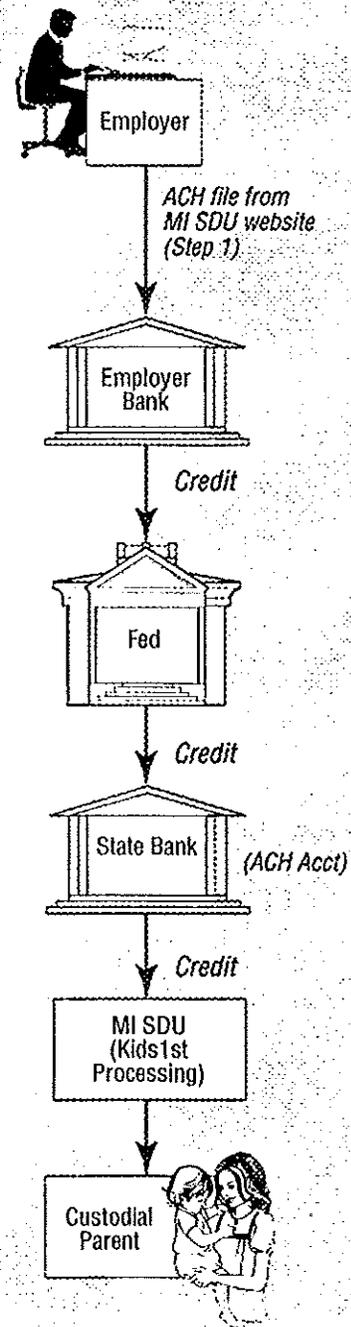
By using our system, employers can submit income withholdings through ACH and can maintain their pay files online. Our system currently is being finalized for Tier's New Jersey SDU operation, with plans to roll the system out to other sites shortly after implementation. Figure IV.B.2.2-24 provides a graphical overview of our online system.

Although many employers may express interest in submitting their payments to the SDU through EFT, most do not have the technical skills or resources necessary to create the required ACH file. The file format for submitting child support payments through the ACH network is very complex; and after seeing the requirements, most employers typically are unwilling to invest the time or money needed to send their child support income withholding through EFT. Tier has resolved this issue by allowing employers to log on to a website where the pertinent child support case ID, bank data, and email address are stored on a secured area of the site. When prompted to do so by the user, the website itself generates the ACH file in the format (CCD+ or CTX) required by the National Automated Clearinghouse Association (NACHA). The Tier web-based solution will finally enable any employer, regardless of size, to enjoy the benefits of EFT without the headaches associated with setup.

Step 1: ACH File Creation



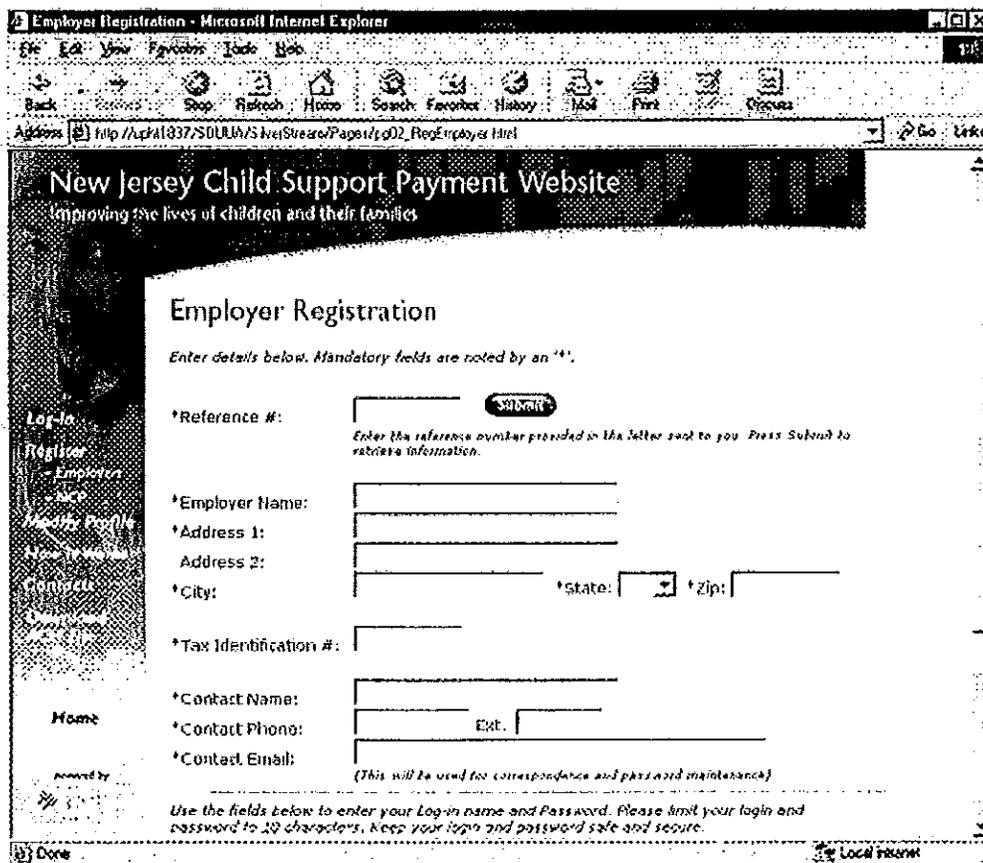
Step 2: EFT to State



04-0039-607

Figure IV.B.2.2-24. Employers can submit income withholdings through ACH and can maintain their pay files online using Tier's system.

Employers will sign up for access to the website and will create a unique user ID and password, enabling them to control access to their child support submission and bank data. Figure IV.B.2.2-25, New Jersey SDU Employer Registration Screen, depicts Tier's New Jersey Employer Registration Screen. Each pay period, employers will access the secure website and enter their income withholding details for members of their workforce who owe child support payments in the State of Michigan. Tier's EFT solution is advantageous because the system is designed to interface with Kids1st to verify pertinent employee case records from the Kids1st database. The EFT information then will be loaded into the SQL Server database and will be available to the application server associated with the secure website.



The screenshot shows a web browser window titled "Employer Registration - Microsoft Internet Explorer". The address bar shows the URL: `http://tcp11837/SOLU/MS/NetStream/Pages/eg02_RegEmployer.html`. The page content includes a header for the "New Jersey Child Support Payment Website" with the tagline "Improving the lives of children and their families". The main heading is "Employer Registration". Below this, a note states: "Enter details below. Mandatory fields are noted by an *". The form contains several input fields:

- *Reference #: [text input] with a "Submit" button. A note below reads: "Enter the reference number provided in the letter sent to you. Press Submit to retrieve information."
- *Employer Name: [text input]
- *Address 1: [text input]
- Address 2: [text input]
- *City: [text input] *State: [dropdown menu] *Zip: [text input]
- *Tax Identification #: [text input]
- *Contact Name: [text input]
- *Contact Phone: [text input] Ext. [text input]
- *Contact Email: [text input]. A note below reads: "(This will be used for correspondence and password maintenance)".

 At the bottom of the form, there is a section for login credentials: "Use the fields below to enter your Log-in name and Password. Please limit your login and password to 20 characters. Keep your login and password safe and secure." The browser's status bar at the bottom shows "Done" and "Local intranet".

Figure IV.B.2.2-25. Currently in New Jersey employers can submit income withholdings through ACH and can maintain their pay files online. We will supply a similar functionality for the MISDU.

Employers will access the secure website and complete the registration process to obtain a user ID and PIN. At that time, they will be prompted to enter their bank details for ACH file generation. Once registered and authorized, the system will allow the user to take the following actions:

- ◆ **Create the information (first-time access)** – The user will be able to enter the employee details. When prompted with an employee case identifier (SSN and name), the system will pre-populate the relevant employee fields with the case information that it retrieved from the Kids1st database. This approach assists the employee and the State in obtaining an accurate entry for a specific employee.
- ◆ **Display the current employee withholding data** – If available from the database, the list of current withholdings will be displayed, showing case number, SSN, name, and amount of deduction.
- ◆ **Update information** – The user will be able to access the list and add new employees and associated relevant case information. Employers also can change amounts and delete employees who have left their firm.
- ◆ **Request the creation of the ACH file** – The system will generate the necessary ACH file to enable the employer to submit the file to the employer's bank for automatic payment to the SDU.
- ◆ **Request download of the file** – The final step will be actually downloading the ACH file to the employer's network as a secure encrypted transfer of the file in the correct ACH format, acceptable to the employer's bank.

At this point, all the employer needs to do is send this file to the bank in whatever medium they agreed on, and the bank will put the file into the ACH network creating a credit transaction with all associated addenda records that will be sent through the Federal Reserve System to the MiSDU ACH account at Fifth Third Bank.

As an enhancement to our initial design, Tier's system will automatically create the ACH file for employers on a predetermined schedule. Employers are then notified by email when their ACH files are ready to be downloaded. This enhancement can help increase the number of timely EFT transmissions from employers because the system will automatically remind them when they need to send their next payment.

Automatic Recurring Withdrawals

OPC, a wholly owned subsidiary of Tier, is capable of processing recurring payments when provided with the payment amount, timing, and frequency from Tier's web portal application. The customer will access and set up a recurring payment via this portal, which is secured by a login and password. Additionally, OPC can establish a "negative" file, provided by the State, to prevent payments by specific account numbers (i.e., blocking flagged customers). The State will need to provide OPC with the negative file on an established frequency for updates. After the ARW has been processed through the ACH system, the transaction then is processed through Kids1st as described later in this section.

Online Credit/Debit Card Payments

Through OPC, Tier can offer obligors the ability to pay their child support online. OPC has earned its status as the leading provider of electronic payment services for government entities by providing innovative solutions to tax and fee collection needs for its 1,500+ clients, including the U.S. Internal Revenue Service (IRS), 22 states, the District of Columbia and numerous county and local jurisdictions. OPC's experience across a broad range of government agencies of all sizes has provided it with an intimate knowledge of the best practices in electronic payments. OPC will apply this knowledge in creating an online payment system for MiSDU that will enable the acceptance of various credit and PIN-less debit cards and electronic checks in an effective, cost-efficient, and user-friendly manner.

OPC's IVR and Internet payment systems for credit/debit/electronic check can be implemented for the MiSDU in a matter of weeks from contract finalization.

In offering obligors the options to pay by credit or PIN-less debit card via the Internet, OCS will enjoy several benefits:

- ◆ Project a technologically advanced image of the MiSDU to the public.
- ◆ Save staff time, resulting in a reduction of expenses associated with processing mailed-in payments.
- ◆ Enable acceptance of major credit cards, with real time authorization of each transaction prior to accepting payment.
- ◆ Separate transactions for the MiSDU payment and OPC's convenience fee make for ease in record keeping and are detailed on a users' statement.
- ◆ Provide for quick settlement of funds via ACH.

MiSDU obligors will appreciate the convenience of electronic payment availability 24 hours a day, seven days a week, 365 days a year, with instant payment confirmation, from their home or office. In addition to saving time, electronic payments can also help citizens eliminate the inconvenience and cost associated with postage and check writing. Obligor can also benefit from the cash management option of financing their transaction over time with their credit cards while earning rewards such as miles, points or other bonuses as available through their Card program.

OPC provides a state of the art client/server-based system, including fault-tolerant industrial hardware, 24-hour/seven-days-a-week on-site service, and 32-bit hardware and software architecture. All transaction data are protected by the same high standards of security, 128-bit SSL encryption technology that we provide for the IRS.

Tier is proposing the use of OPC's Simple Transaction Processor (STP) technology for credit and debit card payment processing that allows the user to remain on the MiSDU website during the entire process. The user will enter the required information for a credit, debit, or electronic check payment on the MiSDU website. Data elements are then transferred to OPC's processing systems, transparent to the user. The confirmation number is presented to the user on the MiSDU website at the completion of a successful transaction. This seamless payment method makes the remittance process simpler, leading to increased user rates.

The OPC site was initially developed based on years of understanding of the credit card payment market. Since its inception, the site has been continuously enhanced through research of the latest technologies and customer feedback so that it now offers clients and their payers the premier web site for government-related credit card transactions. Figure IV.B.2.2-26 provides a high-level overview of the OPC STP payment receipting process.

Included in OPC's services are its marketing efforts aimed at assisting MiSDU in building utilization of the online payment option. OPC can provide best practices, marketing kits, and the assignment of a marketing representative to work with MiSDU to assist in "getting the word out."

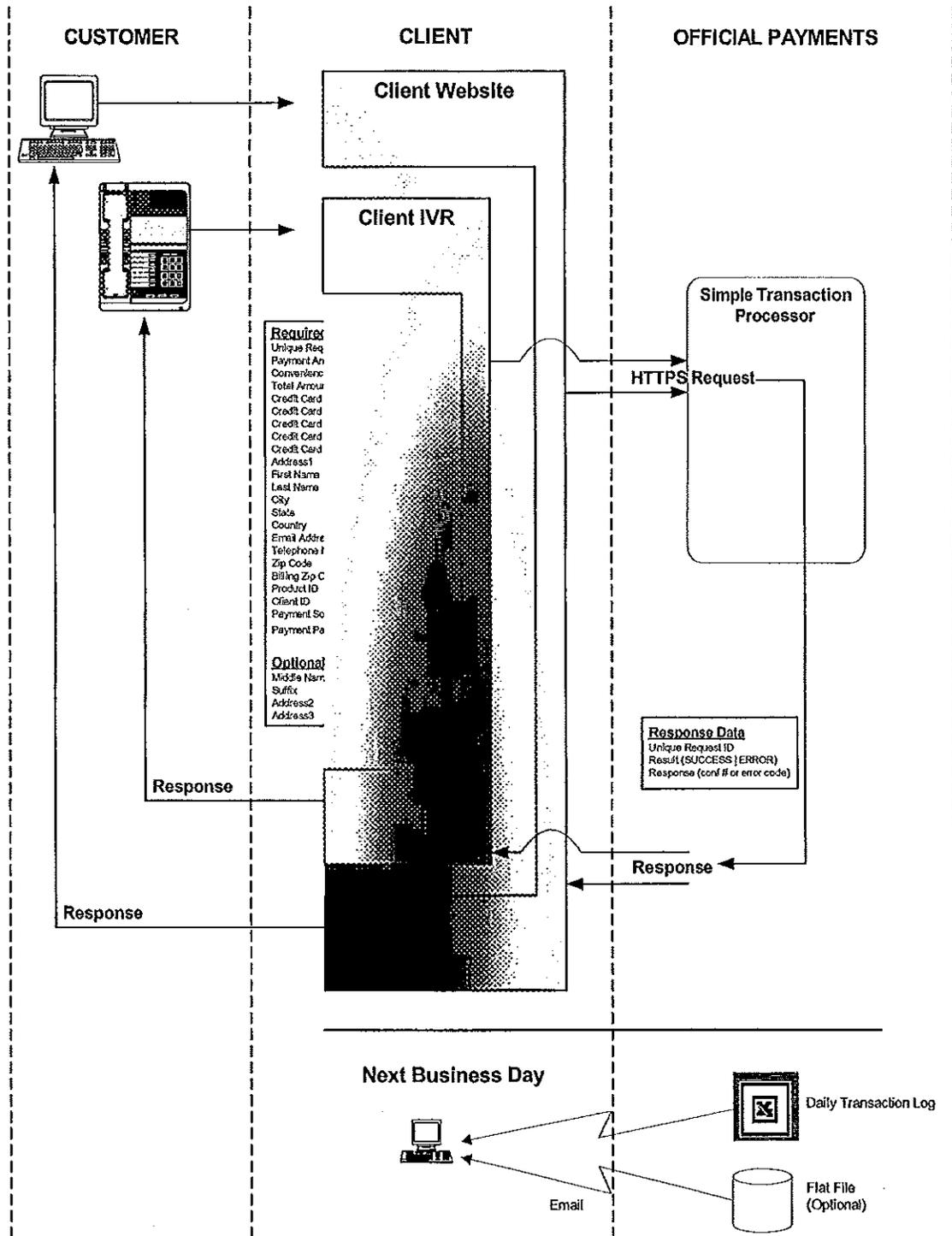


Figure IV.B.2.2-26. OPC's STP payment receiving process was developed to simplify the online credit card remittance process for both OPC clients (i.e., government entities like OCS) and for the constituents of OPC's clients.

Credit Card Payments by IVR

OPC also provides a toll-free accessible IVR to accept credit card payments. This option works the same as the online option except that it takes place over the phone. OPC's technical staff will work with the State to customize the data collected within the IVR script to meet the State's requirements. As with the online option, users are assessed a transaction fee for the use of the service.

Electronic Check

OPC's electronic check option allows both obligors and employers to use electronic checks to make child support payments through the same seamless, STP payment process described above in the Online Credit/Debit Card Payments section.

Michigan's constituents will benefit from electronic checks as another flexible payment option. NCPs and employers will find that the electronic check option provides an easy, paperless alternative. There is no user sign up or PIN access required and users are not locked in to automatic recurring payments. It is a one-time payment option that the NCP or employer can use when they want.

OPC's Internet payment system and IVR make use of the highest allowable levels of security in processing electronic transaction for our clients. OPC's systems capture the payer's transaction information through the data stream originating from the State website, and while the payer is online, OPC systems link to the credit card processor to validate the debit or credit card transaction data or to the financial networks to validate the checking account number. The system maintains a transaction log detailing each payment processed, and the master control system remits files nightly for ACH processing and settlement. OPC further prevents errors by utilizing a master control system that downloads from the credit card clearing facility for balancing in a daily batch balancing process. The system will automatically transmit a "mirror" balanced report for the MiSDU

daily to ensure that the payments posted are in ACH processing. The daily report totals can be used by the MiSDU for deposit slip information and to compare with bank records.

Convenience Fee to Client

The costs to process a credit card, debit card, or electronic check payment will be covered by the convenience fee paid by the obligor or employer. The obligor or employer must be provided the opportunity to review and accept the convenience fee on the State website before a payment transaction can be conducted. OPC requests that it provide to the State certain disclosure language about the fee and OPC's role in providing the payment services which the State will present to the user on the State website. Please refer to in Figure IV.B.2.2-27 for an example of this language, as presented on OPC's website, ensuring the user is completely aware of the financial transaction into which they are entering. If a payer chooses to opt out of the transaction, he or she can do so without charge or penalty.

When OPC processes an obligor's transaction, it completes two unique transactions simultaneously—the first for the child support payment and the second for the OPC convenience fee. The transactions print separately on the payer's card statement for ease of record keeping. MiSDU will continue to receive 100% of its payments without any additional fees or charges by OPC.

Tier believes this enhancement, which can be implemented in a manner of weeks, will provide Michigan constituents with another useful and simplified means for submitting child support payments. It is just one of several enhancements which demonstrates our ability to proactively improve the MiSDU operations.

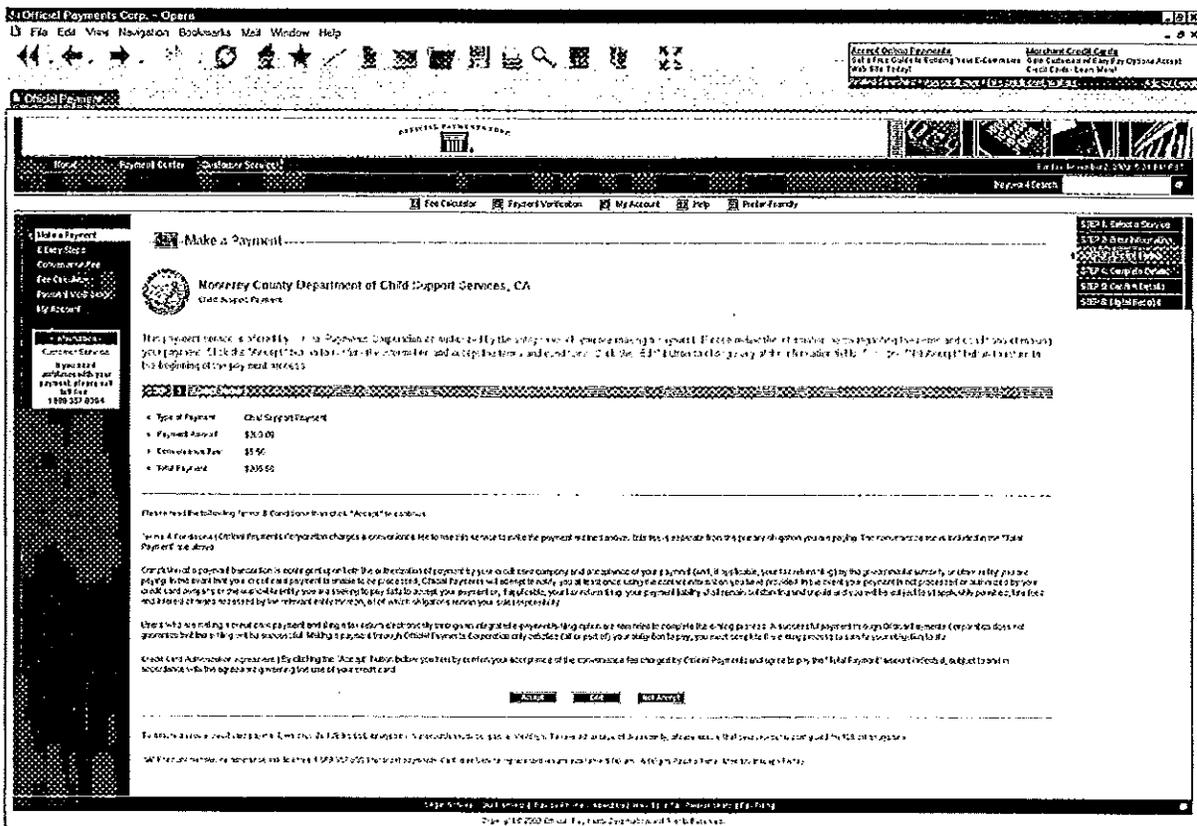


Figure IV.B.2.2-27. The OPC website posts a page notifying users of the convenience fee.

Kids1st EFT Processing

The Kids1st portion of the EFT transaction starts when the MiSDU bank receives an ACH credit file that originated from an employer bank or interstate agency's bank. Tier will establish a bank account specifically for receipt of ACH transactions. A debit-block placed on this account that will only allow the posting of credits, enhancing the security of the State's bank accounts, and introducing simplicity in the reconciling process. Because only ACH credit transactions for child support can flow through this account, it is a very simple matter to track them and reconcile them, so the risk of a credit being incorrectly posted as a debit, is eliminated.

Each morning Tier will retrieve the NACHA (CCD+ or CTX) files received by the bank since the last transmittal, using the prescribed EDI protocols. Kids1st was designed with the capability to parse the NACHA file

directly, without requiring the bank to reformat it to fit our needs. This approach eliminates the risk of data being lost in reformatting. The Michigan SDU EFT processor will retrieve and review these data for obvious errors before importing the day's EFT files into Kids1st (see Figure IV.B.2.2-28).

EFT File	EFT Import Table
File Header Record (1)	EFTBatchHeader
Company or Batch Header Record (5)	EFTEnvelope
Entry Detail Record (6)	EFTCredit (CCD+ and/or CTX)
Child Support "DED" Addenda Record (7)	EFTRemit
Company/Batch Control Record (8)	EFTEnvelopeEnd
File Control Record (9)	EFTBatchEnd

Figure IV.B.2.2-28. Kids1st logic will read the NACHA records, separate the data necessary for processing the payment, and populate the EFT import table in Kids1st by moving the corresponding lines to the appropriate record from which it will be processed

The individual payment instruction lines in the addenda record will be organized into one line of instructions for each child support case. Each line of those instructions will then be connected in the EFT Remit record, with the ACH credit that is associated with it. This process is designed to reorganize an ACH credit and its associated data stream of addenda records, in a format that looks, feels, and functions in Kids1st, exactly as a paper remittance list from an employer would look, feel, and function.

If an error occurs, the record will not be written, but the associated EFT Envelope record will be flagged to indicate an error status, and an error log file will be written with the data in question. This log file will be used to send the operator a data-in-error message for correction or other determination of correction. If too many errors arise, the operator can exit the process and go directly to the EFT Raw data file to determine whether to correct and proceed to the next EFT Remittance file from the bank. In any case, the associated data already captured and inserted into the database is

considered dirty and will be removed from the database in preparation for reprocessing.

After the data are screened for errors, the Kids1st system will validate that each remit record can be positively identified in the Kids1st database. Kids1st then will check for any financial instrument, remit level, or case-level posting instructions. (A posting instruction message can be placed on many levels and is intended to alert the processor or system of any special instructions. An example of the use of a posting instruction message would be alerting processor that the employer continually sends the incorrect case number for that employee and to correct the case posting.) If an item cannot be positively identified, or if an item has a posting instruction associated with it, the item will be removed from automatic processing and placed in the grid processing queue to be processed just as if it were a paper check, as described earlier in this section (Grid Processing). (See also Figure IV.B.2.2-11). To accommodate the lack of a paper image, during the import process, Tier creates an electronic report to display the child support payment information from the child support addenda record on the EFT file as an image. This image has the look and feel of a check stub, but is watermarked with EFT behind the text. If the ACH addenda record of the EFT item includes all of the case data necessary to positively identify and apply it, and it does not include an associated posting instruction, Kids1st will automatically apply the item, so that no manual intervention is needed. This process is identical for employer credits with multiple items in the addenda record.

Non-Standard Payment Receipts

Electronic Data Transfers

Tier understands that some employers and states send their checks with child support payment data included on electronic media. Kids1st accommodates the input of withholding data included on 3 ½" diskette, CD, and DVD media.

Because the electronic payment data and a separate paper financial instrument are remitted, Tier images the financial instrument in a separate batch. Using the Kids1st Electronic Data Capture module, the operator enters the batch number of the payment and the type of electronic media received (i.e., 3 1/2" diskette, CD/DVD). The system administrator pre-defines the paths to each of these types of media. The operator then selects to download the files from the electronic media into Kids1st. This process allows the payment information to be associated to the same logical envelope as the financial instrument. The payment is then processed in Kids1st through the standard processing workflow.

Wire Transfers

Wire transfers are those electronic payments with unique needs. They are unique since the remittance information is not received at the same time as the funds. Due to this anomaly, special care is required to assure the funds and the remittance information is reconciled properly prior to posting the payment information. Tier currently processes wire transfers in some of our existing SDU operations and have existing, proven procedures for processing these types of payments. We also realize that change is difficult with some entities; therefore, we are willing to accommodate existing MiSDU procedures when practical. Since wire transfers do not have a financial instrument attached to the paper transmittal form, Kids1st accommodates the entry of these payments as a non-cash credit. The accounting specialist creates a non-cash credit ticket, which acts as the financial instrument in Kids1st.

Since transfers from the Michigan Attorney General's office are intermittent, Tier recommends creating a Wire Transfer Listing form for the Attorney General's office to complete when a wire transfer is made. This form can be faxed or emailed to MiSDU for processing and a confirmation of receipt will be sent to the Attorney General's office within 8 hours of receipt. The confirmation will be sent via email to the designated person-

nel. Upon receipt of the form, the accounting specialist will validate the receipt of the funds, complete a non-cash ticket and then submit the form and the non-cash ticket to the mailroom for imaging into Kids1st. The payment then is processed through Kids1st normally, following the standard workflow. A payment method of "Attorney General" will be created in Kids1st and used for these payments allowing for statistical reporting of the amounts received from the Michigan Attorney General's office. The non-cash items are reported on the Non-Cash Deposit report and included on the daily reconciliation form.

Transfers from the State of Michigan payroll and Ford Motor Company require a combination of procedures. The accounting specialist will create a non-cash credit ticket after verifying the funds have been received. The non-cash ticket, acting as the financial instrument, will be entered into Kids1st using the Electronic Data Transfer method detailed previously. The non-cash ticket and the electronic data are matched to the same logical envelope allowing for the transaction to be processed normally in Kids1st. The non-cash items are reported on the Non-Cash Deposit report and included on the daily reconciliation form.

We understand that FOC receipts payments directly into MiCSES and wire transfers the funds to MiSDU and that Tier would be responsible for reconciling the posted amount to the wire transfer amount. We anticipate MiSDU would receive a daily report from MiCSES detailing the payments received by the FOC. Tier would recommend receiving a totaled list of the payments receipted by FOC to facilitate reconciling the wire transfer amount in the bank account, with the report totals from MiCSES and FOC. During joint sessions with OCS, Tier will finalize procedures for notifying MiCSES and/or OCS that the FOC payments are balanced and available for release.

Western Union Payments

Tier currently uses Western Union Quick Collect in our New Jersey SDU. The payer can go to any Western Union location, select the MiSDU as the payment destination, and make a payment for child support that can be receipted at MiSDU the same day. The funds from Western Union can be received electronically by MiSDU and processed through the Kids1st EFT/ACH processing system. Although OCS is not expecting Western Union payments to be available until 6 months after contract start, Tier will provide this payment option the first day of processing.

Data Capture: Payment Processing and Posting — Kids1st Standard Workflow

Check Processing

Tier operates central child support receipting units in the states of New Jersey, Maryland, Tennessee, Kentucky, Alabama, Kansas, and Minnesota. Our work plan for the MiSDU is based on our experience of processing more than \$11.89 billion in payments nationwide since 1999. Tier's experience has led it to refine and integrate strong and straightforward accounting controls. These controls include maintaining a separation of duties, employing strong audit trails, and using the automated reconciliation checks in our Kids1st software. Tier's work plan for entering payments integrates and builds on Kids1st controls with operational policies, rules, and processes.

Our understanding of Michigan's preferences and requirements for this project is evidenced in this proposal. Tier's work plan is an ongoing, proven methodology for entering payments in an accurate, efficient, and secure manner for the MiSDU. Our plan calls for three reconciliation levels in the processing stream, with three different persons performing the reconciliations. The reconciliation levels are described as follows:

- ◆ Individual financial instruments are reconciled to the remittance advice detailing support-payment information for each instrument posted.

- ◆ Batches of financial instruments are reconciled to the data stored in Kids1st during the Pass II validation process. The Pass II validation team performs this, making certain that the bank deposit is equal to what is sent to MiCSES.
- ◆ The aggregated batches to be deposited are reconciled to aggregate data contained on each transmission file. A supervisor performs this function prior to generating a transmission file.

CAR and LAR

The first automated Check Processing module is called Courtesy Amount Recognition and Legal Amount Recognition (CAR/LAR). The CAR/LAR module enables Kids1st to attempt to read the both the legal amount line and the courtesy amount line of the financial instru-

<p>Acronym Reminders CAR: Courtesy Amount Recognition LAR: Legal Amount Recognition OCR: Optical Character Recognition ICR: Intelligent Character Recognition</p>

ment. The courtesy amount is the numeric amount on the item, while the legal amount is the text amount written out on the item. These data are then used to populate the check amount on the Check side of the transaction. CAR/LAR is only applied to the image that was captured in the Check panel of the Imaging window.

The CAR/LAR functionality of Kids1st makes the processing of payments more efficient due to the fact that a processor may not need to key in the amount information of the check if interpreted properly. Second, it builds quality control right into the system by segregating the processing of the check amount of the transaction from the data entry of the case amounts. If the two do not equal after entering the two segregated amounts, then a supervisor or lead worker balances the transaction in a separate step called Imbalance.

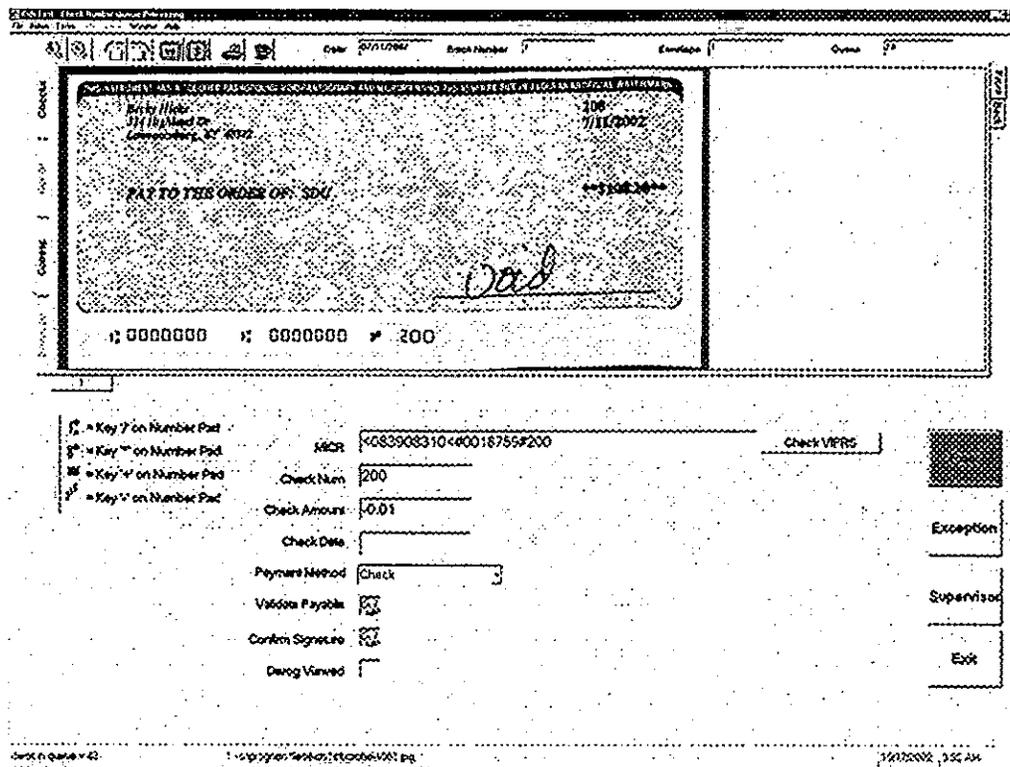
Check Validation

If the Kids1st OCR module determines that it cannot properly read the check data, the imaged workflow case is sent to the check validation queue for processor review and data entry when required. From the screen depicted in Figure IV.B.2.2-29 the processor will validate and correct all of the check data. For example, if the MICR data were read wrong or could not be interpreted by this module, the processor will enter the corrected bank routing number and account numbers.

Other information that is validated by the operator, based on failures to interpret by the CAR/LAR process, includes the following:

- ◆ Check Number
- ◆ Check Amount
- ◆ Check Date
- ◆ Payment Method
- ◆ Confirm Signature
- ◆ Validate Payable Line.

Kids1st is designed to accept cash, checks, money orders, credit card payments, debit card payments, EFT, direct withdrawals, and wire transfers. The method of payment is stored as part of the payment transaction, enabling statistical information to be obtained. Additional payment methods can be accommodated upon agreement with the State.



The screenshot displays a check validation interface. At the top, there are navigation icons and fields for 'Clear', 'Batch Number', 'Envelope', and 'Queue'. The main area shows a check image with the following details: 'Pay to the Order of: SDU', 'Date: 11/11/2002', and 'Amount: \$200.00'. Below the image is a data entry form with the following fields:

- MICR: 60390331040018755#200
- Check Num: 200
- Check Amount: 0.01
- Check Date: [Empty]
- Payment Method: [Check]
- Validate Payable:
- Confirm Signature:
- Deny Voided:

On the right side of the form, there are buttons for 'Check VPRS', 'Exception', 'Supervisor', and 'Exit'. At the bottom, there are small text labels: 'Check Date: 11/11/2002', '1:00:00 PM', and '11/11/2002, 3:52:00 PM'.

Figure IV.B.2.2-29. Check processors will validate and correct all of the check data from the Check Validation Screen.

MICR Flip

Kids1st is equipped with a feature that allows it to properly recognize the bank routing number and check number on money orders and U.S. Treasury checks. Money orders and Treasury checks quite often have the check number or money order serial number in the Account Number field. Kids1st has a feature that allows it to correctly interpret future money orders or U.S. Treasury checks. The bank routing number indexes financial instruments that have been set up with MICR flip. The stored bank routing number is the index that prompts the interpretation and storage of the MICR numbers, usually recognized as account numbers, to be stored properly as the check numbers.

The first time a specific money order is scanned, it is sent to the check validation queue for specification of the payment method. The processor then has the ability in Kids1st to recognize this as a money order and, to

initiate the “MICR flip” review. If, during visual inspection, the money order number is in the Bank Account Number field, then the Flip MICR button is clicked. From this point on, when this bank routing number is seen, the information that would have gone to the bank account number field will be written to the Check Number field on the database. This is extremely important when searching for a particular money order number. If this “MICR flip” were not performed, it would be very cumbersome to locate that item.

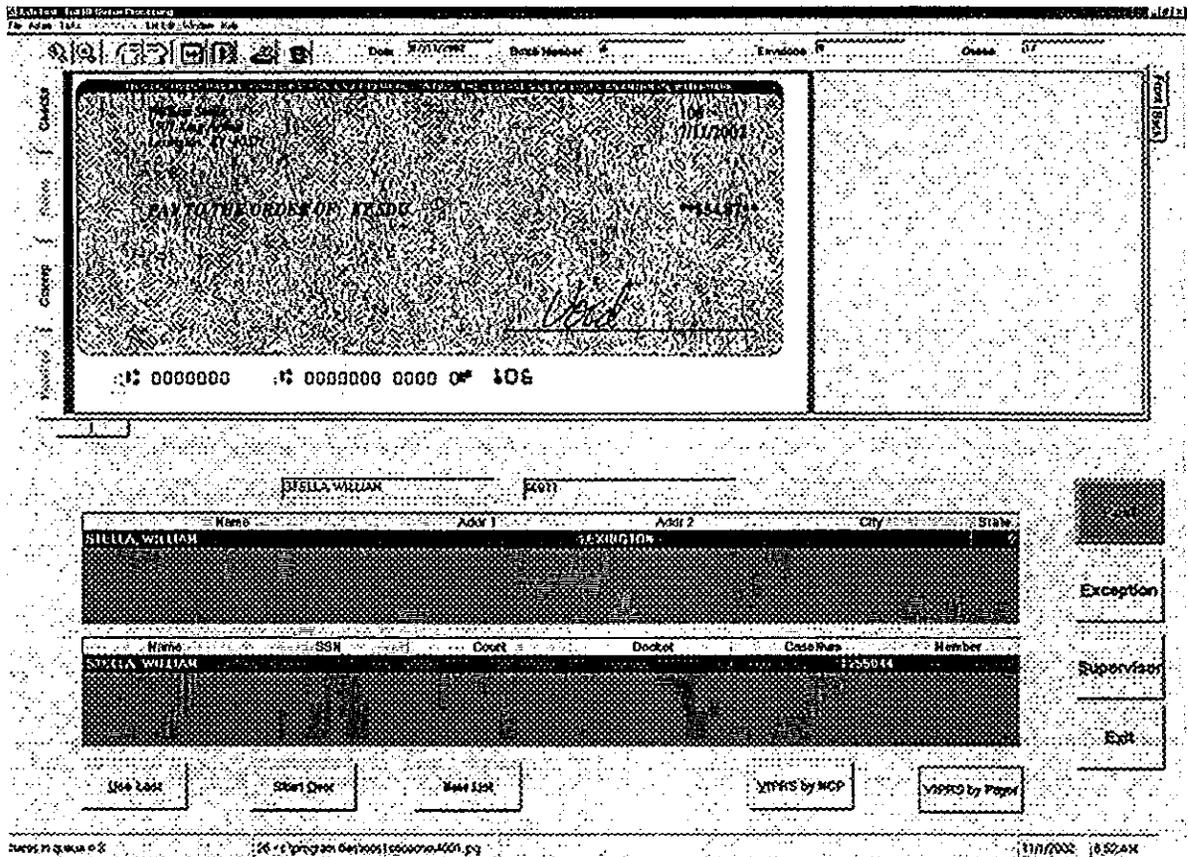
List ID

Financial instruments are sent to this queue only when a bank routing number and account number do not match an existing bank routing and account number in the Kids1st database. Because there is no matching bank routing number and account number, a remitter (submitter) was not identified. A processor will research existing remitters in the system to determine if a valid remitter has just changed bank accounts, or if this is a new remitter of payments. If a remitter cannot be located in the system, a new one is created with as much identifying data as are available about the remitter. The information includes:

- ◆ Name of the Remitter—the name of the person on the check
- ◆ Street Address
- ◆ Postal zip code
- ◆ City—auto-filled based on zip code
- ◆ State—auto-filled based on zip code
- ◆ OCR Method.

Establishing the List ID is a key index to the Kids1st system. All future payments received by the MiSDU from this remitter, recognized by the bank routing and account numbers, will be linked to the case information for posting. The case information is retained for future processing to allow more accurate and efficient posting of payments in grid processing (see section entitled “Grid Processing” below). Remitters of payments

generally use the same checking accounts to submit their payments over and over. By indexing the MICR and List ID within Kids1st (Figure IV.B.2.2-30), this consistency is used to maximize efficiency in processing payments received without a payment remittance. When payments are received with a payment remittance, Kids1st is able to read the remittance for the correct posting information.



The screenshot displays the Kids1st software interface. At the top, there is a menu bar with options like 'File', 'Edit', 'Print', 'Check', 'Transfer', 'Account', 'Member', 'Case', 'Print', 'Exit'. Below the menu bar, there is a header area with fields for 'Date: 07/17/99', 'Batch Number: 5', 'Envelope: 1', and 'Case: 07'. The main area is divided into two sections. The left section shows a check image with the text 'PAY TO THE ORDER OF: TRIC' and a MICR line at the bottom: '00000000 00000000 0000 0# 106'. The right section is a form for case information. It has a 'Name' field with 'STELLA WILJAN' and a 'Phone' field. Below this is a table with columns for 'Name', 'Addr 1', 'Addr 2', 'City', 'State', and 'Zip'. The first row contains 'STELLA WILJAN', '16300 N. 163RD AVE', 'MEXQUON', 'IL', and '60138'. Below the table is another table with columns for 'Name', 'SSN', 'Docet', 'Docet', 'Code/Plan', and 'Member'. The first row contains 'STELLA WILJAN', '123456789', '123456789', '123456789', '123456789', and '123456789'. To the right of the tables are buttons for 'Exception', 'Supervisor', and 'Exit'. At the bottom of the interface are buttons for 'Use List', 'Start Docet', 'New List', 'YTRS by MCP', and 'YTRS by Paper'. The status bar at the bottom shows '11/1/99 08:52AM'.

Figure IV.B.2.2-30. Case Information is retained for future processing and will be available from the List ID Screen.

Derogs

Kids1st is designed to accommodate special posting instructions called “derogs,” short for derogatory files. An authorized user can create Derogs manually at the financial instrument level and at the member or case level. In addition, each day we will receive a file containing all checks that were

returned unpaid. By loading this file into Kids1st, we can automatically create financial level derogs for checks returned due to NSF and account closed. For example, when a check is returned to the MiSDU for NSF a Derog is created on the bank routing number and account number to send future checks to the Exception queue. This allows future checks received on that bank account number to be automatically sent to Exceptions for return to the sender. In the instance of NSF checks, a Member Level derog is also entered in order to determine if a payer is paying using a different checking account. When this occurs, the payment can be sent to exception in order to return the payment to the sender (see Figure IV.B.2.2-31).

Derog Type	Fields Used	Result
Financial Instrument Level	<ul style="list-style-type: none"> • Bank routing number • Bank account number 	Depending on the derog reason code, Kids1st either sends the Financial Instrument to Check Validation for processor review or automatically sends the check to exceptions for return to the sender. When the check is sent to Check Validation the derog narrative is displayed to allow the processor to determine the proper resolution, whether the payment needs to be sent to exception or continue with processing. When a derog is entered using the reason code of NSF, then all payments on the specified bank routing and account number are automatically routed to the exception module for return to the sender.
Financial Instrument Level	<ul style="list-style-type: none"> • Bank routing number • Bank account number • Check number 	Kids1st sends the Financial Instrument directly to the Exception module, eliminating processor intervention. Stop payment derogs are entered using these fields.
Member or Case Level	<ul style="list-style-type: none"> • NCP SSN or • IVD Case number • Docket number 	The derog narrative is displayed in Grid Processing when a payment is applied to the NCP SSN or Case number that has a Member- or Case-Level Derog. The processor reviews the derog narrative to determine the proper resolution, whether the payment needs to be sent to exception or continue with processing.

Figure IV.B.2.2-31. This figure depicts the various types of derogs, the fields used to enter the derog, and result of the encounter in the Kids1st system.

Before sending any item (financial instrument or electronic payment) to the remittance processing stream of Kids1st, the system checks to see if the financial instrument is on the derog. Kids1st checks the financial instrument by examining the bank routing number and account numbers combination and the check number to determine if any special processing

instruction exists for that particular bank account or check. If no financial instrument-level derog is found in the system, the workflow director will send the entire batch of images to the remittance processing section of Kids1st. Once the batch has moved to the remittance processing section of Kids1st, the financial instrument data captured cannot be altered except for the amount in Imbalance. Only a staff member with supervisory system authority can access the Imbalance screen to update the amount.

Remittance Processing

At this point in the processing, the data on the Check side of the transaction has been captured. The List ID and payment methods have been established. Once completed, the batch can then have remittance information input or validated. That information includes the case identifiers and the dollar value to be attributed to each case identifier. The method director and the grid processing queue perform this process.

Method Director

Method Director is Tier's application that directs the running of the OCR engine. Method director determines, based on the characteristics of the list, how the OCR-derived information will be compared to the remittance items of the logical envelope in Kids1st. The directions are stored with the list information that is entered during the List ID process, and can be altered during posting in the grid screen. Direction options will guide Kids1st to read the payment remittance for the appropriate case information, call the list of cases from history and query information to validate cases on the list from the OCR, or simply call the list without any interaction with the OCR engine. Utilizing OCR on the payment remittances enables payments to be processed faster and more accurately than manually entering payment information. This process will allow more payments to be processed with little or no human intervention.

Grid Processing

Grid processing is the stage in the Kids1st workflow in which the application of funds to a particular family case actually occurs. When a batch is moved to the grid queue, the payment application data that were read by OCR on the remittance is displayed in the Kids1st application screen (Figure IV.B.2.2-32).

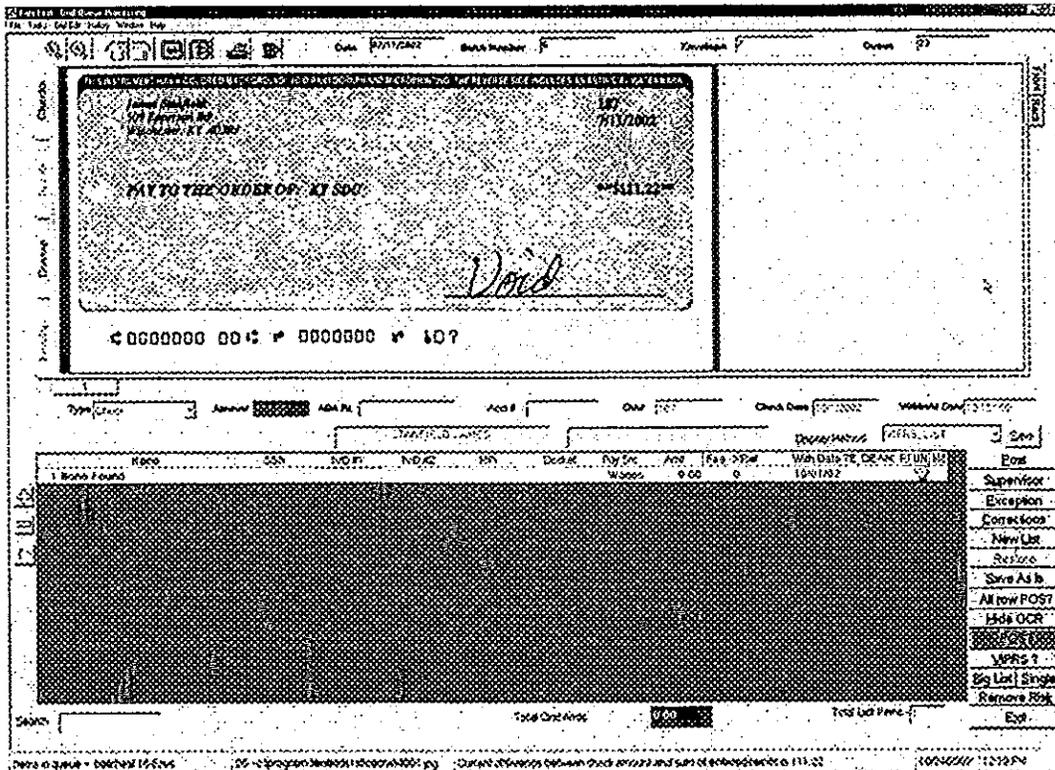


Figure IV.B.2.2-32. Grid processing is the stage in the Kids1st workflow in which the application of funds to a particular family case actually occurs.

If there is not a remittance, then the data from the last remittance associated with the check are displayed. The processor then validates the data to make certain they are applicable to the current payment, and any changes are made at this point. If data do not exist in the system for this particular remitter, then the payment processor will enter new remittance data, which will then be added to the database for use with subsequent payments. The validation file feature of Kids1st allows for the remaining

case identifiers to be supplied by entering a single identifier. In many instances, the employer only submits limited identifiers with the payment. Our processors are able to enter one identifier and search for the remaining identifiers, thereby reducing data entry errors and suspense items. Upon a successful search of the validation file, the processor visually verifies an additional identifier listed on the remittance prior to completing the posting of the payment. The additional identifiers used will be in accordance with the Posting Matrix included in the ITB. In the event there are not sufficient authorized identifiers included with the remittance, the payment is posted to unidentified for a research specialist to obtain the required posting information.

Kids1st accommodates posting of transactions regardless of the number of transactions associated to the financial instrument. The grid processor validates or inputs each and every case specified on the remittance image and reviews the correspondence for additional information if it appears it may have additional case information. The input of any case identifier can be used to recall other case identifiers. For example, if a recipient ID is provided, the processor can input the ID and Kids1st will query the validation file provided by the State. All of the possible case numbers that match the input ID will be displayed for selection of the correct case ID and payer ID for validation purposes. Determination of a correct posting for paper and electronic payments will be based on two identifiers (NCP name or SSN and docket number). For interstate payments, Tier will use the IV-D identifier when that is the only identifier present on the remittance. When a payment is designated to a child support case, that designation is called a remit and is assigned a unique remit ID, which is stored in the database. In addition to the unique remit ID, Kids1st assigns a line number for each remit on a payment. Earlier in the Batching section, we discussed the unique receipt number as consisting of the Batch Date, Daily Batch number, and the logical envelope number. When the payment is

designated to one or more child support cases or to unidentified, the remit line number becomes part of the unique receipt ID.

After the input or validation of case identifying information is complete, the dollar amount of the remittance is then entered or validated. This process of case validation, or input and dollar posting, is performed until all of the cases and dollar amounts are posted.

As mentioned earlier, Kids1st does not require sorting of payment sources into specific batches. During the remittance entry in grid, the payment source is determined and specified. Once the payment source is established, the source is saved in the database associated to that List ID. The next time a payment is received for that NCP on that list, the source type is obtained from the database. Any number or type of payment sources can be accommodated and are established in the system administration module of Kids1st. Kids1st can easily accommodate the following payment sources desired by the State of Michigan:

- ◆ UA
- ◆ Employer
- ◆ Federal Tax Offset
- ◆ Special Instruction
- ◆ Levy or Lien
- ◆ Interstate
- ◆ FIDM
- ◆ State Tax Offset
- ◆ Bonds
- ◆ Bonus
- ◆ Obligor
- ◆ Lottery
- ◆ NSF or Payee Recoupment
- ◆ Service or Processing Fees
- ◆ Online FOC

As previously mentioned, any future payment sources the State may require can easily be created in Kids1st using the Administration module. Kids1st can receipt QDRO/EDRO payments, and we will work with the State to determine any needs MiCSES may have in processing this payment type.

As in check processing, derogs associated with a case identifier are reviewed and the appropriate actions are taken. The processor must review

these items before the posting of the remit can be completed. There are occasions where a particular case must be given special handling, and Kids1st has the functionality to make sure that such handling is received. The ability to send items to a nonstandard processing queue is present on the grid screen. Nonstandard processing is explained later.

Kids1st has a built-in alert to notify the processor if a payment being posted to an obligor is outside the normal payment range. The current payment amount being posted is compared to the historical payment amounts maintained in the Kids1st database. When a payment is posted for an amount that is a predetermined percentage from the historical amounts, the processor receives a "Risk" indicator. The risk indicator informs the processor that this payment is at risk of being incorrectly posted and that the processor needs to review the posting before proceeding.

When processing of the remittance is completed, the processor hits the F9 key to post the payment. The next remittance in the batch appears. The complete cycle is performed until all of the remittance images of the batch are processed. This process is greatly expedited by the fact that the vast majority of the payments that will be processed on any given day will not require input, only validation. The case identifiers will already be present and only dollar amount inputs will be required. The efficiency gained through this method allows a payment processor to post in excess of 370 payments per hour.

Imbalance

A balancing operator, usually a supervisor, will resolve issues that come up automatically after failing a required accounting edit in the system. That edit occurs when grid processing is complete. Kids1st checks to see if the dollar value of the check item and the value of the remit item(s) of the envelope are equal. If they are not equal, the logical envelope is automatically sent to imbalance.

This out-of-balance status can occur when the CAR/LAR engine approved an incorrect value for the check, a processor keyed an incorrect amount for the check, or the payment processor made a mistake in entering the amounts from remittance advice provided with the check. The information will be presented in the same window format as the grid window. See a sample imbalance screen in Figure IV.B.2.2-33.

The balance operator can only change the financial instrument amount or remittance amount. If the payment cannot be balanced, then the item will be sent to the exception queue. The exception specialist will contact the remitter for corrected information, return the payment, or take other necessary corrective action.

VENDOR: 3668 CHECK NO. 4302 076454

VOUCHER NO.	INVOICE NO.	INVOICE DATE	INVOICE AMOUNT	AMOUNT PAID	D/DOUNT TAKEN	NET CHECK AMOUNT
070102		7-01-02	117.86		.00	117.86

SARCOVE SOFTWARE SYSTEMS INC

Name: CUMDIFF, RICHARD VJO SSN: 008-60-2225 VENDOR: 3285110 WAGES: 117.86 00 0

- Supervisor
- Exception
- Corrections
- New List
- Restore
- Save As Is
- All row POS?
- Hide OCR
- ChkPos
- SeePos
- VPRS?
- Big List
- Single
- Remove Risk
- Exit

Figure IV.B.2.2-33. An out-of-balance status can occur when the CAR/LAR engine approved an incorrect value for the check, a processor keyed an incorrect amount for the check, or the payment processor made a mistake in entering the amounts from remittance advice provided with the check.

The Kids1st portion of the EFT transaction starts when the depository bank account receives an ACH credit file from a bank or bill-pay system. Tier will designate a specific bank account for the receipt of ACH transactions. This account can then have a debit-block, allowing only credits to be posted to it. This serves to add security to the bank accounts, as well as to introduce simplicity in the reconciling process. Because only ACH credit transactions can flow through this account, it is a very simple matter to track them and reconcile them, and it eliminates the risk of a credit being incorrectly posted as a debit.

Upon receiving the file of ACH credits each morning, the bank will forward the data to Tier in the NACHA format in which it was received, using the prescribed EDI protocols. Kids1st was designed with the capability to parse the NACHA file directly, without the need to have the bank reformat it to fit our needs. This eliminates the risk of data being lost in reformatting. Tier EFT processor will retrieve and review these data for obvious errors before uploading it to Kids1st.

Kids1st logic will then read the NACHA records, separate the data necessary for processing the payment, and will populate the EFT import table in Kids1st from which it will be processed. If an error occurs, the record will not be written and the associated EFT envelope record will be flagged, indicating an error, and an error log file will be written with the data in question. This log file will be used to present to the operator with the "data in error" for correction or other determination. If there are too many errors, the operator can exit the process and go directly to the EFT raw data file to make a determination whether to correct and proceed or get a new file from the bank. In any case the associated data already captured and inserted into the database are considered dirty and will be removed from the database in preparation for reprocessing.

Once the data have been screened for errors, the Kids1st system will validate that each remittance record can be positively identified in the

- ◆ The item appears on the derogatory file, instructing the processor to “exception” the item due to previous insufficient funds or stop payment
- ◆ Conversion of foreign funds

When items are removed from the normal processing stream, they require additional accounting controls and tracking. Those additional controls and tracking steps include the following:

- ◆ Appropriate documentation of the reason for the exception
- ◆ Maintain ability to trace the logical-imaged item
- ◆ Document re-association of the check and source documents
- ◆ Maintain tracking of the physical check and source documents
- ◆ Document the actions taken to resolve the exception reason
- ◆ Record the final dispensation of the payment, whether it was returned to the issuer of the payment, forwarded to the original payee, or re-scanned for processing with corrected information.

Tier fully understands that losing an exception item is a failure in our execution of our fiduciary responsibility. We also understand that any delay in executing appropriate actions, whether contractually required or not, is a similar failure. This is why we have developed an extensive and comprehensive subsystem to Kids1st to make certain this failure does not occur. The exceptions queue and associated processes provide to management and to the State of Michigan full reporting and inventory status concerning the exception items in our trust.

Exception queue procedures are as follows. Please note how the control points are an integrated part of the entire process from the moment a payment processor chooses to exception an item to the final disposition of the item by the exceptions specialist.

As stated earlier, exceptions are payments that cannot be deposited in the bank. They occur either as a manual choice of the payment processor or automatically by matching to a derogatory file. The option to exception a payment appears on almost every window in the Kids1st system. If the

payment processor chooses the option, he or she is forced to select a reason for removing the item from the processing stream, and provide a narrative explanation that will be used by the exception specialist. This is the first instance of documentation and control. As an example, when processing an item in grid processing, the payment processor determines that the payment is not payable to MiSDU. The payment processor will select the exception button, select a reason code for the exception, and provide a narrative in the free form text box indicating that the payment is payable to someone else. Kids1st then removes the payment from the processing stream and places it in the exceptions queue.

The exception payment will appear on the pull report. The pull report lists all items that have exceptions, but have not yet been physically removed from the checks and stubs in the scan room. A scan operator will run this report at different points throughout the day. They will physically remove the items from the batch of checks and stubs, one item at a time, and then clear the item from the pull report through a dialog on the Kids1st system by checking a box on the pull screen. The pulled exception items are immediately routed to the exceptions specialist for resolution. This pull process occurs throughout the day to ensure problem payments to be resolved or returned to the issuer the same day.

The pull report and dialog is a powerful tool for tracking and re-associating payments. It includes the printed report and viewable copies of all of the documents associated with the logical envelope that has been exceptioned. If the scanning specialist is having trouble locating the items to pull, he or she has the option to view a picture or image of those items.

Automatic rejects are configured in the administrative subsystem of Kids1st. These occur when no human intervention is needed or desired to exception a payment. Automatic rejects are usually driven by the derog function of Kids1st. The typical example of an automatic reject is the case of an NSF check. When Tier is informed that an NSF check has been re-

Kids1st database. It will then check for any financial instrument level or case-level derog. If an item cannot be positively identified, or if an item has an associated derog, it will be removed from automatic processing and placed in the grid processing queue to be processed just as if it were a paper check. If the EFT item has all of the case data that are needed to positively identify and apply it, and it does not have a derog associated with it, Kids1st will automatically apply the item with no-manual-intervention-needed designation.

Federal tax offsets frequently have credits and fees deducted which require State make-whole funds. When this occurs Tier will immediately request from the State funds to make the transaction whole. Tier recommends a State Make-Whole Request form be created to document this process.

Data Capture: Payment Processing/Posting — Kids1st® Non-Standard Processes

Processes within Kids1st are used to address the inevitable times when payments require additional or extra action for appropriate posting. Many of the processing examples are dealt with by employing these tools to document the actions taken with unusual payment submissions.

The nonstandard processes include the supervisor queue, exception queue and process, foreign items queue, NSF items, and the reject report.

Supervisor Queue

This process allows an operator to send a logical envelope to a supervisor or lead worker for review. This is usually used when an item may not need to be removed from the Kids1st processing stream. The questions asked of the supervisor or lead worker usually pertain to the application of a business rule for processing or are a request for a higher authority opinion for appropriate processing. The supervisor can see the message or question from the processor and can respond with the correct course of action or can fix the problem and process the item. Since the supervisor

process involves the supervisor queue, it is available in the same interface that the payment processor was using. If the logical envelope was from the check process queue, then the logical envelope will be sent back to the queue for completion of processing. When the item is sent back to the queue of origination, a message of direction for processing appears on the window as it is processed. If the logical envelope was sent to the supervisor queue from grid processing, then the supervisor or lead workers will fix and process the envelope themselves.

The benefit of using the supervisor queue is that it allows a payment processor to receive direction for the appropriate action to be taken with a payment, while avoiding the need to make an exception of the payment from the processing stream. If a payment were sent to exception, it would have to be re-imaged once the question or issue was resolved. The supervisor queue avoids this labor-intensive process.

In addition, the supervisor queue allows the payment processor to document the question or issue, allowing a more senior member of the team to offer direction or answer the question. Payments sent to the supervisor queue could be compiled and used for project-wide training and business rule development and documentation.

Exception Queue and Process

The exception queue is a function that allows a payment to be removed from the processing stream. Payments are removed from the processing stream based on contractual or business rules mandating that the check and payment cannot continue to be processed. The inability to continue to process a payment can occur for a number of different reasons, including:

- ◆ The payment-source documents and checks may not have been scanned properly
- ◆ Check is not signed
- ◆ Check is post-dated more than 2 days or is stale-dated
- ◆ Courtesy amount and the legal amount of the check do not match

turned, we can add the bank routing and account number to the Kids1st derogatory file with an automatic reject. All future checks with that bank routing number and account number will be automatically rejected and sent to the pull report.

At this point, the Kids1st system knows which payment processor exceptioned the payment, why they exceptioned the payment, that the physical item has been retrieved and re-associated, who performed that function, and that the payment is awaiting exception specialist action.

The exception specialist is a key member of Tier's processing staff. The exception specialist is responsible for the appropriate resolution of the exception payment, thus "closing the loop" of the exception cycle. This team member will operate under a set of business rules defined by contract and established with the cooperation of the State. If an item is to be returned with a notice, for example, a non-negotiable item was received from a payer, a check from a payer from whom the State refuses payment, then the exception specialist generates the notice and envelope for return with the item. The exception specialist then inputs a narrative description of the return into the Kids1st exceptions subsystem, thus effectively clearing the item from their work inventory. In addition, the notice is imaged and associated to the returned payment image. Images of the returned items and all associated narratives are available for audit and review at any point.

If the exception item is resolved, it is reintroduced into the processing stream by rescanning the item into a new batch. The exception specialist types a narrative message of the actions taken for resolution and documents the disposition of the item as rescan. Payments for rescanning will be batched together throughout the day and forwarded to the scan room. The scanning operator will be prompted to note the original batch number and envelope and check number to establish a complete audit trail of re-introduction for processing.

A report of the number of exception items assigned to the exception specialist, known as an exception inventory report, can be generated at any point. This report will show when the item was exceptioned, by whom, for what reason, and it will provide audit trail information about the exception. The exceptions specialist will match this report daily to the physical payment items. A member of the project management team will review the reconciliation daily for accuracy, completeness, and compliance. All of the system images, audit trails, and narratives will be maintained for audit and compliance purposes.

Foreign Funds Queue

Working with our banking partner, Fifth Third Bank, we are able to obtain current conversion rates for foreign deposit items received at MiSDU. For each item in the queue, the specialist will access Fifth Third Bank's website to obtain the current exchange rate for the item and enter the converted amount in U.S. dollars. The specialist will document the conversion as part of the resolution narrative. The narrative is maintained on the database associated to the images of the foreign item and any correspondence received with the payment. The foreign item then continues through the standard workflow in Kids1st and is processed by the grid operator using the converted amount. The original amount and currency type are maintained in the database along with the converted amount. The original and converted information is included on the Foreign Items Report and will be available for State review. Foreign items are out-sorted to allow the creation of a separate deposit for these items, which will be delivered by a member of management to the local Fifth Third Bank branch for deposit into the main deposit account.

Kids1st Unidentified Receipt Module

- *Items available for research and resolution the same day received*
- *Original receipt ID is retained*
- *Research notes become permanent part of record*
- *History maintained to provide faster resolution on future occurrences*

Unidentified Receipts

As child support funds are deposited daily, Kids1st is designed to track receipts that cannot immediately be associated to a case. Unidentified receipts occur when payments are received without proper identifying information or with illegible identification. Tier's Kids1st system has an Unidentified Receipt module (see Figure IV.B.2.2-34) that allows us to maintain an audit trail of those payments not readily identified. A major component of the audit trail is maintenance of the original unique control number—assigned during the imaging process and consisting of batch date, batch number, and envelope number—in the Unidentified Receipt module. During processing, when the worker determines there is not enough information to post a remittance to an existing case, the worker can code that transaction as unidentified. The unidentified transaction is immediately sent to the unidentified module for the research and exception specialist clerk to resolve. Using the various tools available—for example, researching through MiCSES or calling the remitter—the production specialist will examine each unidentified payment received that day. Kids1st maintains the functionality for the worker to add notes to the payment, documenting research actions. These notes become a permanent part of the transaction record and are available for review anytime the transaction image is displayed. When research determines the unidentified payment should be split between multiple case identifiers, Kids1st has the capability to accomplish the correct posting without forfeiting the original control number or compromising audit integrity.

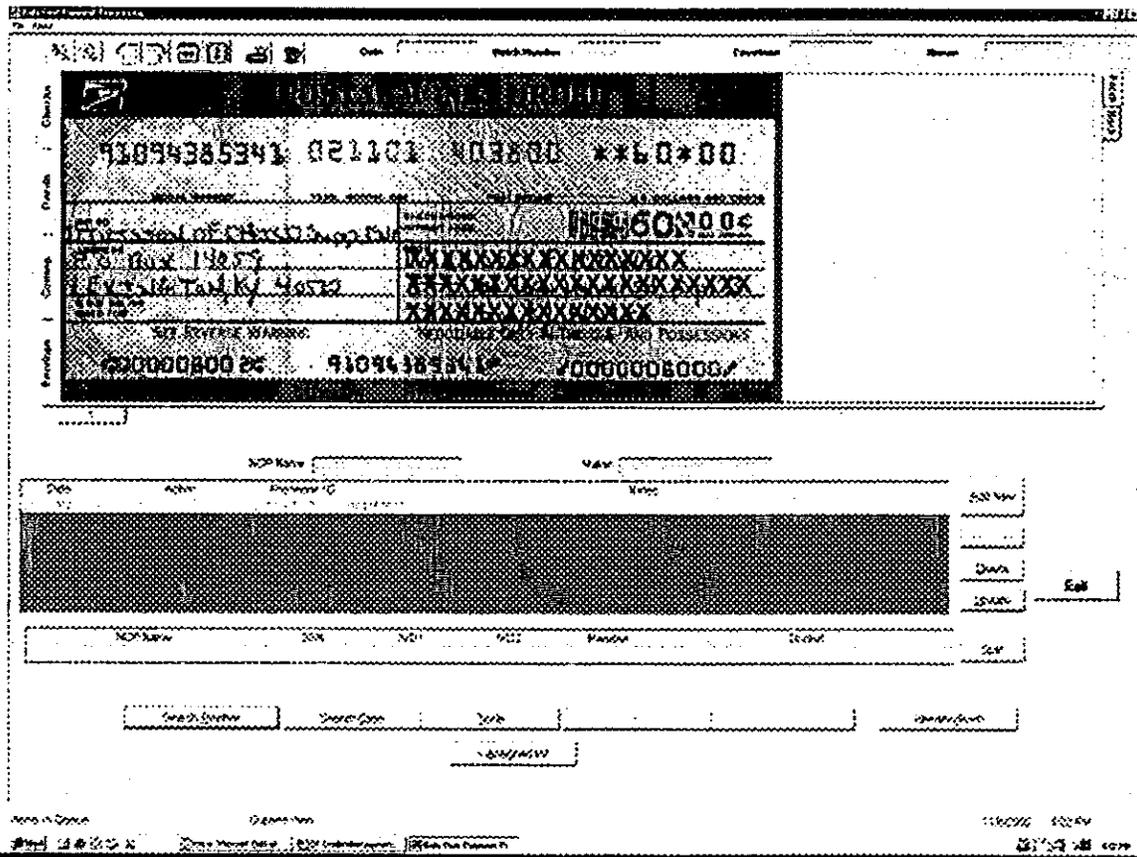


Figure IV.B.2.2-34. The Unidentified Receipt module allows us to maintain an audit trail of those payments not readily identified. Kids1st is designed to accommodate the prompt resolution of unidentified receipts.

Because the unidentified receipts are immediately sent to the Unidentified Module, the transactions are available for the research unit the same day, allowing for more transactions to be identified the same day received. Research tools are built into Kids1st allowing for swift and accurate identification of payments. Kids1st is designed to accommodate a file from the State providing current caseload information. This file enables our research workers to search the State’s validation file by Obligor name, Obligor SSN, Obligor Member ID, IV-D case number, or docket number. In addition, this feature allows for research to continue in the event the MiCSES is unavailable. Another feature of Kids1st is that lists are maintained based on the bank routing and account number of each financial in-

strument processed. When unidentified payments are identified to the correct case identifier, the list associated to the financial instrument is updated with the correct posting information. This allows future payments to be quickly identified or verified, thus reducing future unidentified research time.

Kids1st maintains a history of all unidentified payments and their resolution to ensure that Tier's unidentified receipt research flow is followed (see Figure IV.B.2.2-35) and as part of Tier's continuing audit trail. All actions, dates of action, User IDs of workers performing action, and all notes associated to the action are kept as a permanent part of the audit trail. Kids1st also has reports available for documenting items sent to the unidentified module and items transferred out of the unidentified module, either through identification to the proper case or sending the transaction to the State as an unidentified payment. Transactions being sent to the Kids1st Unidentified module and transactions being sent to the State as unidentified, are also accounted for on the daily reconciliation report provided to the State.

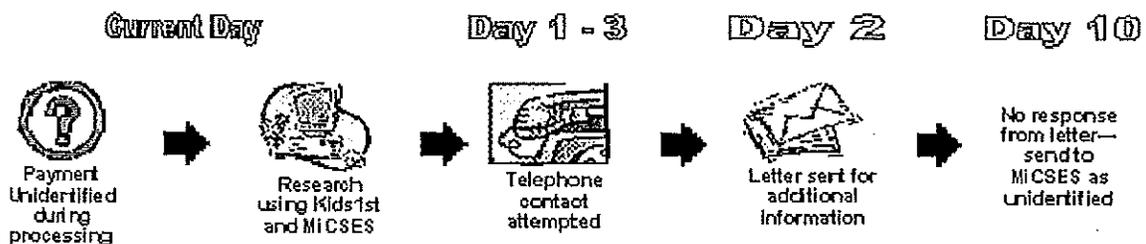


Figure IV.B.2.2-35. Kids1st maintains a history of all unidentified payments and their resolution to ensure that the unidentified receipt research flow is followed.

As per the ITB requirements, Tier's research specialists will first attempt to contact the submitter by phone on Day 1. When telephone contact is not successful, the research specialist will send a letter to the submitter requesting the information needed to identify the payment. If a response has not been received within 10 days of original receipt, the

payment will be posted to MiCSES as unidentified. When posting information is received on payments that have already been posted to MiCSES as unidentified, Tier will assist the State or FOC in updating the transaction.

Tier understands that the current Michigan experience is 2.2% of the daily receipts require additional research. A standard part of Tier's research procedures is to contact submitters who consistently submit inaccurate or nonexistent information and assist them in providing correct information on future payments. We have successfully implemented these procedures in our other SDU projects (i.e., in Tennessee Tier reduced receipts requiring additional research from 3.39% to 1.11%) and believe we can reduce the number of payments requiring additional research in Michigan. (For a more detailed explanation of Tier's unidentified outreach, refer to Section IV.B.2.3 Research and Resolution Services.) Tier will submit periodic reports to the State identifying the volume and aging of payments going to the Kids1st Unidentified Module.

There can be an occasion when a check is receipted that does not belong to MISDU. Every effort is made to minimize these occurrences; however, mistakes do happen. When these rare instances occur, Tier will use the third-party function in MiCSES to create a refund of the payment. These refund disbursements will be listed separately on the disbursement report and provided to the State for approval prior to dissemination of the checks. When an action performed by Tier or our subcontractor results in an incorrect posting or disbursement, Tier will transfer to the State funds from our make-whole account in order for the State account to remain balanced. Tier understands that we can only recover vendor make-whole funds throughout the life of the contract.

Management Monitoring Capability

Queue Monitor

The Kids1st Queue Monitor enables management staff to monitor the workflow by graphically depicting the number of envelopes in each queue (see Figure IV.B.2.2-36). Simply by placing the cursor over a specific bar on the graph, the number of envelopes is displayed for that queue. The number of envelopes listed on the left hand side of the screen changes depending on the highest number of items in any one queue. To assist management further, the Queue Monitor is being enhanced to display the number of staff working each queue. This enhancement will be included in the MiSDU version of Kids1st. By including this enhancement, supervisors and managers will be able to allocate data entry staff more effectively.

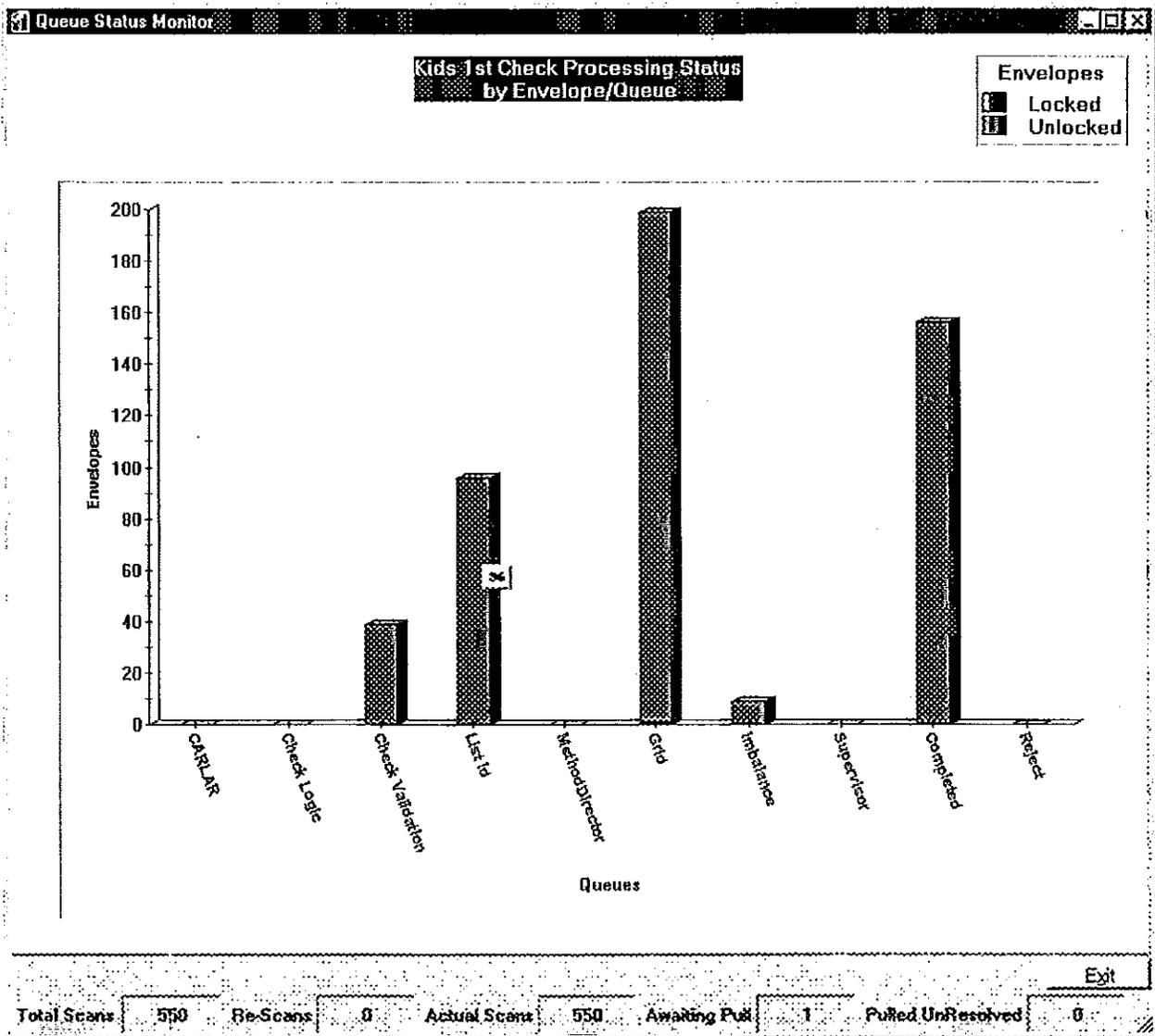


Figure IV.B.2.2-36. The Kids1st Queue Monitor graphically depicts the number of envelopes in each queue, enabling management staff to monitor the workflow.

Pass II – Verification

Pass II is an industry term that is used in payment processing systems that employ front-end imaging. This is the step in the process where Tier reenters the check amounts to complete the daily process. During this process we specifically perform the following functions:

- ◆ Validate the amount of each financial instrument image

- ◆ Validate each batch included in the file transmission and deposit balances
- ◆ An edit is performed checking for duplicate MICR lines

Once a batch has successfully completed Pass II, the information (data) on Kids1st can be included in the transmission file to MiCSES. As we will be taking advantage of the new Check Clearing for the 21st Century Act (Check 21) in depositing the financial instruments, the images of the financial instruments that have successfully completed Pass II can be included in the transmission to Fifth Third Bank for the bank deposit.

Posting and Deposits

Tier has partnered with Fifth Third Bank for the MiSDU. All depository and disbursement accounts opened with Fifth Third Bank are owned by the Michigan Family Independence Agency, but will be maintained and paid for by Tier. Changing banks can create havoc in an SDU when the transition between the old and new banks is not planned carefully and monitored extensively. Each activity must be coordinated with all parties involved and attention to detail is a must. We have outlined and detailed our plans to provide a seamless transition of the banking activities in our transition plan (refer to Section IV.B.2.7 Banking and Account Reconciliation for more details).

Tier's approach to reconciliation is a thorough process, accomplished through several steps to ensure that all money received and dispensed at MiSDU is properly documented. In addition, we reconcile the number and amount of transactions transmitted to MiCSES with the money received by MiSDU. We have detailed our daily and monthly reconciliation procedures later in this proposal (refer to Section IV.B.2.7 Banking and Account Reconciliation for a detailed explanation of Tier's reconciliation solution).

Prompt resolution of banking issues is a must. Tier's account specialist will reconcile the bank account daily and resolve any discrepancies within

24 hours. In addition the account specialist researches and resolves all bank actions, discrepancies, NSF checks, lost/stolen checks, rejected checks, and stop pay issues in a timely manner. Any issues involving other banks rejecting MiCSES-MiSDU checks will be resolved and reported to the State.

To help identify trends and patterns in NSF and Stop Pays, Tier will track each of these items and provide detail and summary reports to the State monthly. Tier currently performs this function in several SDU projects and we are currently designing a new database to improve our NSF processes in our other sites. The new database design will improve tracking, reporting, and letter generation functions. The database will be ready for implementation in Michigan at the start of contract.

Receipt File Transfers to MiCSES

The process of preparing files for transmission is a major focus for Tier. The majority of our rules, policies, systems, and procedures are geared to the delivery of an accurate file. Tier demonstrates every day that we are capable of transferring files in a timely and accurate way. The requirement of delivering daily files is a driving force for Tier. Our reputation depends on every file delivery. Tier performs over 2,100 file creations and transmissions annually across the country.

Tier will transfer 100% of the identified payments to MiCSES daily. The files will be formatted to be compliant with State requirements in the ITB. They will include a Header Record, Detail Record, and a Trailer Record. All of the data fields will be provided and populated as appropriate given circumstances of the receipt record.

Tier understands that currently one daily receipt transmission file is required and that multiple transmission files are planned for the future. Kids1st is designed to accommodate one or multiple transmissions of the receipt file on a daily basis. Only batches that are balanced and have completed the entire posting process, including Pass II validation, are eli-

gible for inclusion in the file transfer. The Batch Manager screen displays the current status of each batch in Kids1st. The supervisor in charge of the file transfer selects the batches that are in “Ready for State Export” status and then clicks on the “Create State Files” button. The transmission file is created using the selected batches and is then transferred to MiCSES using the designated protocol. Once a batch has been included on a transfer file, the batch status changes to “Ready for Archive” and cannot be included on any future transmission files.

The Batch Manager provides real-time status of each batch, which allows management to quickly ascertain the day’s progress. Figure IV.B.2.2-37 details the most common batch statuses available in Kids1st. Figure IV.B.2.2-38 illustrates the Batch Manager screen.

Batch Status	Description
Scanning	The batch is currently being imaged.
In-Check Processing	At least one item is in some phase of processing.
Ready for Pass II	All items in the batch have completed processing and the batch is ready to be sent to Pass II (amount validation).
Ready for State Export	The batch has completed Pass II validation and is available for inclusion in the file transfer to MiCSES.
Ready for Deposit	The batch has completed Pass II validation, has been included on the file transfer to MiCSES and is ready to be included in the bank deposit file.
Ready for Archive	The batch has been transferred to MiCSES and is ready for the images and indexes to be transferred to OnBase.

Figure IV.B.2.2-37. Kids1st immediately classifies the status of each batch.

Kids 1st Active Batch Management ver(5.1.06)

File Sort By Actions Select Help

Send	Date	Batch	Status	Envelopes	Credits	Cr. Dollars	Remits	Rm. Dollars
<input type="checkbox"/>	06/01/2004 06:19	0001	In-Check Processing	50	50	\$17,138.27	49	\$16,759.79
<input type="checkbox"/>	06/01/2004 06:25	0002	In-Check Processing	48	48	\$7,273.17	47	\$7,153.17
<input type="checkbox"/>	06/01/2004 06:28	0003	Ready for Pass II	43	43	\$8,184.09	62	\$8,184.09
<input type="checkbox"/>	06/01/2004 06:32	0004	In-Check Processing	50	50	\$20,544.78	49	\$20,394.78
<input type="checkbox"/>	06/01/2004 06:35	0005	In-Check Processing	49	49	\$6,161.29	54	\$6,161.29
<input type="checkbox"/>	06/01/2004 06:43	0006	Ready for Pass II	4	4	\$320.45	4	\$320.45
<input type="checkbox"/>	06/01/2004 06:49	0007	In-Check Processing	50	50	\$17,446.26	13	\$5,518.56
<input type="checkbox"/>	06/01/2004 07:08	0008	In-Check Processing	50	50	\$17,674.01	0	\$0.00
<input type="checkbox"/>	06/01/2004 07:35	0009	In-Check Processing	50	50	\$18,590.11	0	\$0.00
<input type="checkbox"/>	06/01/2004 07:58	0010	In-Check Processing	50	50	\$16,849.00	0	\$0.00
<input type="checkbox"/>	06/01/2004 08:12	0011	In-Check Processing	50	50	\$18,991.56	0	\$0.00
<input type="checkbox"/>	06/01/2004 08:25	0012	In-Check Processing	50	50	\$18,130.62	0	\$0.00
<input type="checkbox"/>	06/01/2004 08:38	0013	Scanning	35	35	\$0.00	0	\$0.00

Sort By

All

Check Processing

Pass II All

Pass II Missing Errors

Pass II Complete

Pass II Trans Errors

Ready for Pass II

Ready for State

Ready for Archive

Actions

Script to Pass II

Missing Item Report

Print Selected Pass II

Create State Files

Create Archive Files

Exit

Print

50 sec. to Refresh

Check All Uncheck All

Exceptions: 0 Exception Amount: 0.00 Pass: 0 Derogs: 0 Credits: \$167,303.81 Remits: \$64,492.13 Time: 6/1/2004 9:56 AM

Figure IV.B.2.2-38. The Batch Manager makes the status of all batches instantly available, facilitating their management.

The method for delivery of the daily files to MiCSES will be determined during the State and Tier joint design and start-up sessions. In our present operations, we deliver files by a variety of methods. These methods include:

- ◆ Shared through FTP server.
- ◆ Transferred through mainframe emulation software to a data library on a mainframe.
- ◆ Placed file for transfer on a shared domain with access by the State for retrieval from our LAN.

None of these methods is preferred over another, given the adequate procedural controls that are available.

Deposit Preparation—Check 21

With the advent of the Check 21 legislation, Tier will utilize the Check 21 features to deposit paper financial instruments received at MiSDU. In partnering with Fifth Third Bank, Tier has arranged to submit the check images obtained during mail opening and submit those images in the format to meet Check 21 requirements. The original paper financial instruments will be archived in a secure location until such time they can be destroyed. As bank requirements are finalized in regards to Check 21, a detailed document retention plan will be written and provided to OCS. The document retention plan will include retention length and destruction method. Tier proposes to use a local, onsite shredding service in order to monitor the destruction and will require receipt of a document destruction certificate for our files.

As stated earlier, only batches that have completed the Pass II verification are included in the bank deposit file. The deposit file contains all the images and financial instrument data associated to the items included in the data file transferred to MiCSES that day. The deposit file will be transferred to the Fifth Third Bank depository account by 6 p.m. each day using FTP.

Image and Data Archive

Research is an important part of any SDU. When we designed Kids1st, the need to search for payment information in multiple ways was very important to us. We requested input from the people who search for payments the most: our researchers and customer service agents. Based on their input, Kids1st was designed to allow the following research methods to improve their efficiency:

- ◆ Batch Information: Batch date (date of receipt), batch number, and logical envelope number

- ◆ Financial Information: Check number, amount, bank routing, bank account number, or any combination of those
- ◆ Maker Information (Employer or Obligor): Maker name, address, city, state, or any combination of those. For MiSDU we will also add the capability to search by Employer FEIN.
- ◆ Remit Information: IVD number, obligor name, obligor SSN, docket number, remit amount, or any combination of those

Each day after processing is complete and the images are archived to OnBase, the same indexes and search criteria used in the Kids1st. Research module is transferred. The OnBase web server provides State and FOC users access to the payment information and documents anywhere, anytime via standard Internet Explorer web browsers. The users can view, print, annotate and distribute any information stored within the OnBase system. Tier will provide the State and FOC child support workers access to the archived images through a secure website. Strict security controls will be used, ensuring only authorized personnel have access to the images and data.

As part of our archive solution, all electronic images are transferred to CD/DVD/Optical Image Media. Tier understands the ITB requirement to maintain the image files for 3 years after the completion of the contract and will comply. After the completion of the contract, all archived images will be stored in our Reston, Virginia, data center and images will be available for retrieval upon request from the State.

Day-End Procedures

Tier supervisors are trained to make sure that all day-end activities at the MiSDU are complete before the last person leaves. A portion of a sample checklist for day-end activities would include the following:

- ◆ Confirm that the facility is secure.
- ◆ Make sure that all PCs are turned off to limit unauthorized access to secured systems – for example, Kids1st and MiCSES).

- ◆ Confirm that any documentation with sensitive material is secured.
- ◆ Balance daily reconciliation records.
- ◆ Complete daily file transfer to MiCSES.
- ◆ Complete the day-end checklist and provide it to the project director.

Tier believes that its daily processes, developed over the past 7 years in multiple operations, provide a level of operational security and financial accountability that meet or exceed Michigan’s requirements. As we partner with the State during implementation, the processes and procedures can be refined to accommodate any additional requirements of the MiSDU.

Stop Payments, Stolen Checks, Fraud [ITB II.C.2.a.7]

Tier has partnered with Fifth Third Bank to handle the MiSDU deposit and disbursement accounts. With this partnership we have a dedicated account manager to assist us in resolving any banking issues. As discussed in the Outputs, Print, and Distribution section, we will be using a positive pay file to validate all disbursements. We will be happy to revise any of our procedures (see Figure IV.B.2.2-39) to accommodate the State.

Scenario	Resolution
Disbursement received by client, but is reported lost or stolen and has not been cashed.	Immediately request stop payment on disbursement and reissue check.
Disbursement mailed more than 10 business days but not received by client and has not been cashed.	Immediately request stop payment on disbursement and reissue check.
Disbursement mailed less than 10 business days but not received by client and has not been cashed.	Inform client must wait 10 business days before we can place stop payment and reissue check. Recommend to client to sign up for direct deposit or stored value card.
Disbursement received by client, but is reported lost or stolen and has been cashed.	Verify endorsement on cashed disbursement. When someone other than client has cashed payment, escalate to Supervisor. Notify proper law enforcement authorities if fraud is suspected.
Disbursement mailed but not received by client and has been cashed.	Verify endorsement on cashed disbursement. When someone other than client has cashed payment, escalate to Supervisor. Notify proper law enforcement authorities if fraud is suspected.

Figure IV.B.2.2-39. While Tier has in place standard disbursement procedures, we are more than happy to work with the State to tailor them to meet the MiSDU’s needs.

In Section IV.B.2.3 we provide greater details on our disbursement reconciliation procedures and reports.

Seamless Financial Operation [ITB II.C.2.a.8]

The Kids1st QA module enables Tier's QA staff, State monitoring staff, and auditors the ability to randomly select transactions for review (see Figure IV.B.2.2-40). In addition, specific batches, envelopes, or remits can be selected, which provides greater functionality. When a random selection is performed, the user specifies a date or date range and chooses either a percent or number of transactions to display. After a transaction has been through the QA process, it is documented on the database, allowing for the user to select the "unique" option in future random selections. The "unique" option allows only items that have never been through the QA process to be displayed.

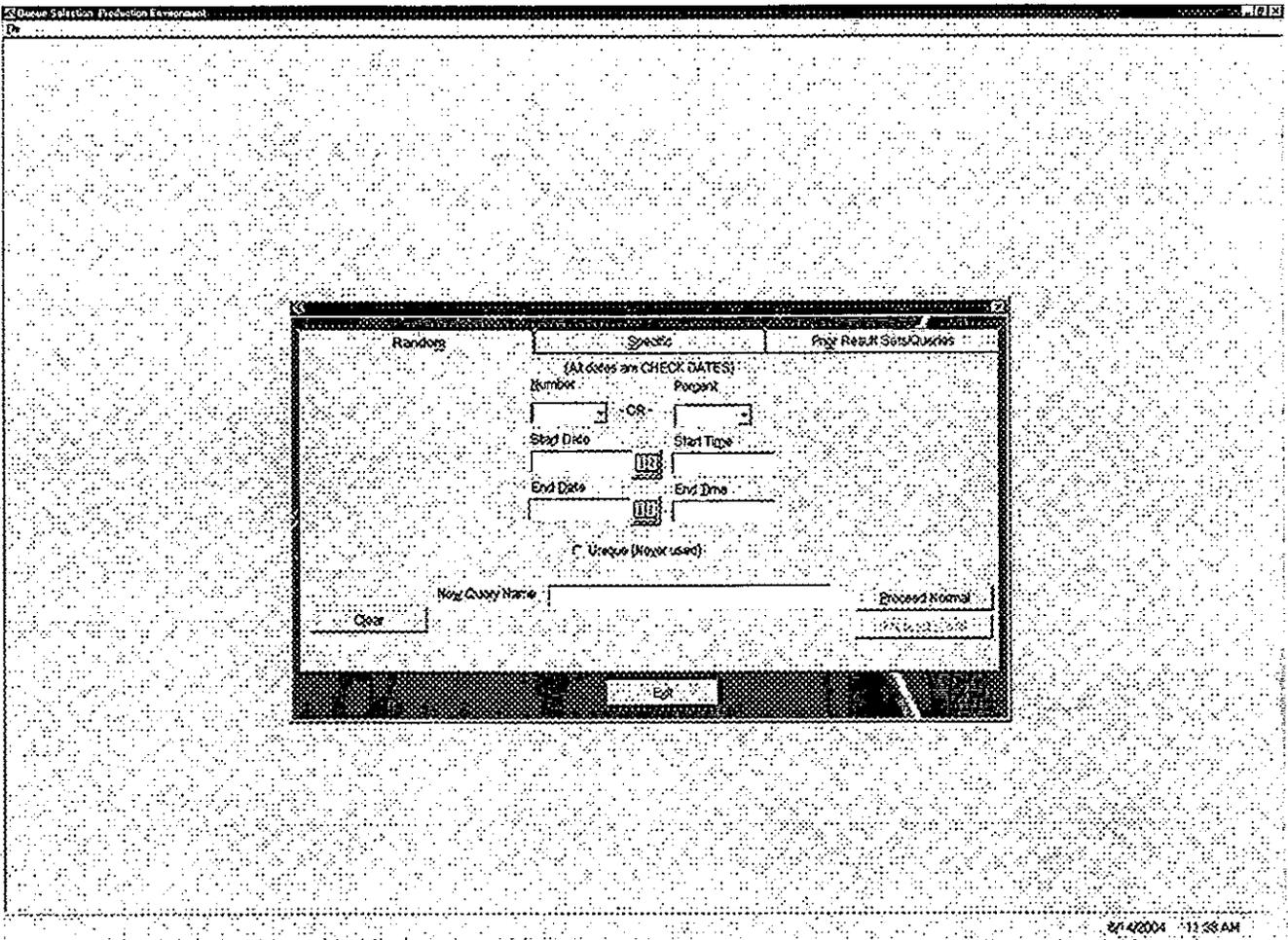


Figure IV.B.2.2-40. The QA Search Screen enables Tier’s QA staff, State monitoring staff, and auditors the ability to randomly select transactions for review.

Upon the system selecting the transactions for QA, based on the criteria specified on the selection screen, the image of the financial instrument is displayed in the top half of the screen. Also available are the images of the remittance, correspondence and physical envelope. The bottom half of the screen displays the original values coming into the system, indicates where the value came from, lists the final values going out of the system, and denotes who made the change (see Figure IV.B.2.2-41).

Report Name	Description
FI Report	A complete listing of financial instruments processed. The report parameters can be specified by date or date range and batch or batch range. Report fields include check amount, check number, maker name.
Batch Detail Report	A complete listing of all payments processed within a batch. The report parameters can be specified by date or date range and batch or batch range. Report fields include the financial instrument information (check amount, check number, maker name, FEIN) and remit information (obligor name, obligor SSN, docket number, remit amount). When a remit is posted to unidentified the remit also includes UNID as a designator and the UNID memo is also displayed.
Statistical Overview	Summarizes the counts and amounts processed by paper, EFT, credit/debit card, wire transfer. The report parameters can be specified by date or date range.

Figure IV.B.2.2-42. Kids1st generates several reports that can be used to substantiate figures in the Comprehensive Annual Financial Report.

Escalation [ITB II.C.2.a.9]

In every SDU there are instances where the bank account could have more debits than credits. This can occur for reasons that are not vendor error such as returned checks. A timely resolution to these instances is required in order to maintain a positive flow in the bank account. Tier will have online access to images of returned items. This access allows Tier to submit timely requests for State make-whole payments in respect to returned checks. Tier will submit a State Make-Whole Request form and appropriate documentation for approval prior to any recovery accounts being established.

Having defined criteria to determine exactly what actions can be made whole by the State is essential. Tier will collaborate with OCS after contract award in order to fully define the make-whole criteria and to design an appropriate request form that will accommodate both Tier and OCS's needs. Tier understands and agrees that the contractor is responsible for paying any State recovery adjustments that have been created without receiving State approval.

Recovery Accounts [ITB II.C.2.a.10]

Tier continually strives to reduce vendor errors. We are constantly evaluating best practices amongst our existing SDU projects and implementing those best practices company wide when appropriate. Despite our best efforts, mistakes do occur. When a mistake occurs, we at Tier will research the cause of the error and take the necessary steps to prevent it from repeating. Tier will also transfer funds to the State to make-whole the MiSDU account whenever the error is our error or our subcontractor's error. Tier understands that we may attempt recovery of these funds from the recipient, but that at the end of our contract further recovery is not allowed.

NSF Items [ITB II.C.2.a.11]

Returned deposit items are a way of life for a SDU. Payers will make mistakes and overdraw their bank account or the payer's bank will make an error causing the check to be returned. The more difficult cases are where payers knowingly remit a bad check. As discussed in the Kids1st section, we have the ability to add a derog to Kids1st that will keep us from accepting a second payment from these accounts. In addition, we will send a letter to the payer informing them of the returned check and requesting restitution. The letter will also inform the payer that future payments must be in guaranteed funds and that they may request reinstatement of check privileges by explaining extenuating circumstances. When restitution has not been made in a timely manner, Tier will forward the required information to the Michigan Department of Treasury for collection.

Receipt Enhancements [ITB II.C.2.a.12]

Tier currently uses or is in the process of implementing all of the receipt enhancements requested in the ITB in some of our other SDU operations. Therefore, as noted in the Receipting section of this proposal, the enhancements Michigan has requested to begin within 12 months of contract award will be available on the very first day of production.