

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

FAMILY INDEPENDENCE AGENCY

October 1, 1998 through September 30, 2000

EXECUTIVE DIGEST

FAMILY INDEPENDENCE AGENCY

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit* Act, of the Family Independence Agency (FIA) for the period October 1, 1998 through September 30, 2000.

AUDIT PURPOSE

This financial audit of FIA was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

FIA's mission* is to help individuals and families meet financial, medical, and social needs; to assist people to become self-sufficient; and to help protect children and vulnerable adults from abuse, neglect, exploitation, and endangerment. To achieve this mission, FIA manages numerous State and federally funded programs that provide assistance and/or services to eligible recipients.

During our audit period, most of FIA's staff were organized into five administrations, with the Family Independence Services and Child and Family Services Administrations having primary responsibility for establishing and implementing most grant and service program policies.

* See glossary at end of report for definition.

The Field Operations Administration has oversight responsibility for FIA local offices. The Administration for Budget, Analysis, and Financial Management (BAFM) is responsible for accounting and financial reporting, including the preparation and submission of federal program cost reports. BAFM also performs various budgetary, policy analysis, staffing and program evaluation, and quality control functions. Information Technology Management Services is responsible for software development, maintenance and operation of FIA's computer systems, and network administration.

As of September 30, 2000, FIA had 13,228 employees. FIA's major funding sources are the State General Fund and the U.S. Departments of Health and Human Services and Agriculture. FIA's expenditures and operating transfers out for fiscal year 1999-2000 were approximately \$3.4 billion.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit FIA's financial schedules and its Children's Trust Fund (CTF) financial statements and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to FIA's financial schedules and statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999 and to audit FIA's Child Support Collection Fund (CSCF) financial statement for the fiscal year ended September 30, 2000.

Conclusion: We expressed an unqualified opinion* on FIA's financial schedules, the CTF financial statements, and the CSCF financial statement. In addition, we expressed an unqualified opinion on FIA's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation

* See glossary at end of report for definition.

to the financial schedules and statements taken as a whole.

Audit Objective: To assess and report on FIA's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules or statements, and on its internal control* over financial reporting, based on our audit of the financial schedules and statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules or statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*. However, we identified reportable conditions* related to the schedule of expenditures of federal awards, expenditure recognition, and personnel and payroll transactions (Findings 1 through 3).

In addition, our assessment indicated that FIA was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on FIA's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: We issued an unqualified opinion on FIA's compliance with requirements applicable to each

* See glossary at end of report for definition.

major federal program except Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement, Refugee and Entrant Assistance: State Administered Programs, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and Foster Care: Title IV-E, for which we qualified* our opinion. Our assessment disclosed instances of noncompliance that are required to be reported under OMB Circular A-133. These instances of noncompliance related to Michigan Administrative Information Network* (MAIN) coding of federally funded programs, case file internal control, child support enforcement efforts, documentation and allowability of federally funded expenditures, noncooperation penalties, client disqualification, discontinuance of adoption subsidy payments, vendor verification of client eligibility, allowable funding sources for federal matching requirements, financial penalties for noncompliance with federal guidelines and regulations, fixed assets, and federal payroll certifications (Findings 4, 5, 8, 10 through 14, and 17 through 20). Also, our assessment of internal control over compliance applicable to each major federal program identified five material weaknesses:

- FIA local office staff frequently did not comply with established case file internal control procedures for documenting client eligibility and the propriety of public assistance expenditures (Finding 5).
- FIA child support specialists often did not comply with established internal control regarding locating absent parents; establishing paternity and support obligations, including following up referrals to the

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

prosecutor or Friend of the Court; and securing medical support obligations (Finding 8).

- FIA has not revised its child support noncooperation penalties to comply with federal welfare reform requirements (Finding 11).
- FIA local offices often did not comply with established internal control for initiating client disqualification or, ultimately, case closure when a client failed to cooperate in obtaining child support or when mandatory participants in an eligible Family Independence Program group refused suitable employment (Finding 12).
- FIA often did not comply with federal guidelines and regulations, resulting in federal sanctions for the Food Stamps, Child Support Enforcement (CSE), and Foster Care: Title IV-E Programs (Finding 18).

We also identified other reportable conditions related to MAIN coding of federally funded programs; identifying, monitoring, and reporting payments to subrecipients; contracts with entities receiving federal funds; interstate central registry; documentation and allowability of federally funded expenditures; discontinuance of adoption subsidy payments; vendor verification of client eligibility; payments at prevailing minimum wage; administrative cost limitation; allowable funding sources for federal matching requirements; fixed assets; federal payroll certifications; and deceased recipients (Findings 4, 6, 7, 9, 10, 13 through 17, and 19 through 21).

AUDIT SCOPE AND METHODOLOGY

Our audit scope was to examine the financial and other records of the Family Independence Agency for the period October 1, 1998 through September 30, 2000. Our audit

was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 20 findings (Findings 1 through 20) that have 22 corresponding recommendations. FIA's corrective action plan indicates that it agrees with the 22 recommendations but disagrees with parts of Finding 8. The plan also indicates that FIA has complied with 2 of the recommendations, and plans to comply with 19 recommendations. In addition, our report contains 1 finding (Finding 21) that refers to a finding in another report that had reported questioned costs*. The plan indicates that FIA agrees with the recommendation and will comply.

As disclosed in FIA's summary schedule of prior audit findings, FIA fully corrected 7 of the 17 prior Single Audit findings and did not correct or partially corrected 10 of the prior findings. Nine prior recommendations are repeated in this audit report (Findings 3, 8, 11 through 13, and 18 through 20).

August 31, 2001

Mr. Douglas E. Howard, Director
Family Independence Agency
and
Ms. Pamela Posthumus, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Howard and Ms. Posthumus:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Family Independence Agency for the period October 1, 1998 through September 30, 2000.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs, including a summary of questioned costs; and independent auditor's reports on the financial schedules, on the financial statements, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Family Independence Agency financial schedules, the Children's Trust Fund financial statements, the Child Support Collection Fund financial statement, and notes to the financial schedules and financial statements; supplemental financial schedules; other schedules; and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency's preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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Description of Agency

The Family Independence Agency (FIA) (formerly called the Department of Social Services) was created by the Executive Organization Act of 1965. The FIA director is appointed by the Governor with the advice and consent of the Senate.

FIA's mission is to help individuals and families meet financial, medical, and social needs; to assist people to become self-sufficient; and to help protect children and vulnerable adults from abuse, neglect, exploitation, and endangerment. To achieve this mission, FIA manages numerous State and federally funded programs that provide assistance and/or services to eligible recipients.

During our audit period, most of FIA's staff were organized into five administrations: Family Independence Services; Child and Family Services; Field Operations; Budget, Analysis, and Financial Management (BAFM); and Information Technology Management Services (ITMS). Family Independence Services and Child and Family Services Administrations have primary responsibility for establishing and implementing most grant and service program policies. The Field Operations Administration has oversight responsibility for FIA local offices. BAFM is responsible for accounting and financial reporting, including the preparation and submission of federal program cost reports. BAFM also performs various budgetary, policy analysis, staffing and program evaluation, and quality control functions. ITMS is responsible for software development, maintenance and operation of FIA's computer systems, and network administration.

As of September 30, 2000, FIA had 13,228 employees. FIA's major funding sources are the State General Fund and the U.S. Departments of Health and Human Services and Agriculture. FIA's expenditures and operating transfers out for fiscal year 1999-2000 were approximately \$3.4 billion.

The Children's Trust Fund was created by Act 249, P.A. 1982 (Sections 21.171 and 21.172 of the *Michigan Compiled Laws*), to receive funds for the prevention of child abuse and neglect. The State Child Abuse and Neglect Prevention Board was created by Act 250, P.A. 1982 (Sections 722.601 - 722.613 of the *Michigan Compiled Laws*), to administer the Children's Trust Fund and to prevent child abuse and neglect.

The State Child Abuse and Neglect Prevention Board consists of 14 members. The Governor appoints 10 members. Other members include the Superintendent of Public

Instruction and the directors of FIA, the Department of Community Health, and the Michigan Department of State Police, or their designees.

Child Support Collection Fund (CSCF)

CSCF was administratively established to account for the activity of the Michigan State Disbursement Unit. The Unit, administered by FIA, was created to provide a single location within the State for the receipt and disbursement of child support payments.

Audit Objectives and Conclusions, Audit Scope,
and Agency Responses and Prior Audit Follow-Up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Family Independence Agency (FIA) had the following objectives:

1. To audit FIA's financial schedules and its Children's Trust Fund (CTF) financial statements and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to FIA's financial schedules and statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999 and to audit FIA's Child Support Collection Fund (CSCF) financial statement for the fiscal year ended September 30, 2000.

We expressed an unqualified opinion on FIA's financial schedules, the CTF financial statements, and the CSCF financial statement. In addition, we expressed an unqualified opinion on FIA's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules and statements taken as a whole.

2. To assess and report on FIA's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules or statements, and on its internal control over financial reporting, based on our audit of the financial schedules and statements.

Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules or statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses. However, we identified reportable conditions related to the schedule of expenditures of federal awards, expenditure recognition, and personnel and payroll transactions (Findings 1 through 3).

In addition, our assessment indicated that FIA was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan*

Compiled Laws pertaining to its systems of internal accounting and administrative control.

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs.

3. To assess and report on FIA's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

We issued an unqualified opinion on FIA's compliance with requirements applicable to each major federal program except Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement, Refugee and Entrant Assistance: State Administered Programs, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and Foster Care: Title IV-E, for which we qualified our opinion. Our assessment disclosed instances of noncompliance that are required to be reported under OMB Circular A-133. These instances of noncompliance related to Michigan Administrative Information Network (MAIN) coding of federally funded programs, case file internal control, child support enforcement efforts, documentation and allowability of federally funded expenditures, noncooperation penalties, client disqualification, discontinuance of adoption subsidy payments, vendor verification of client eligibility, allowable funding sources for federal matching requirements, financial penalties for noncompliance with federal guidelines and regulations, fixed assets, and federal payroll certifications (Findings 4, 5, 8, 10 through 14, and 17 through 20). Also, our assessment of internal control over compliance applicable to each major federal program identified five material weaknesses related to case file internal control, child support enforcement efforts, noncooperation penalties, client disqualification, and financial penalties for noncompliance with federal guidelines and regulations (Findings 5, 8, 11, 12, and 18).

We also identified other reportable conditions related to MAIN coding of federally funded programs; identifying, monitoring, and reporting payments to subrecipients; contracts with entities receiving federal funds; interstate central registry; documentation and allowability of federally funded expenditures; discontinuance of

adoption subsidy payments; vendor verification of client eligibility; payments at prevailing minimum wage; administrative cost limitation; allowable funding sources for federal matching requirements; fixed assets; federal payroll certifications; and deceased recipients (Findings 4, 6, 7, 9, 10, 13 through 17, and 19 through 21).

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs.

Audit Scope

Our audit scope was to examine the financial and other records of the Family Independence Agency for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered FIA's internal control over compliance applicable to each major federal program and assessed FIA's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on FIA's summary schedule of prior audit findings. FIA's major federal programs are identified in Section I of the schedule of findings and questioned costs.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 20 findings (Findings 1 through 20) that have 22 corresponding recommendations. FIA's corrective action plan indicates that it agrees with the 22 recommendations but disagrees with parts of Finding 8. The plan also indicates that FIA has complied with 2 of the recommendations, and plans to comply with 19 recommendations. In addition, our report contains 1 finding (Finding 21) that refers to a finding in another report that had reported questioned costs. The plan indicates that FIA agrees with the recommendation and will comply.

FIA's corrective action plan, which is included in this report, was prepared by FIA as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require FIA to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in FIA's summary schedule of prior audit findings, FIA fully corrected 7 of the 17 prior Single Audit findings and did not correct or partially corrected 10 of the prior findings. Nine prior recommendations are repeated in this audit report (Findings 3, 8, 11 through 13, and 18 through 20).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules and Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be
material weaknesses? Yes

Noncompliance material to the financial schedules and statements? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes

Reportable conditions identified that are not considered to be
material weaknesses? Yes

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement, Refugee and Entrant Assistance: State Administered Programs, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and Foster Care: Title IV-E, which were qualified.

Any audit findings disclosed that are required to be reported in
accordance with U.S. Office of Management and Budget (OMB)
Circular A-133, Section 510(a)? Yes

Identification of major programs:

<i>CFDA</i> Number	Name of Federal Program or Cluster
10.551 and 10.561	Food Stamp Cluster
81.042	Weatherization Assistance for Low-Income Persons
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States
93.556	Promoting Safe and Stable Families
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement (CSE)
93.566	Refugee and Entrant Assistance: State Administered Programs
93.568	Low-Income Home Energy Assistance
93.575 and 93.596	Child Care Cluster
93.585	Social Services in Empowerment Zones and Enterprise Communities
93.645	Child Welfare Services: State Grants
93.658	Foster Care: Title IV -E
93.659	Adoption Assistance
93.667	Social Services Block Grant

93.778	Medical Assistance Program (Medicaid; Title XIX)
96.001	Social Security: Disability Insurance

Dollar threshold used to distinguish between type A and type B programs: \$ 13,010,826

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules and Statements

FINDING (430101)

1. Schedule of Expenditures of Federal Awards (SEFA)

The Family Independence Agency (FIA) should enhance its internal control to help ensure the accurate preparation of the SEFA in accordance with OMB Circular A-133 reporting standards.

FIA's Bureau of Accounting is responsible for preparing the SEFA. Our review of FIA's SEFA disclosed:

- a. FIA sometimes did not list individual federal programs by federal agency or identify clusters of programs.

OMB Circular A-133 requires grantees to list individual federal programs by federal agency. For federal programs included in a cluster of programs, grantees must list individual federal programs within the cluster of programs. FIA did not report:

- (1) The Medical Assistance Program (CFDA 93.778) as funded through the U.S. Department of Health and Human Services (HHS).
- (2) The AmeriCorps Program (CFDA 94.006) as funded through the Corporation for National and Community Service.

* See glossary at end of report for definition.

- (3) The Child Care and Development Block Grant (*CFDA* 93.575) and the Child Care Mandatory and Matching Funds of the Child Care Development Fund (*CFDA* 93.596) as individual grants of the Child Care Cluster.
- (4) The Social Security: Disability Insurance Program (*CFDA* 96.001) as an individual grant of the Disability Insurance/SSI Cluster.

b. FIA sometimes did not report the correct federal assistance program titles.

OMB Circular A-133 requires grantees to provide the *CFDA* number or other identifying number when the *CFDA* information is not available. The title for each program should match the *CFDA* number to avoid confusion. We noted the following incorrect federal assistance program titles:

- (1) School Breakfast Program (*CFDA* 10.553)
- (2) National School Lunch Program (*CFDA* 10.555)
- (3) Adult Education: State Grant Program (*CFDA* 84.002)
- (4) Title I Program for Neglected and Delinquent Children (*CFDA* 84.013)
- (5) Vocational Education: Basic Grants to States (*CFDA* 84.048)
- (6) Special Education: Grants for Infants and Families with Disabilities (*CFDA* 84.181)
- (7) Safe and Drug-Free Schools and Communities: State Grants (*CFDA* 84.186)
- (8) Rehabilitation Training: State Vocational Rehabilitation Unit In-Service Training (*CFDA* 84.265)
- (9) Innovative Education Program Strategies (*CFDA* 84.298)
- (10) Promoting Safe and Stable Families (*CFDA* 93.556)

(11) Child Care and Development Block Grant (*CFDA* 93.575)

(12) Social Services in Empowerment Zones and Enterprise Communities
(*CFDA* 93.585)

(13) Social Security: Disability Insurance (*CFDA* 96.001)

- c. FIA recorded payment amounts to subrecipients that differed from the amount reported as "Distributed to Subrecipients."

OMB Circular A-133 requires pass-through entities, to the extent practicable, to identify in the SEFA the total amount provided to subrecipients from each federal program. Our tests of expenditures within each major program disclosed:

- (1) FIA misclassified \$6,452,505 and \$11,505,089 of Child Care Cluster (*CFDA* 93.575 and 93.596) expenditures as "Directly Expended" rather than as "Distributed to Subrecipients" in fiscal years 1999-2000 and 1998-99, respectively.
- (2) FIA misclassified \$6,706,749 of Promoting Safe and Stable Families (*CFDA* 93.556) expenditures as "Directly Expended" rather than as "Distributed to Subrecipients" in fiscal year 1998-99.
- (3) FIA misclassified \$59,152 of Refugee and Entrant Assistance: Targeted Assistance (*CFDA* 93.584) expenditures as Refugee and Entrant Assistance: State Administered Programs (REAP) (*CFDA* 93.566) expenditures because of an incorrect Michigan Administrative Information Network (MAIN) grant profile. As a result, FIA overstated the REAP (*CFDA* 93.566) federal awards "Directly Expended" and understated expenditures of Refugee and Entrant Assistance: Targeted Assistance (*CFDA* 93.584) in fiscal year 1998-99.
- (4) FIA misclassified \$2,777,024 and \$2,267,273 of REAP (*CFDA* 93.566) expenditures as "Directly Expended" rather than as "Distributed to Subrecipients" in fiscal years 1999-2000 and 1998-99, respectively.

- (5) FIA overstated "Distributed to Subrecipients" for the Temporary Assistance for Needy Families (TANF) Program (CFDA 93.558) and understated "Distributed to Subrecipients" for the State Administrative Matching Grants for Food Stamp Program (CFDA 10.561) by \$5,914,515 in fiscal year 1999-2000.
- (6) As noted in Finding 6, FIA's subrecipient monitoring controls did not provide for identifying all payments to subrecipients. As a result, FIA subsequently reclassified an additional \$48 million and \$65 million from "Directly Expended" by the department to "Distributed to Subrecipients" for fiscal years 1999-2000 and 1998-99, respectively.

The SEFA was corrected for the exceptions noted in items a., b., and c. Generally, these exceptions resulted from FIA's failure to follow OMB Circular A-133 reporting standards and to monitor *CFDA* changes.

RECOMMENDATION

We recommend that FIA enhance its internal control to help ensure the accurate preparation of the SEFA in accordance with OMB Circular A-133 reporting standards.

FINDING (430102)

2. Expenditure Recognition

FIA sometimes did not record program expenditures in the proper fiscal year as required.

Section 1600.118 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board (GASB), states that expenditures should be recorded when the related liability is incurred. Also, Chapter 14, section 2 of the Office of Financial Management, Department of Management and Budget, Year-End Closing Guide states that agencies who receive goods by September 30 but do not receive an invoice until the new fiscal year, are responsible to initiate payment using a standard payment transaction code until November 12 with an effective date of September 31* in the

* See glossary at end of report for definition.

old fiscal year. If the invoice was received after November 12, the agency was allowed to record liabilities in the old fiscal year until November 24. Our review of REAP expenditure transactions disclosed that FIA improperly recorded expenditures in fiscal year 1999-2000 totaling \$260,748 for refugee employment services performed in September 1999. FIA received the statement of expenditures from the subrecipient on November 10, 1999 but did not initiate a fiscal year 1998-99 payment or establish a corresponding payable.

RECOMMENDATION

We recommend FIA record program expenditures in the proper fiscal year as required.

FINDING (430103)

3. Personnel and Payroll Transactions

FIA often did not comply with prescribed MAIN Human Resources System* (HRS) internal control procedures for preparing time and attendance reports. Also, FIA did not maintain effective internal control over the processing of personnel and payroll transactions.

Our review of FIA's timekeeping procedures disclosed:

- a. FIA's internal control did not ensure that biweekly time and attendance summaries (viewed electronically on the Data Collection and Distribution System* (DCDS)) were prepared and certified by authorized personnel in accordance with MAIN HRS and FIA procedures.

MAIN HRS Procedures Manual sections 3.3 and 3.5 and FIA Administrative Handbook Manual item 633-3 state that only authorized persons may prepare and certify payroll information.

Our analysis of 20 biweekly time and attendance summaries identified 5 (25%) unauthorized timekeepers and 12 (60%) unauthorized certifiers. Two (40%) of the 5 unauthorized timekeepers became authorized after our sampled pay period. We defined unauthorized timekeepers and certifiers as ones whose

* See glossary at end of report for definition.

name did not appear on the timekeeping unit (TKU) signature request form (FIA-1103) for the timekeeping unit of the sampled employee.

We also identified 9 (45%) of 20 summaries where the timekeeper and the certifier were the same person. MAIN HRS Procedures Manual section 14.16 requires certification of payroll information by someone other than the person who entered the data.

We noted similar findings in our five prior audits. In response to our last audit, FIA concurred and initiated corrective action by distributing a memorandum to timekeepers on August 25, 2000 reminding them of procedures. This memorandum also informed timekeepers that they no longer needed to complete the FIA-1103, but instead must complete a DCDS security form. None of our sampled items related to the period after August 25, 2000.

- b. FIA Personnel-Payroll Information System for Michigan* (PPRISM) control persons did not maintain the required internal control for entering and reconciling payroll and personnel information.

Because of staffing limitations, FIA often authorizes control persons to have PPRISM entry capability. As a result, FIA faces greater risk of improper entries without detection. Therefore, we surveyed the Wayne County Office of Human Resources, 12 local offices responsible for entering payroll and personnel data, and the W.J. Maxey Training School to identify data entry and reconciliation controls used at each location. Our survey disclosed:

- (1) Control personnel were entering data in violation of PPRISM procedures.

We reviewed entry capabilities for 15 control persons from the 12 locations that identified a control person to test whether they were complying with PPRISM procedures. For each control person, we reviewed the Valid PPRISM Operator identification list (CR-185) to determine the capabilities for each control person. Two (13%) control persons identified in the survey were not listed on the CR-185. Twelve (92%) of the remaining 13 control persons had entry capabilities beyond

* See glossary at end of report for definition.

what is allowed under MAIN HRS Procedures Manual section 3.3. In fiscal years 1999-2000 and 1998-99, these 12 control persons entered 7,150 and 7,955 transactions, respectively, that were not allowed per the MAIN HRS Procedures Manual. Six of the 12 control persons entered a total of 37 transactions for themselves. MAIN HRS Procedures Manual section 3.3 allows the control person to enter only the PSWN (password changes) and CNTL (daily transaction report) commands.

- (2) FIA sometimes did not maintain documentation that control personnel performed prescribed reconciliations of input transactions to source documents.

MAIN HRS Procedures Manual section 3.3 states that the control person is to perform a daily reconciliation of the daily operator transaction log (A-816 or A-817) to CNTL totals.

For our sample of 20 biweekly time and attendance summaries pertaining to 13 different pay periods, FIA could not locate the daily transaction log and associated CNTL for a selected day for 1 (8%) pay period. FIA did document that control personnel performed the required reconciliation for the other 12 days/pay periods.

The combination of these two conditions limited FIA's ability to detect improper PPRISM transactions.

RECOMMENDATIONS

- (a) WE AGAIN RECOMMEND THAT FIA COMPLY WITH PRESCRIBED MAIN HRS INTERNAL CONTROL PROCEDURES FOR PREPARING TIME AND ATTENDANCE REPORTS.
- (b) WE AGAIN RECOMMEND THAT FIA MAINTAIN EFFECTIVE INTERNAL CONTROL OVER THE PROCESSING OF PERSONNEL AND PAYROLL TRANSACTIONS.

The status of the findings related to the financial schedules and statements that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FAMILY INDEPENDENCE AGENCY
 Summary of Questioned Costs Indexed By Finding Number
 For the Period October 1, 1998 through September 30, 2000

Finding Number	CFDA Number	Federal Agency	Award Number	Award Period	Name of Federal Program	Questioned Costs
430104	93.566	Health and Human Services	G 99 AA MI 5110	10/01/1998 - 09/30/2001	Refugee and Entrant Assistance: State Administered Programs	\$ 203,164
	93.576	Health and Human Services	G-90 RT 0068/02	09/30/1999 - 03/31/2001	Refugee and Entrant Assistance: State Discretionary Grants	\$ (203,164)
430105	93.558	Health and Human Services	G 99 01 MI TANF	10/01/1998 - 09/30/2000	Temporary Assistance for Needy Families (TANF)	\$ 412
		Health and Human Services	G 00 01 MI TANF	10/01/1999 - 09/30/2001	Temporary Assistance for Needy Families (TANF)	\$ 4,600
	93.566	Health and Human Services	G 99 AA MI 5100	10/01/1998 - 09/30/2001	Refugee and Entrant Assistance: State Administered Programs	\$ 1,047
		Health and Human Services	G 00 AA MI 5011	10/01/1999 - 09/30/2002	Refugee and Entrant Assistance: State Administered Programs	\$ 332
	93.568	Health and Human Services	G 99 B1 MI LIEA	10/01/1998 - 09/30/2000	Low-Income Home Energy Assistance	\$ 257
		Health and Human Services	G 00 B1 MI LIEA	10/01/1999 - 09/30/2001	Low-Income Home Energy Assistance	\$ 723
	93.575	Health and Human Services	G 99 01 MI CCD2	10/01/1998 - 09/30/2000	Child Care and Development Block Grant	\$ 0
		Health and Human Services	G 00 01 MI CCD2	10/01/1999 - 09/30/2001	Child Care and Development Block Grant	\$ 0
	93.596	Health and Human Services	G 99 01 MI CCDF	10/01/1998 - 09/30/1999	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$ 1,727
		Health and Human Services	G 00 01 MI CCDF	10/01/1999 - 09/30/2000	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$ 1,990
	93.658	Health and Human Services	99 01 MI 1401	10/01/1998 - 09/30/1999	Foster Care: Title IV-E	\$ 1,025
		Health and Human Services	00 01 MI 1401	10/01/1999 - 09/30/2000	Foster Care: Title IV-E	\$ 5,514
	93.659	Health and Human Services	G 99 01 MI 1407	10/01/1998 - 09/30/1999	Adoption Assistance	\$ 7,038
		Health and Human Services	G 00 01 MI 1407	10/01/1999 - 09/30/2000	Adoption Assistance	\$ 7,275
	93.778	Health and Human Services	05 99 05 MI 5048	10/01/1998 - 09/30/1999	Medical Assistance Program (Medicaid; Title XIX)	\$ (84)
430107	93.566	Health and Human Services	G 99 AA MI 5100	10/01/1998 - 09/30/2001	Refugee and Entrant Assistance: State Administered Programs	\$ 0
		Health and Human Services	G 00 AA MI 5011	10/01/1999 - 09/30/2002	Refugee and Entrant Assistance: State Administered Programs	\$ 0
430108	93.563	Health and Human Services	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 0
		Health and Human Services	G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 0
430109	93.563	Health and Human Services	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 0
		Health and Human Services	G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 0
430110	93.563	Health and Human Services	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 24,775
		Health and Human Services	G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 174
430111	93.558	Health and Human Services	G 99 01 MI TANF	10/01/1998 - 09/30/2000	Temporary Assistance for Needy Families (TANF)	\$ 0
		Health and Human Services	G 00 01 MI TANF	10/01/1999 - 09/30/2001	Temporary Assistance for Needy Families (TANF)	\$ 0
430112	93.558	Health and Human Services	G 99 01 MI TANF	10/01/1998 - 09/30/2000	Temporary Assistance for Needy Families (TANF)	\$ 792
		Health and Human Services	G 00 01 MI TANF	10/01/1999 - 09/30/2001	Temporary Assistance for Needy Families (TANF)	\$ 563
430113	93.659	Health and Human Services	G 99 01 MI 1407	10/01/1998 - 09/30/1999	Adoption Assistance	\$ 49,783
		Health and Human Services	G 00 01 MI 1407	10/01/1999 - 09/30/2000	Adoption Assistance	\$ 80,852
430114	93.566	Health and Human Services	G 99 AA MI 5100	10/01/1998 - 09/30/2001	Refugee and Entrant Assistance: State Administered Programs	\$ 500
430115	93.667	Health and Human Services	G 99 01 MI SOSR	10/01/1998 - 09/30/2000	Social Services Block Grant	\$ 0
		Health and Human Services	G 00 01 MI SOSR	10/01/1999 - 09/30/2001	Social Services Block Grant	\$ 0
430116	93.556	Health and Human Services	G 98 01 MI 00FP	10/01/1997 - 09/30/1999	Promoting Safe and Stable Families	\$ 0
		Health and Human Services	G 99 01 MI 00FP	10/01/1998 - 09/30/1999	Promoting Safe and Stable Families	\$ 0
430117	84.126	Education	H-126A-99-0031	10/01/1998 - 09/30/2000	Rehabilitation Services: Vocational Rehabilitation Grants to States	\$ 101,084
430118	10.551	Agriculture	LOC 42646 9E	10/01/1998 - 09/30/1999	Food Stamps	\$ 0
		Agriculture	LOC 42646 00	10/01/1999 - 09/30/2000	Food Stamps	\$ 0
	93.563	Health and Human Services	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 0
		Health and Human Services	G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 0
	93.658	Health and Human Services	99 01 MI 1401	10/01/1998 - 09/30/1999	Foster Care: Title IV-E	\$ 0
		Health and Human Services	00 01 MI 1401	10/01/1999 - 09/30/2000	Foster Care: Title IV-E	\$ 0
430119	93.563	Health and Human Services	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$5,391,262
430120	93.563	Health and Human Services	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 45,550
		Health and Human Services	G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 1,026
	93.778	Health and Human Services	05 00 05 MI 5048	10/01/1999 - 09/30/2000	Medical Assistance Program (Medicaid; Title XIX)	\$ 538
	96.001	Social Security Administration	4 99 04 MI D100	10/01/1998 - 09/30/1999	Social Security: Disability Insurance	\$ 2,809
		Social Security Administration	4 00 04 MI D100	10/01/1999 - 09/30/2000	Social Security: Disability Insurance	\$ 6,377
430121	10.551	Agriculture	LOC 42646 9E	10/01/1998 - 09/30/1999	Food Stamps	\$ 0
		Agriculture	LOC 42646 00	10/01/1999 - 09/30/2000	Food Stamps	\$ 0

This summary is indexed by finding number. The following summary is indexed by CFDA number.

FAMILY INDEPENDENCE AGENCY
 Summary of Questioned Costs Indexed by CFDA Number
 For the Period October 1, 1998 through September 30, 2000

CFDA Number	Finding Number	Award Number	Award Period	Name of Federal Program	Questioned Costs
U.S. Department of Agriculture					
10.551	430118	LOC 42646 99	10/01/1998 - 09/30/1999	Food Stamps	\$ 0
		LOC 42646 00	10/01/1999 - 09/30/2000	Food Stamps	\$ 0
	430121	LOC 42646 99	10/01/1998 - 09/30/1999	Food Stamps	\$ 0
		LOC 42646 00	10/01/1999 - 09/30/2000	Food Stamps	\$ 0
U.S. Department of Education					
84.126	430117	H-126A-99-0031	10/01/1998 - 09/30/2000	Rehabilitation Services: Vocational Rehabilitation Grants to States	\$ 101,084
U.S. Department of Health and Human Services					
93.556	430116	G 98 01 MI 00FP	10/01/1997 - 09/30/1999	Promoting Safe and Stable Families	\$ 0
		G 99 01 MI 00FP	10/01/1998 - 09/30/1999	Promoting Safe and Stable Families	\$ 0
93.558	430105	G 99 01 MI TANF	10/01/1998 - 09/30/2000	Temporary Assistance for Needy Families (TANF)	\$ 412
		G 00 01 MI TANF	10/01/1999 - 09/30/2001	Temporary Assistance for Needy Families (TANF)	\$ 4,600
	430111	G 99 01 MI TANF	10/01/1998 - 09/30/2000	Temporary Assistance for Needy Families (TANF)	\$ 0
		G 00 01 MI TANF	10/01/1999 - 09/30/2001	Temporary Assistance for Needy Families (TANF)	\$ 0
	430112	G 99 01 MI TANF	10/01/1998 - 09/30/2000	Temporary Assistance for Needy Families (TANF)	\$ 792
		G 00 01 MI TANF	10/01/1999 - 09/30/2001	Temporary Assistance for Needy Families (TANF)	\$ 563
93.563	430108	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 0
		G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 0
	430109	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 0
		G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 0
	430110	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 24,775
		G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 174
	430118	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 0
		G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 0
	430119	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 5,391,262
		G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 45,550
	430120	G 99 04 MI 4004	10/01/1998 - 09/30/1999	Child Support Enforcement (CSE)	\$ 1,026
		G 00 04 MI 4004	10/01/1999 - 09/30/2000	Child Support Enforcement (CSE)	\$ 203,164
93.566	430104	G 99 AA MI 5110	10/01/1998 - 09/30/2001	Programs	\$ 1,047
		G 99 AA MI 5100	10/01/1998 - 09/30/2001	Programs	\$ 332
	430107	G 99 AA MI 5100	10/01/1998 - 09/30/2001	Programs	\$ 0
		G 00 AA MI 5011	10/01/1999 - 09/30/2002	Programs	\$ 0
	430114	G 99 AA MI 5100	10/01/1998 - 09/30/2001	Programs	\$ 500
		G 99 B1 MI LIEA	10/01/1998 - 09/30/2000	Low-Income Home Energy Assistance	\$ 257
93.568	430105	G 00 B1 MI LIEA	10/01/1999 - 09/30/2001	Low-Income Home Energy Assistance	\$ 723
		G 99 01 MI CCD2	10/01/1998 - 09/30/2000	Child Care and Development Block Grant	\$ 0
93.575	430105	G 00 01 MI CCD2	10/01/1999 - 09/30/2001	Child Care and Development Block Grant	\$ 0
		G-90 RT 0068/02	09/30/1999 - 03/31/2001	Refugee and Entrant Assistance: Discretionary Grants	\$ (203,164)
93.576	430104	G 99 01 MI CCDF	10/01/1998 - 09/30/1999	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$ 1,727
		G 00 01 MI CCDF	10/01/1999 - 09/30/2000	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$ 1,990
93.658	430105	99 01 MI 1401	10/01/1998 - 09/30/1999	Foster Care: Title IV-E	\$ 1,025
		00 01 MI 1401	10/01/1999 - 09/30/2000	Foster Care: Title IV-E	\$ 5,514
	430118	99 01 MI 1401	10/01/1998 - 09/30/1999	Foster Care: Title IV-E	\$ 0
		00 01 MI 1401	10/01/1999 - 09/30/2000	Foster Care: Title IV-E	\$ 0
93.659	430105	G 99 01 MI 1407	10/01/1998 - 09/30/1999	Adoption Assistance	\$ 7,038
		G 00 01 MI 1407	10/01/1999 - 09/30/2000	Adoption Assistance	\$ 7,275
	430113	G 99 01 MI 1407	10/01/1998 - 09/30/1999	Adoption Assistance	\$ 49,783
		G 00 01 MI 1407	10/01/1999 - 09/30/2000	Adoption Assistance	\$ 80,852
93.667	430115	G 99 01 MI SOSR	10/01/1998 - 09/30/2000	Social Services Block Grant	\$ 0
		G 00 01 MI SOSR	10/01/1999 - 09/30/2001	Social Services Block Grant	\$ 0
93.778	430105	05 99 05 MI 5048	10/01/1998 - 09/30/1999	Medical Assistance Program (Medicaid; Title XIX)	\$ (84)
		05 00 05 MI 5048	10/01/1999 - 09/30/2000	Medical Assistance Program (Medicaid; Title XIX)	\$ 538
Social Security Administration					
96.001	430120	4 99 04 MI D100	10/01/1998 - 09/30/1999	Social Security: Disability Insurance	\$ 2,809
		4 00 04 MI D100	10/01/1999 - 09/30/2000	Social Security: Disability Insurance	\$ 6,377

This summary is indexed by CFDA number. The preceding summary is indexed by finding number.

FINDING (430104)

4. MAIN Coding of Federally Funded Programs

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

FIA's internal control did not provide for proper program identification and coding of federal REAP expenditures (*CFDA* 93.566).

OMB Circular A-133 section 310(b)(3) requires FIA to report federal awards expended by individual federal program and include the appropriate *CFDA* identification number.

Our audit of REAP expenditures disclosed:

- a. FIA improperly charged \$146,738 to REAP (*CFDA* 93.566) for expenditures incurred by the Refugee Work Plus Program (\$70,312) and the TAG Access Program (\$76,426), both of which were Refugee and Entrant Assistance: Discretionary Grants under *CFDA* 93.576 in fiscal year 1998-99. As a result, REAP and Refugee and Entrant Assistance: Discretionary Grants expenditures were overstated and understated, respectively, by \$146,738 for fiscal year 1998-99.

- b. FIA improperly coded the grant profiles for grant numbers 090038 (Refugee and Entrant Assistance: Targeted Assistance, *CFDA* 93.584) and 090039 (Refugee and Entrant Assistance: Discretionary Grants, *CFDA* 93.576) in MAIN. The MAIN profile for 090039 resulted in \$56,426 of *CFDA* 93.576 expenditures being improperly charged to REAP (*CFDA* 93.566). Based on our findings, FIA corrected the grant profile for 090038.

RECOMMENDATION

We recommend FIA's internal control provide for proper program identification and coding of REAP expenditures.

FINDING (430105)

5. Case File Internal Control

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

FIA local office staff frequently did not comply with established case file internal control procedures for documenting client eligibility and the propriety of public assistance expenditures. The noncompliance often resulted in FIA providing and not detecting inaccurate or inappropriate public assistance benefits. We consider this condition to be material noncompliance* for the eligibility and allowable costs/cost principles compliance requirements and a material internal control weakness for TANF (CFDA 93.559), REAP (CFDA 93.566), the Child Care Cluster (CFDA 93.575 and 93.596), and Foster Care: Title IV-E (CFDA 93.658).

Our review of 216 randomly selected case files disclosed:

- a. Five (2%) of the 216 randomly selected case files could not be located. As a result, we questioned costs in all 5 cases.
- b. Fifty (23%) of the 216 case files did not contain key documents required to support payments to or on behalf of the clients. As a result, we questioned costs relating to 42 cases. For the remaining 8 cases, other case file documentation corroborated information that would have been reported on the key documents needed to substantiate the propriety of payments made.
- c. Documentation relating to initial eligibility determination or redetermination was not complete for 27 (14%) of 199 cases.

An assistance application/redetermination form (FIA-1171), eligibility determination and certification form (FIA-1171-C), initial or redetermination of appropriate foster care funding source (FIA-352 or FIA-350), eligibility determination record (FIA-4418), Adoption Support Subsidy Agreement (FIA-4413), or rehabilitation services eligibility certification was required for 199 of our sample grant cases. Documentation for 26 of the 199 cases was not

* See glossary at end of report for definition.

complete, e.g. the eligibility determination was not documented or the caseworker did not sign and date the form. In addition, 1 of the 199 cases did not contain any documentation to support eligibility. We cited questioned costs for 9 cases. For the remaining 18 cases, other case file documentation corroborated the clients eligibility.

- d. Local office staff did not adhere to FIA policies and/or properly determine grant benefits for 54 (25%) of the 216 case files we sampled. We cited questioned costs for 30 cases. In the remaining 24 cases, the exceptions noted did not result in FIA providing inaccurate public assistance benefits.

Similar findings have been reported in prior audits. In its responses, FIA has stated that it agrees and will comply. A key element in FIA's internal control is having supervisors "read" case files to monitor staff activities. Because case file internal control noncompliance rates have remained high and, for some programs, have increased, we conclude that FIA's internal control and its corrective actions have not been effective.

RECOMMENDATION

We recommend that FIA review and evaluate appropriate methods to help ensure that local office staff comply with established case file internal control procedures for documenting client eligibility and the propriety of public assistance expenditures.

FINDING (430106)

6. Identifying, Monitoring, and Reporting Payments to Subrecipients

<p><u>Applicable to:</u> All federal programs that have distributions to subrecipients as reported on the SEFA.</p>

FIA's internal control did not provide for the proper identification, monitoring, and reporting of payments to all subrecipients.

OMB Circular A-133 requires FIA to monitor, as necessary, the activities of subrecipients to ensure that federal awards are used only for authorized purposes. To properly monitor subrecipients in accordance with OMB Circular A-133, FIA

must first determine whether an entity receiving federal funds is a subrecipient or a vendor:

- a. FIA's internal control over determining whether an entity receiving federal funds is a subrecipient or a vendor was sometimes not effective.

FIA's subrecipient/vendor determination depends on several factors, including whether the relationship with the entity is based upon a written "contract" or other written agreement, the amount of payments to the entity, and whether the FIA unit that administers a federal program classifies the entity as a subrecipient or vendor. FIA's Office of Contracts Management and Rate Setting (OCRS) tracks the subrecipient and vendor status on its contract management database. FIA's Office of Internal Audit uses the OCRS database to identify potential subrecipients that should be monitored. However, because the OCRS database excludes entities receiving federal funds through "letters of agreement" or "inter-agency agreements" and entities not classified as either subrecipients or vendors by the administering unit, FIA cannot be assured that all entities receiving federal funds are identified as subrecipients, when appropriate, and monitored.

Our audit identified the following entities that received payments of federal funds and were not included on the OCRS database:

- (1) Three local health departments providing health screenings pursuant to an "Addendum to the Medical Assistance Provider Agreement Concerning Health Screenings for Refugees."
- (2) One local health department providing health screenings under a "letter of agreement."
- (3) Six State agencies providing various services to FIA through "inter-agency agreements."

After informing FIA of these entities, FIA concluded that the four local health departments were vendors rather than subrecipients. For the State agencies, we noted that FIA had not taken action on an audit of one of the six, which reported questioned costs of \$976,000. Also, this State agency did not submit the required reporting package to FIA in accordance with OMB Circular A-133.

- b. FIA did not effectively track payments to subrecipients and vendors.

OCRS tracks a contractor's subrecipient or vendor status and related payments in its database with a field indicator of 1 (vendor), 2 (subrecipient), or 3 (receiving no federal dollars). We selected 50 contracts for each fiscal year from a listing provided by Payment Document Control and identified 25 (25%) contracts that improperly had a blank database field for the subrecipient/vendor status.

If the OCRS database field for identifying subrecipients is blank, the Office of Internal Audit requests and accepts a contractor's certification affirming that it is not subject to OMB Circular A-133. However, this assumes that the contractor is aware of and properly applies the criteria for determining its status as a subrecipient or a vendor. This self-certification increases the risk that FIA is not properly identifying and monitoring subrecipients.

Also, FIA's Bureau of Accounting relies on the OCRS database to gather financial information to report payments to subrecipients on the SEFA. FIA's lack of internal control resulted in FIA initially misclassifying reported payments of approximately \$48 million and \$65 million between amounts "Directly Expended" and amounts "Distributed to Subrecipients" on the SEFA for fiscal years 1999-2000 and 1998-99, respectively. In response to our finding, FIA reclassified the expenditures.

RECOMMENDATION

We recommend that FIA enhance its internal control to provide for the proper identification, monitoring, and reporting of payments to all subrecipients.

FINDING (430107)

7. Contracts With Entities Receiving Federal Funds

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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FIA did not comply with its prescribed internal control for issuing and limiting the duration of contracts to obtain services rendered under the federal Refugee and Entrant Assistance: State Administered Programs (REAP, *CFDA* 93.566).

Item 100 of FIA's Contracts Manual requires a contract for the purchase of any service for \$10,000 or more within a 12-month period. We identified the following entities that annually received over \$10,000 in REAP funds but did not have a contract:

Entity	Amount Paid	
	Fiscal Year 1999-2000	Fiscal Year 1998-1999
Local Health Department A	\$298,750	\$267,250
Local Health Department B	\$203,750	\$155,250
Local Health Department C	\$191,750	\$110,750
Not-for-Profit Organization A	\$491,163	\$334,121
Not-for-Profit Organization B	\$130,805	\$145,518

The three local health departments provided health screenings pursuant to an "Addendum to the Medical Assistance Provider Agreement Concerning Health Screenings for Refugees."

The absence of a contract hinders FIA's ability to properly track the entity as a subrecipient or a vendor because the OCRS database tracks only formal contracts with entities (see Finding 6).

In addition, item 107 of FIA's Contract Manual states that multi-year contracts may not exceed 36 months and that, to extend a multi-year contract, a completed amendment form must be forwarded to OCRS for approval. FIA paid the three local health departments based on agreements signed in 1990 that had not been updated and approved by OCRS as of March 2001.

Without all contractual relationships being reviewed and approved periodically, FIA cannot ensure that the most appropriate contract terms are being obtained or that applicable federal or State statutory requirements are being met.

RECOMMENDATION

We recommend that FIA comply with its prescribed internal control for issuing and limiting the duration of contracts to obtain services rendered under REAP.

FINDING (430108)

8. Child Support Enforcement (CSE) Efforts

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

FIA child support specialists often did not comply with established internal control regarding locating absent parents. Also, FIA had not established controls to document searches of the Michigan Central Paternity Registry and did not comply with controls to establish paternity and support obligations, including following up referrals to the local prosecutor or Friend of the Court (FOC) and securing medical support obligations. We consider these exceptions to be material noncompliance with the special tests and provisions compliance requirement and a material internal control weakness for the CSE Program.

Our prior audit and current review of CSE case files disclosed:

- a. As reported in our prior audit, child support specialists often did not initiate required location services, use all appropriate location resources within the 75 calendar day requirement, attempt to locate the absent parent on a quarterly basis after previous location attempts failed, annually attempt to locate the absent parent using the Federal Parent Locator Service, and repeat location attempts upon the receipt of new information as required by Title 45, Part 303, Sections 2 and 3 of the *Code of Federal Regulations (CFR)* and Office of Child Support (OCS) policy items 410 and 420 through 450.

Our discussions with key OCS staff and review of FIA's corrective action plan dated September 27, 2000 disclosed that planned internal control enhancements to locate absent parents are not scheduled to be implemented until September 30, 2001. Locating the absent parent is a fundamental CSE objective and is essential to establish paternity and obtain financial support for the child and to reduce State and federal welfare costs.

- b. Our test of 37 CSE sampled case files disclosed:
 - (1) For 8 (67%) of 12 cases, child support specialists did not document a search of the Michigan Central Paternity Registry to determine if the absent parent had signed a voluntary acknowledgment. Also, for 1 (9%)

of 11 cases where the child was born out of wedlock, child support specialists did not attempt to establish paternity.

Federal regulations 45 *CFR* 303.5(h) and 303.5(a)(2) and OCS policy item 210 require FIA to, in cases needing paternity establishment, determine if identifying information about a voluntary acknowledgment has been recorded in the registry and attempt to establish paternity by legal process as provided under State law. Section 722.714 of the *Michigan Compiled Laws* and OCS policy item 200 require child support specialists to initiate a referral for paternity action to the appropriate local prosecutor or FOC. Also, federal regulation 45 *CFR* 303.2(c) requires each case record to be supplemented with all information and documents pertaining to the case as well as all relevant facts, dates, actions taken, contracts made, and results in a case. Attempting to establish paternity is a fundamental CSE objective and is essential to obtaining financial support for the child and reducing State and federal welfare costs. A support obligation cannot be secured without paternity establishment.

- (2) For 3 (21%) of 14 cases, child support specialists did not attempt to establish a support obligation. Also, for 13 (81%) of 16 cases, child support specialists did not monitor the status of the support order referral submitted to the local prosecutor within 90 days of the referral date. Further, child support specialists did not monitor support order referrals for the 1 applicable case at least quarterly until action on the referral by the local prosecutor or FOC office had been concluded and reported to the FIA local office.

Federal regulations 45 *CFR* 303.3(c) and 303.4(d) and OCS policy item 230 require FIA to establish guidelines defining diligent efforts to establish an order for support obligation or complete service of process necessary to commence proceedings to establish a support order for all CSE cases. Federal regulation 45 *CFR* 303.3(c) also requires guidelines that define diligent efforts to include a provision for ". . . periodically repeating service of process attempts in cases in which previous attempts to serve process have failed, but adequate identifying and other information exists to attempt service of process." To help ensure FIA's compliance with federal regulations, OCS policy item 200 requires the child support specialist to monitor the status of a support order referral submitted to the

local prosecutor within 90 days of the referral date and to inform the local prosecutor of newly obtained information that may affect action on a referral.

We reported a similar condition in our prior audit. FIA responded that the exceptions were caused by the existence of many CSE cases (such as duplicate cases, cases where the absent parent could not be located after diligent efforts, and cases where the youngest child was over the age of majority) that should have been closed. Subsequently, FIA completed a case closure process on January 18, 1999 that purged 200,255 "old" cases that we excluded from our sampling universe.

Diligent monitoring of support order referrals helps to ensure that support obligation is promptly established. Without a court order for support obligation, the custodial parent cannot receive financial assistance for the child from the absent parent and the State cannot recover public assistance provided to the custodial parent for the child.

- (3) For 1 (25%) of 4 cases, support specialists did not attempt to identify absent parent medical support information. Also, for 2 (100%) of 2 cases, support specialists did not document the disposition of the request for medical support information for the absent parent.

Federal regulation 45 *CFR* 303.30 requires FIA to attempt to secure medical support information, including health insurance policy coverage maintained by the absent parent, for the benefit of children who receive CSE services and Medicaid. OCS policy item 240 states that the child support specialist must request medical insurance information when a locating inquiry about the absent parent is sent to an employer, trade union, military service, hospital, or other resource using an information request letter (FIA-378) and/or an employment inquiry letter (FIA-3438). Upon identification of medical insurance information, federal regulation 45 *CFR* 303.2(c) requires FIA to document the information. Also, OCS policy item 240 states that, when a health insurance policy is identified, policy information must be reported to the Third Party Liability Division, Medical Services Administration, Department of Community Health, when persons covered by the policy receive Medicaid.

Identification of absent parent medical support information helps to ensure that the child receives adequate health care coverage and that Medicaid can recover expenses incurred for the child.

We reported similar conditions in our prior two audits. Although FIA purged its database of old cases and periodically samples cases to determine compliance with procedures, these efforts and controls have not proven effective.

RECOMMENDATIONS

- a. WE AGAIN RECOMMEND THAT FIA CHILD SUPPORT SPECIALISTS COMPLY WITH ESTABLISHED INTERNAL CONTROL REGARDING LOCATING ABSENT PARENTS.
- b. We also recommend FIA establish controls to document searches of the Michigan Central Paternity Registry, and comply with controls to establish paternity and support obligations, including following up referrals to the local prosecutor or FOC, and securing medical support obligations.

FINDING (430109)

9. Interstate Central Registry (ICR)

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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FIA's internal control over the ICR and the processing of interstate child support cases did not ensure compliance with federal regulations.

Federal regulations require FIA to establish an ICR responsible for receiving, distributing, and responding to inquiries, including requests for wage withholding assignments, on all incoming interstate child support cases. Also, upon receipt of these cases, FIA is required to provide any necessary services for these cases as it would in an intrastate child support case, such as case establishment, location services, paternity and support obligation establishment, collection, and enforcement. Further, the regulations require FIA to provide these activities within specified time frames.

Our review of FIA's ICR disclosed:

- a. The ICR did not interface with the Child Support Enforcement System (CSES).

Federal regulation 45 *CFR* 307.10(b)(14)(vi) requires all processing of interstate cases to be integrated with CSES, including the ICR. FIA informed us that the ICR could not interface with CSES because CSES was not functional Statewide as reported in Finding 18b.

- b. FIA's internal control did not require ICR staff to document the receipt date of an interstate case.

ICR staff did not date stamp or maintain a receipt log of interstate case requests. ICR staff entered into the ICR the date that the case was established rather than the actual date that the interstate case was received. As a result, ICR staff could not document that they responded to an initiating state within required time frames.

Federal regulation 45 *CFR* 303.7(a)(2) requires the ICR to, within 10 working days of receipt of an interstate case, forward the case for necessary action to the appropriate local prosecutor or FOC, acknowledge receipt of the case, and inform the initiating state of the action taken on the case. Also, federal regulation 45 *CFR* 303.7(a)(4) requires ICR staff to respond to inquiries from other states within 5 working days of receipt of a request for a case status review.

- c. FIA's internal control did not ensure that interstate cases were monitored after they were forwarded to the applicable local prosecutor or FOC for processing.

Federal regulation 45 *CFR* 303.7(c) (7) requires FIA to provide any necessary services as it would in intrastate cases. Also, federal regulations 45 *CFR* 303.3(c) and 303.4(d) require FIA to make (and establish guidelines defining) diligent efforts to establish an order for support obligation or complete service of process necessary to commence proceedings to establish a support order for all CSE cases. Federal regulation 45 *CFR* 303.3(c) requires guidelines that define diligent efforts to include a provision for ". . . periodically repeating service of process attempts in cases in which previous attempts to serve

process have failed, but adequate identifying and other information exists to attempt service of process."

To help ensure FIA's compliance with federal regulations, OCS policy item 200 requires the child support specialist to monitor the status of a support order referral submitted to the local prosecutor within specified time frames and to inform the local prosecutor of newly obtained information that may affect action on a referral. However, child support specialists located in local FIA offices did not have access to ICR cases (see item a.) referred to local prosecutors to enable them to monitor case status, and ICR staff did not monitor the status of cases referred.

Without adequate monitoring of an interstate case, inquiries from other states cannot be answered in an effective and efficient manner. Diligent monitoring of support order referrals helps to ensure that support obligation is promptly established. Without a court order for support obligation, the custodial parent cannot receive financial assistance for the child from the absent parent and the State cannot recover public assistance provided to the custodial parent for the child.

RECOMMENDATION

We recommend that FIA implement effective internal control over the ICR and the processing of interstate child support cases to help ensure compliance with federal regulations.

FINDING (430110)

10. Documentation and Allowability of Federally Funded Expenditures

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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FIA did not maintain required supporting documentation for certain federally reimbursed expenditures and charged unallowable costs to the CSE Program.

Federal regulation 45 *CFR* 92.20(b)(2) requires grantees and subgrantees to maintain records that identify the application of funds provided for financially assisted activities. Also, OMB Circular A-87, *Cost Principles for State, Local, and*

Indian Tribal Governments, requires costs charged to federal programs to be adequately documented. In addition, Section 18.1285 of the *Michigan Compiled Laws* requires FIA to maintain records to support State activities.

Our review of federal claims disclosed that FIA improperly charged the CSE Program for the following CSES related expenditures:

- a. FIA could not provide adequate documentation for travel costs of CSES consultants totaling \$24,775 in fiscal year 1998-99.
- b. FIA overpaid \$174 for salaries and wages of CSES consultants because of a calculation error in fiscal year 1999-2000.

We noted a similar condition in our prior audit. FIA informed us that procedures have been implemented to ensure that FIA obtains appropriate documentation for CSES related expenditures.

RECOMMENDATION

We recommend that FIA maintain required supporting documentation for federally reimbursed expenditures and charge only allowable costs to federal grants.

FINDING (430111)

11. Noncooperation Penalties

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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FIA has not revised its child support noncooperation penalties to comply with federal welfare reform requirements. We consider this exception to be material noncompliance with the special tests and provisions compliance requirement and a material internal control weakness with regard to the TANF Program.

Title 42, section 608(a)(2)(A) of the *Code of Laws of the United States (USC)*, states that if an individual is not cooperating with the state in establishing paternity or obtaining child support, the state shall deduct from the family's assistance an amount not less than 25%.

We reported in our prior audit that the Family Independence Program (FIP) Monthly Assistance Payments Standards Table contained in Program Reference Tables and Schedules item 210-1 often contained client disqualification reductions that did not meet the required 25% minimum reduction. We determined that 32 (89%) of 36 sanctions pertaining to FIA's six shelter areas were improper, with the average client disqualification ranging from \$1.62 more to \$139.75 less per sanction as shown in the following table:

Group Size Prior to Sanction	Average Payment Among All Shelter Areas	Child Support Sanction		Average Client Disqualification More or (Less) Than Federally Required
		Average Client Disqualification Among All Shelter Areas	Required 25% Reduction for an Average Payment	
Two	\$366.83	\$ 93.33	\$ 91.71	\$ 1.62
Three	\$454.00	\$ 87.17	\$113.50	(\$ 26.33)
Four	\$558.00	\$104.00	\$139.50	(\$ 35.50)
Five	\$654.00	\$ 96.00	\$163.50	(\$ 67.50)
Six	\$787.00	\$133.00	\$196.75	(\$ 63.75)
Seven	\$863.00	\$ 76.00	\$215.75	(\$139.75)

In its corrective action plan dated September 27, 2000, FIA stated that it would seek changes to the boilerplate language annual appropriations act requirements to comply with TANF regulations but corrective action would not be completed until July 1, 2001.

The Social Security Act permits the Secretary of the U.S. Department of Health and Human Services to penalize a state up to 5% of its TANF grant for failing to substantially comply with State child support program requirements. Expenditures for the TANF Program (CFDA 93.558) were approximately \$731.8 million in fiscal year 1999-2000.

RECOMMENDATION

WE AGAIN RECOMMEND THAT FIA REVISE ITS CHILD SUPPORT NONCOOPERATION PENALTIES TO COMPLY WITH FEDERAL WELFARE REFORM REQUIREMENTS.

FINDING (430112)

12. Client Disqualification

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

FIA local offices often did not comply with established internal control for initiating client disqualification or, ultimately, case closure when a client failed to cooperate in obtaining child support or when mandatory participants in an eligible FIP group refused suitable employment. We consider this condition to be material noncompliance with the special tests and provisions compliance requirement and a material internal control weakness for the TANF Program.

Our prior audit and current review of FIP case files disclosed:

- a. In the prior audit, our review of 26 FIP cases in which the child support specialist identified the client as noncooperative disclosed:
 - (1) Seven cases (27%) in which the family independence specialist (FIS) did not initiate client disqualification as required.
 - (2) Two cases (8%) in which the FIP case file did not contain documents verifying that the FIS initiated member disqualification.
 - (3) Five cases (19%) in which the FIS did not meet required time frames for initiating client disqualification, closing a case, or reinstating a client previously disqualified.

FIA's Program Eligibility Manual item 255 requires the child support specialist to notify the FIS when a client fails to cooperate in child support activities or does not indicate a willingness to cooperate. The FIS must then initiate "disqualification" for the client. If the client remains disqualified for four consecutive months and still refuses to cooperate, the FIS must close the FIP case.

A key element in FIA's internal control is having supervisors "read" case files to monitor staff activities. Based on the noted error rate, we conclude either the readings were not performed or the readings were not effective.

In its corrective action plan dated September 27, 2000, FIA stated that it agreed with the recommendation and would comply. FIA also stated that it would share the audit finding with local office workers and program managers and that corrective action would not be completed until June 20, 2001.

- b. Our review of 35 FIP cases disclosed one instance in which a client was fired from a job for absenteeism, and one instance in which a client quit a job. FIA did not document good cause and there was no interruption in FIP benefits for either case.

FIA's Program Eligibility Manual item 233A states that when an FIP client refuses suitable employment without good cause, the FIP client/group is ineligible for benefits and must remain ineligible for a minimum of one month. Refusing suitable employment includes quitting a job and being fired for absenteeism. We questioned costs totaling \$1,355 for these two cases.

The Social Security Act permits the Secretary of U.S. Department of Health and Human Services to penalize a state up to 5% of its TANF grant for failing to substantially comply with state child support program requirements. Expenditures for the TANF Program were approximately \$731.8 million in fiscal year 1999-2000.

RECOMMENDATION

WE AGAIN RECOMMEND THAT FIA LOCAL OFFICES COMPLY WITH ESTABLISHED INTERNAL CONTROL FOR INITIATING CLIENT DISQUALIFICATION OR, ULTIMATELY, CASE CLOSURE WHEN A CLIENT FAILS TO COOPERATE IN OBTAINING CHILD SUPPORT OR WHEN MANDATORY PARTICIPANTS IN AN ELIGIBLE FIP GROUP REFUSED SUITABLE EMPLOYMENT.

FINDING (430113)

13. Discontinuance of Adoption Subsidy Payments

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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FIA often did not discontinue Adoption Subsidy payments to parents who failed to submit a required annual report to the Office of Adoption Services.

Federal law 42 USC 673(a)(4) and Section 400.115 i (5) of the *Michigan Compiled Laws* require adoptive parents receiving a subsidy to file a verified annual report with the Office of Adoption Services at least once each year. This report reflects the location of the adoptee and other matters relating to continued eligibility of the adoptee to receive a subsidy. An adoptive parent's failure to submit the annual report is to result in case closure.

Our review of 45 adoption subsidy case files disclosed that 9 (20%) case files did not have an annual report dated within the calendar year. FIA did not discontinue the adoption subsidy payments to the adoptive parent and close these 9 cases as required.

Also, we reviewed the files for all 15 children placed outside the United States for the receipt of an annual report. Although planned, FIA did not request and did not receive annual reports from out-of-country adoptive parents in calendar year 2000 because the Office of Adoption Services relied on the Adoption Subsidy payroll report (AG-790) to request annual reports from adoptive parents. However, FIA pays out-of-country adoptive parents manually and they are, therefore, excluded from the AG-790 report. Based on a similar situation that we informed FIA of in the prior audit, FIA requested and received annual reports for out-of-country children in calendar year 1999.

In its preliminary response dated October 29, 1999 to our prior audit draft finding and in its corrective action plan dated September 27, 2000, FIA stated that it had modified its internal procedures for the annual report and would comply with our prior audit recommendation. We conclude that FIA's corrective actions were not effective.

RECOMMENDATION

WE AGAIN RECOMMEND THAT FIA DISCONTINUE ADOPTION SUBSIDY PAYMENTS TO PARENTS WHO FAIL TO SUBMIT A REQUIRED ANNUAL REPORT TO THE OFFICE OF ADOPTION SERVICES.

FINDING (430114)

14. Vendor Verification of Client Eligibility

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

FIA did not ensure that vendors complied with federal regulations for documenting medical screenings provided to refugees.

Federal regulation 45 *CFR* 400.107 states that the State may provide a medical screening to a refugee within the first 90 days of the refugee's initial date of entry into the United States without verification of the refugee's eligibility for medical assistance under the Refugee and Entrant Assistance: State Administered Programs (REAP) (*CFDA* 93.566).

Vendors providing medical screenings to refugees after 90 days of initial entry into the country must document the refugee's eligibility under either the Medicaid or REAP programs. OMB Circular A-133 section 210(f) states that the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance. FIA reimbursed a vendor for providing medical screenings to 2 (3%) of 74 sampled refugees without submitting a copy of the refugees' medical assistance authorization card. Both refugees received the medical screening after having been in the country more than 90 days. This vendor billed FIA for approximately 2,200 screenings during our audit period.

RECOMMENDATION

We recommend that FIA ensure that vendors comply with federal regulations for documenting medical screenings provided to refugees.

FINDING (430115)

15. Payments at Prevailing Minimum Wage

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

FIA's internal control did not ensure that its policies and corresponding amounts paid to non-State employees* were updated when federal and/or State minimum wage laws changed.

Our test of transactions included two payments to a county government to reimburse the county for the cost of transporting youth for various social service activities. The county paid these youth conveyors at a rate of \$4.50 and \$5.00 per hour during our audit period in violation of FIA policy.

FIA's Administrative Handbook Manual item 801-2 states that FIA will reimburse non-State employee conveyors at the prevailing minimum wage for normal travel time. The federal and State minimum wage was \$5.15 per hour during our entire audit period as noted in federal law 29 USC 206 (a)(1) and Section 408.384(c) of the *Michigan Compiled Laws*. In addition, Administrative Handbook Manual item 801-5 states that non-State employee conveyors and attendants transporting youth to and/or from a county or Department operated (or funded) detention center are to be paid at a rate of \$5.00 per hour. FIA last updated these policies in December 1987 when the prevailing minimum wage was \$3.35 per hour. Because FIA personnel did not update its policies to reflect changes in the minimum wage law, FIA paid hourly wage rates below federal and State minimum wage laws to non-State employees.

RECOMMENDATION

We recommend that FIA enhance its internal control to help ensure that its policies and corresponding amounts paid to non-State employees are updated when federal and/or State minimum wage laws change.

FINDING (430116)

16. Administrative Cost Limitation

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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* See glossary at end of report for definition.

FIA's internal control did not provide for monitoring the 10% administrative cost limitation set forth in federal regulations for the Promoting Safe and Stable Families grant (*CFDA* 93.556).

FIA uses the Promoting Safe and Stable Families grant to partially fund FIA's Strong Families/Safe Children (SF/SC) initiatives. An FIA policy letter dated October 30, 1998 informed FIA local office staff that the TANF grant would also fund SF/SC programs and that staff should establish program cost accounts to record TANF eligible and non-TANF eligible SF/SC expenditures. The policy letter also informed local office staff of a 15% administration cost limitation imposed by TANF regulations and described eligible administrative costs. However, federal regulation 45 *CFR* 1357.32(h) governing the Promoting Safe and Stable Families grant limits federal financial participation for administrative costs to no more than 10% of total claims.

In addition, FIA's definition of administrative costs in the program cost accounts for SF/SC is not consistent with federal regulation 45 *CFR* 1357.32(h) because the federal government considers "coordination" costs as eligible program expenditures whereas FIA's policy letter includes "coordination" costs as administrative costs.

FIA's Federal Reporting Unit informed us that it was unaware of the 10% limitation on administrative costs. We determined that FIA did comply with the limitation for both fiscal years of the audit after reviewing additional cost detail within the SF/SC non-TANF administrative program cost accounts.

RECOMMENDATION

We recommend that FIA establish internal control to provide for monitoring the 10% administrative cost limitation set forth in federal regulations for the Promoting Safe and Stable Families grant.

FINDING (430117)

17. Allowable Funding Sources for Federal Matching Requirements

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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FIA's internal control did not ensure that only allowable funding sources were used to comply with the matching requirements of the federal Rehabilitation Services: Vocational Rehabilitation Grants to States Program (*CFDA* 84.126).

FIA improperly claimed \$95,235 of third party in-kind contributions as State matching funds and \$5,849 of donated money from a private entity that was not deposited and earmarked as State funds to meet the Program's fiscal year 1998-99 matching requirement.

Federal regulation 34 *CFR* 361.60(b)(2) prohibits third party in-kind contributions to be used as State funding source contributions. Also, federal regulation 34 *CFR* 361.60(b)(3) prohibits the State from claiming donations from private entities that are not deposited and earmarked in State accounts as matching funds for the Rehabilitation Services: Vocational Rehabilitation Grants to States Program.

FIA's Commission for the Blind, Budget Division, and Bureau of Accounting did not have controls in place to ensure that only allowable sources of funding were used to meet the Program's matching requirements.

In addition, FIA initially included ineligible funding sources when determining its fiscal year 1999-2000 matching calculation. However, based on our finding, FIA adjusted its records to include only allowable funding sources prior to the close of the State's fiscal year.

RECOMMENDATION

We recommend that FIA enhance its internal control to help ensure that only allowable funding sources are used to comply with the matching requirements of the federal Rehabilitation Services: Vocational Rehabilitation Grants to States Program.

FINDING (430118)

18. Financial Penalties for Noncompliance With Federal Guidelines and Regulations

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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FIA often did not comply with federal guidelines and regulations, resulting in federal sanctions for Food Stamps, CSE, and Foster Care: Title IV -E Programs:

- a. FIA's Office of Quality Control and Special Projects determined that distributions of federal Food Stamps Program benefits to clients exceeded the federal tolerable mispayment rate for both fiscal years 1999-2000 and 1998-99. FIA's total payment error rates of 13.03% (estimate) and 16.04% in fiscal years 1999-2000 and 1998-99, respectively, exceeded the respective federal tolerable error rates of 9.08% (estimate) and 9.88%. Errors occur when FIA distributes more or less Food Stamps Program benefits than what the client is eligible to receive which result from FIA errors or client errors.

Federal regulation 7 *CFR* 275.23(e) establishes a state's liability to the federal government for the federal tolerable mispayment rate. Accordingly, the U.S. Department of Agriculture sanctioned FIA \$19.8 million for fiscal year 1998-99 and FIA faces an additional sanction of approximately \$9.0 million for fiscal year 1999-2000. FIA entered into a settlement agreement with the U.S. Department of Agriculture whereby the fiscal year 1998-99 liability would be waived and the State agreed to spend, beginning in fiscal year 2000-01 and not later than September 30, 2003, \$9.9 million on payment accuracy activities.

- b. OCS did not ensure that the State had a Statewide computerized child support enforcement system operating on and after October 1, 1997, as required by federal law 42 *USC* 654.24. As a result, HHS penalized the State \$17.3 and \$8.4 million in fiscal years 1999-2000 and 1998-99, respectively, for not complying with the system requirement.

Federal law 42 *USC* 654.24 requires the State plan for child support to provide that the State will have in effect an automated data processing and information retrieval system by October 1, 1997. OCS is the agency in Michigan responsible for ensuring that the State plan is continuously in operation and adhered to by all appropriate child support offices and agencies.

The State's CSE Program operates through the cooperative efforts of three agencies: OCS, county prosecuting attorney's offices, and county FOC offices. OCS developed CSES to establish a uniform collection and information system used by these three agencies. CSES must control,

account for, and monitor all the factors in the child support collection and paternity determination processes under the State plan. As of September 30, 2000, CSES was operational in 73 of Michigan's 83 counties.

Federal law 42 *USC* 655(a)(4)(B) mandates that an incremental penalty be imposed on states that fail to execute the system requirement. The annual penalty amount is calculated by applying an incremental penalty percentage to the amount of federal financial participation (FFP) that the State received for child support enforcement expenditures. For example, the penalty imposed on FIA in fiscal year 1999-2000 was based on 16% of total FFP received in fiscal year 1999-2000. FIA informed us that subsequent penalties could be \$38.6 million (25% of total FFP received in fiscal year 2000-01) and \$50 million (30% of total FFP received in fiscal year 2001-02).

- c. FIA's internal control did not provide for federally required reporting of information on children in foster care.

Federal regulation 45 *CFR* 1355.40 requires FIA to transmit semiannually, within 45 days of the end of the reporting period, information on each child in foster care during the reporting period. The penalty for failing to meet this requirement is assessed semi-annually against FIA's Foster Care: Title IV-E administrative cost reimbursement.

HHS assessed, and FIA paid, a \$285,000 penalty for the semiannual period ended March 31, 1999 for failure to report the required information. Subsequently, HHS has assessed FIA penalties totaling \$855,000 for the three semiannual periods ended September 30, 1999, March 31, 2000, and September 30, 2000. At the time of our audit fieldwork, FIA was appealing those penalties.

We considered the effect of the exceptions reported in items a. and b. as material noncompliance with the eligibility and special tests and provisions compliance requirements and a material internal control weakness for the Food Stamps Program (*CFDA* 10.551) and the Child Support Enforcement Program (*CFDA* 93.563), as noted in our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

RECOMMENDATION

WE AGAIN RECOMMEND THAT FIA COMPLY WITH FEDERAL GUIDELINES AND REGULATIONS.

FINDING (430119)

19. Fixed Assets

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

FIA did not identify, maintain property records for, and properly account for equipment acquired with CSE Program funds for the CSES Data Center and the State Disbursement Unit (SDU) in accordance with State policy and federal regulations.

Federal regulation 45 *CFR* 47.34 and the State's General Fixed Assets Accounting Manual require recipients to maintain property records and a control system to ensure adequate safeguards to prevent loss, damage, or theft of equipment acquired with federal funds. Section C of the General Fixed Assets Accounting Manual (Equipment Capitalization Policies) requires that all individual pieces of equipment with an acquisition cost of \$5,000 or more be capitalized and recorded in a department's accounting records for inclusion in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Capitalized items are to be identified by description, serial number, acquisition cost, and location. OMB Circular A-87 defines capital equipment as an item having a useful life of more than one year and an acquisition cost equal to the lesser of the capitalization level established by the governmental unit for financial statement purposes or \$5,000.

Our review of equipment acquisitions disclosed:

- a. For four sampled CSES computer hardware equipment items purchased in fiscal year 1998-99, FIA did not record 2 items, totaling \$45,271, in the State's fixed asset accounting system. Initially, FIA staff could not locate the purchased equipment or tell us if the equipment was in operation or had been salvaged. Subsequently, FIA staff located and tagged the equipment and included the assets in the State's fixed asset accounting system.

As a result, fixed assets as reported in the State's general fixed assets account group were understated in the *SOMCAFR* for fiscal years 1999-2000 and 1998-99.

We reported a similar condition in our prior audit. In its corrective action plan dated September 27, 2000, FIA stated that it agreed with our recommendation and was reviewing all fixed asset acquisitions to ensure that there were no additional outstanding issues or adjustments to be made.

- b. FIA did not record \$5.4 million of CSES computer equipment for the SDU in its fixed asset accounting system or maintain appropriate property records.

Federal regulation 45 *CFR* 74.34 states that title to equipment acquired by a recipient with HHS funds shall vest in the recipient and that the recipient shall maintain appropriate equipment records.

FIA stated that a \$5.4 million payment in fiscal year 1998-99 was for a contractor's achievement of a contract milestone and that the contractor maintained title to the equipment. FIA's subsequent research of the SDU contract language disclosed that title to the equipment was to pass to the State, and FIA initiated discussions with the contractor to pass title. As of May 18, 2001, title had not passed to the State.

As a result, fixed assets as reported in the State's general fixed assets account group were understated in the *SOMCAFR* for fiscal years 1999-2000 and 1998-99. In addition, FIA may have received federal financial reimbursement in error for those equipment items costing more than \$25,000.

RECOMMENDATION

WE AGAIN RECOMMEND THAT FIA IDENTIFY, MAINTAIN PROPERTY RECORDS FOR, AND PROPERLY ACCOUNT FOR EQUIPMENT PURCHASES IN ACCORDANCE WITH STATE POLICY AND FEDERAL REGULATIONS.

FINDING (430120)

20. Federal Payroll Certifications

Applicable to: For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.

FIA sometimes did not complete or obtain federally required payroll documentation for employees charged to various federal programs.

OMB Circular A-87 states that payroll costs are allowable to the extent that they satisfy specific documentation requirements. OMB Circular A-87 requires periodic certifications for employees who are expected to work solely on a single federal award to support their salary and wages for the period covered by the certification.

These certifications are to be prepared at least semiannually and signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. In certain circumstances, time and attendance documents may replace semiannual certifications.

For employees working on multiple activities, OMB Circular A-87 requires that a distribution of salaries and wages be supported by personnel activity reports or equivalent documentation. This documentation must be prepared at least monthly and signed by the employee. In addition, payroll charges based on budgets must be subsequently compared to actual results at least quarterly.

Our review of payroll certifications disclosed:

- a. FIA did not maintain certifications for 4 (31%) of 13 sampled FIA employees. As a result, we questioned costs totaling \$7,941 and \$2,809 in fiscal years 1999-2000 and 1998-99, respectively.
- b. FIA did not obtain from the Department of Management and Budget (DMB) semiannual certifications for DMB employees who worked solely on the CSE Program. Salaries and wages for these employees during fiscal year 1998-99 totaled \$505,287.
- c. Salaries and wages totaling \$45,550 for two DMB employees working on multiple activities during fiscal year 1998-99 were based on budgeted amounts and were not supported by personnel activity reports or equivalent

documentation. FIA did not obtain budget to actual comparisons from DMB for these employees to verify charges to the CSE Program.

We noted a similar condition in our prior audit for items b. and c. In its corrective action plan dated September 27, 2000, FIA disagreed with the recommendation and stated that HHS's approval of the Statewide cost allocation plan meets the requirements of OMB Circular A-87. FIA also informed us that its contract with DMB would be revised to include the documentation requirements. As of August 2001, FIA had not amended the contract.

RECOMMENDATION

WE AGAIN RECOMMEND THAT FIA COMPLETE OR OBTAIN FEDERALLY REQUIRED PAYROLL DOCUMENTATION FOR EMPLOYEES CHARGED TO FEDERAL PROGRAMS.

FINDING (430121)

21. Deceased Recipients

<p><u>Applicable to:</u> For affected programs and associated questioned costs, see summaries of questioned costs at the beginning of Section III.</p>
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This finding is associated with Finding 7 of our performance and financial related audit of Information Technology Management Services, issued in August 1999. FIA had not periodically matched its Client Information System recipient records with Department of Community Health death records to prevent the issuance of benefits to deceased recipients. The report (43-591-98) is available upon request from our web site at <http://www.state.mi.us/audgen/>. FIA's corrective action plan dated September 27, 2000 anticipated the corrective action completion date as December 31, 2000.

The status of findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Independent Auditor's Report on
the Financial Schedules

May 18, 2001

Mr. Douglas E. Howard, Director
Family Independence Agency
Grand Tower
Lansing, Michigan

Dear Mr. Howard:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Family Independence Agency for the fiscal years ended September 30, 2000 and September 30, 1999. These financial schedules are the responsibility of the Family Independence Agency's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Family Independence Agency are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Family Independence Agency's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Family Independence Agency or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Family Independence Agency for the fiscal years ended September 30, 2000 and September 30, 1999, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 18, 2001 on our tests of the Family Independence Agency's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedule of certain General Fund assets and liabilities and the schedule of disposition of General Fund authorizations by appropriation unit, are presented for purposes of additional analysis and are not a required part of the Family Independence Agency's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

Independent Auditor's Report on
the Children's Trust Fund Financial Statements

May 18, 2001

Mr. Douglas E. Howard, Director
Family Independence Agency
and
Ms. Pamela Posthumus, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Howard and Ms. Posthumus:

We have audited the accompanying balance sheet of the Children's Trust Fund, Family Independence Agency, as of September 30, 2000 and September 30, 1999 and the related statement of revenues, expenditures, and changes in fund balance and the statements of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal years then ended. These financial statements are the responsibility of the State Child Abuse and Neglect Prevention Board management and the Family Independence Agency management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial statements present only the Children's Trust Fund and are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Children's Trust Fund as of September 30, 2000 and September 30, 1999, and the results of its operations for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 18, 2001 on our tests of the Family Independence Agency's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Children's Trust Fund portion of the schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the Children's Trust Fund financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL

Independent Auditor's Report on
the Child Support Collection Fund Financial Statement

May 18, 2001

Mr. Douglas E. Howard, Director
Family Independence Agency
Grand Tower
Lansing, Michigan

Dear Mr. Howard:

We have audited the accompanying statement of changes in assets and liabilities of the Child Support Collection Fund, Family Independence Agency, as of September 30, 2000. This financial statement is the responsibility of the Family Independence Agency management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 6, the accompanying financial statement presents only the Child Support Collection Fund and is not intended to present fairly the financial position and results of operations of the State of Michigan or its agency funds.

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the financial position of the Child Support Collection Fund as of September 30, 2000 for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 18, 2001 on our tests of the Family Independence Agency's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

AUDITOR GENERAL

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

May 18, 2001

Mr. Douglas E. Howard, Director
Family Independence Agency
and
Ms. Pamela Posthumus, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Howard and Ms. Posthumus:

We have audited the General Fund financial schedules and the Children's Trust Fund financial statements of the Family Independence Agency as of and for the fiscal years ended September 30, 2000 and September 30, 1999 and the Child Support Collection Fund financial statement of the Family Independence Agency as of and for the fiscal year ended September 30, 2000 and have issued our report thereon dated May 18, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Family Independence Agency's financial schedules, the Children's Trust Fund financial statements, and the Child Support Collection Fund financial statement are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule and statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Family Independence Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules, the Children's Trust Fund financial statements, and the Child Support Collection Fund financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Family Independence Agency's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules or statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the State Child Abuse and Neglect Prevention Board, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

May 18, 2001

Mr. Douglas E. Howard, Director
Family Independence Agency
and
Ms. Pamela Posthumus, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Howard and Ms. Posthumus:

Compliance

We have audited the compliance of the Family Independence Agency with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999. The Family Independence Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Family Independence Agency's management. Our responsibility is to express an opinion on the Family Independence Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Family Independence Agency's compliance with those requirements and performing such other procedures as we

considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Family Independence Agency's compliance with those requirements.

As described in Findings 5, 8, 11, 12, and 18 in the accompanying schedule of findings and questioned costs, the Family Independence Agency did not comply with requirements regarding allowable costs/cost principles, eligibility, and/or special tests and provisions that are applicable to its Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement, Refugee and Entrant Assistance: State Administered Programs, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and Foster Care: Title IV-E Programs. Compliance with such requirements is necessary, in our opinion, for the Family Independence Agency to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the previous paragraph, the Family Independence Agency complied, in all material respects, with the requirements referred to in the third previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 9 through 11, 13 through 15, 17, and 19 through 21.

Internal Control Over Compliance

The management of the Family Independence Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Family Independence Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Family Independence Agency's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 5 through 21.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants

that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the previous paragraph, we consider Findings 5, 8, 11, 12, and 18 to be material weaknesses.

This report is intended solely for the information and use of the State's management, the State Child Abuse and Neglect Prevention Board, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

FAMILY INDEPENDENCE AGENCY
Schedule of General Fund Revenue and Operating Transfers In
Fiscal Years Ended September 30
(In Thousands)

	2000	1999
REVENUE		
From federal agencies	\$ 2,042,335	\$ 2,001,381
From local agencies	93,226	90,233
From services	5	4
Miscellaneous:		
Child support recovery of grants	46,620	54,302
Other sources	<u>27,421</u>	<u>17,750</u>
Total Revenue	\$ 2,209,607	\$ 2,163,671
 OPERATING TRANSFERS IN		
Total Operating Transfers In	<u>15,276</u>	<u>684</u>
 Total Revenue and Operating Transfers In	<u>\$ 2,224,883</u>	<u>\$ 2,164,355</u>

The accompanying notes are an integral part of the financial schedules.

FAMILY INDEPENDENCE AGENCY
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	2000	1999
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 1,169,288	\$ 1,128,358
Budgetary adjustment	9,460	25,728
Balances carried forward	58,338	30,819
Restricted financing sources	2,208,672	2,135,145
Restricted revenue - not authorized	(747)	(3,218)
Total	\$ 3,445,011	\$ 3,316,832
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Expenditures and operating transfers	\$ 3,387,486	\$ 3,261,639
Balances carried forward:		
Multi-year projects	\$ 55,346	\$ 52,753
Encumbrances	1,834	2,368
Total balances carried forward	\$ 57,180	\$ 55,121
Balances lapsed	\$ 5,951	\$ 13,590
Overexpended (Note 4)	\$ (5,606)	\$ (13,518)
Total	\$ 3,445,011	\$ 3,316,832

The accompanying notes are an integral part of the financial schedules.

CHILDREN'S TRUST FUND
Family Independence Agency
Balance Sheet
As of September 30

	2000	1999
ASSETS		
Current Assets:		
Equity in Common Cash (Note 5a)	\$ 13,944,057	\$ 907,315
Other current assets	110,032	102,864
Total Current Assets	\$ 14,054,089	\$ 1,010,179
Investments (Note 5a and 5d)	6,756,470	6,292,331
Total Assets	\$ 20,810,559	\$ 7,302,510
LIABILITIES AND FUND BALANCE		
Liabilities:		
Warrants outstanding	\$ 36,838	\$ 9,616
Accounts payable and other liabilities	141,797	69,295
Total Liabilities	\$ 178,635	\$ 78,911
Fund Balance:		
Reserved for funds held as permanent investments (Note 5b)	\$ 20,455,381	\$ 6,854,809
Encumbrances	9,663	
Unreserved	166,880	368,790
Total Fund Balance	\$ 20,631,924	\$ 7,223,599
Total Liabilities and Fund Balance	\$ 20,810,559	\$ 7,302,510

The accompanying notes are an integral part of the financial statements.

CHILDREN'S TRUST FUND
Family Independence Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ended September 30

	<u>2000</u>	<u>1999</u>
REVENUES		
Income tax checkoff (Note 5b)	\$ 946,842	\$ 832,906
Investment income (Note 5d)	582,388	182,071
From federal agencies	908,348	654,659
Other donations	<u>230,781</u>	<u>125,511</u>
Total Revenues	<u>\$ 2,668,359</u>	<u>\$ 1,795,147</u>
EXPENDITURES		
Grants	\$ 1,549,221	\$ 1,394,657
Administration	<u>845,244</u>	<u>607,322</u>
Total Expenditures	<u>\$ 2,394,465</u>	<u>\$ 2,001,979</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 273,894</u>	<u>\$ (206,832)</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers from other funds (Note 5b)	\$ 13,145,700	
Operating transfers to other funds	<u>(11,269)</u>	<u>\$ (10,415)</u>
Total Other Financing Sources (Uses)	<u>\$ 13,134,431</u>	<u>\$ (10,415)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 13,408,325	\$ (217,247)
Fund Balance - Beginning of fiscal year	<u>7,223,599</u>	<u>7,440,846</u>
Fund Balance - End of fiscal year	<u>\$ 20,631,924</u>	<u>\$ 7,223,599</u>

The accompanying notes are an integral part of the financial statements.

CHILDREN'S TRUST FUND
Family Independence Agency
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Fiscal Year Ended September 30, 2000

<u>Statutory/Budgetary Basis</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES AND OTHER SOURCES			
Income tax checkoff (Note 5b)		\$ 946,842	
Investment income (Note 5d)		582,388	
From federal agencies		908,348	
Other donations		230,781	
Operating transfers in (Note 5b)		<u>13,145,700</u>	
Total Revenues and Other Sources	<u>\$ 15,814,059</u>	<u>\$ 15,814,059</u>	<u>\$ 0</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES			
Grants		\$ 1,549,221	
Administration		845,244	
Operating transfers out		11,269	
Encumbrances		<u>9,663</u>	
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>\$ 3,046,893</u>	<u>\$ 2,415,397</u>	<u>\$ 631,496</u>
Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (Statutory/Budgetary Basis)	<u>\$ 12,767,166</u>	\$ 13,398,662	<u>\$ 631,496</u>
Reconciling Item: Encumbrances at September 30		<u>9,663</u>	
Excess of Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (GAAP Basis)		<u>\$ 13,408,325</u>	
FUND BALANCE (GAAP BASIS)			
Beginning balance		<u>7,223,599</u>	
Ending balance (GAAP Basis)		<u><u>\$ 20,631,924</u></u>	

The accompanying notes are an integral part of the financial statements.

CHILDREN'S TRUST FUND
Family Independence Agency
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Fiscal Year Ended September 30, 1999

Statutory/Budgetary Basis	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER SOURCES			
Income tax checkoff (Note5b)		\$ 832,906	
Investment income (Note 5d)		182,071	
From federal agencies		654,659	
Other donations		<u>125,511</u>	
Total Revenues and Other Sources	<u>\$ 1,795,147</u>	<u>\$ 1,795,147</u>	<u>\$ 0</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES			
Grants		\$ 1,394,657	
Administration		607,322	
Operating transfers out		<u>10,415</u>	
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>\$ 2,012,868</u>	<u>\$ 2,012,394</u>	<u>\$ 474</u>
Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (Statutory/Budgetary Basis)	<u>\$ (217,721)</u>	\$ (217,247)	<u>\$ 474</u>
FUND BALANCE (GAAP BASIS)			
Beginning balance		<u>7,440,846</u>	
Ending balance (GAAP Basis)		<u>\$ 7,223,599</u>	

The accompanying notes are an integral part of the financial statements.

CHILD SUPPORT COLLECTION FUND
 Family Independence Agency
 Statement of Changes in Assets and Liabilities
Fiscal Year Ended September 30, 2000
 (In Thousands)

	<u>Balance</u> October 1, 1999	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> September 30, 2000
ASSETS				
Current Assets:				
Cash (Note 6)	<u>\$</u>	<u>\$ 17,378</u>	<u>\$ 17,179</u>	<u>\$ 200</u>
Total Assets	<u>\$ 0</u>	<u>\$ 17,378</u>	<u>\$ 17,179</u>	<u>\$ 200</u>
LIABILITIES				
Current Liabilities: (Note 6)				
Accounts payable and other liabilities	\$	\$ 17,364	\$ 17,175	\$ 190
Amounts due to other funds	<u> </u>	<u>10</u>	<u> </u>	<u>10</u>
Total Liabilities	<u>\$ 0</u>	<u>\$ 17,374</u>	<u>\$ 17,175</u>	<u>\$ 200</u>

The accompanying notes are an integral part of the financial statement.

Notes to the Financial Schedules and Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Family Independence Agency (FIA) for the fiscal years ended September 30, 2000 and September 30, 1999. The financial transactions of FIA are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The accompanying financial statements also report:

- (1) The financial position and results of operations of the Children's Trust Fund (CTF), Family Independence Agency, as of and for the fiscal years ended September 30, 2000 and September 30, 1999. This fund is a part of the State of Michigan's reporting entity and is reported as a special revenue fund in the *SOMCAFR*.
- (2) The financial position of the Child Support Collection Fund (CSCF), as of and for the fiscal year ended September 30, 2000, the first year of operation for the CSCF. This fund is part of the State of Michigan's reporting entity and is reported as an agency fund in the *SOMCAFR*.

The notes accompanying these financial schedules and financial statements relate directly to FIA, the CTF, and the CSCF. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Deposits and Investments, Pension Benefits and Other Postemployment Benefits, Compensated Absences, and Contingencies and Commitments.

b. Basis of Accounting and Presentation

The financial schedules and financial statements contained in this report are prepared on the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America

for governmental and agency funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for FIA's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either FIA or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements present the CTF and the CSCF. Accordingly, they are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue funds and agency funds.

c. Amounts Owed the State

Current and former public assistance clients owe FIA various amounts because of overpayments or advances made in anticipation of other sources. Overpayments have been entered on the Automated Recoupment System (ARS) or manual accounts receivable records, and advances are entered on FIA's potential accounts receivable records. FIA identified the following overpayments and advances (in millions):

	September 30	
	2000	1999
	-----	-----
Overpayments and advances:		
ARS	\$ 189.2	\$ 205.2
Potential and Manual Records	\$ 11.8	\$ 13.4

Because of the uncertainty of collecting these amounts, FIA, in accordance with accounting principles generally accepted in the United States of America, recorded accounts receivable based on actual collections in the first 60 days of the new fiscal year. The accounts

receivable and related accounts payable to the federal government were as follows:

	September 30	
	2000	1999
Accounts receivable:		
ARS	\$ 1,159,000	\$ 1,116,000
Potential and Manual Records	\$ 188,000	\$ 265,000
Accounts payable:		
ARS	\$ 434,000	\$ 416,000
Potential and Manual Records	\$ 8,000	\$ 10,000

The ARS Food Stamps accounts receivable (including coupons) as of September 30, 2000 and September 30, 1999 were \$62.0 million and \$69.1 million, respectively. The Food Stamps accounts receivable applicable to the coupons are not recorded on the Michigan Administrative Information Network.

Recoveries of these accounts receivable amounted to \$183,919 and \$331,600 in the first 60 days of fiscal year 2000-01 and 1999-2000, respectively, and were recorded as accounts receivable as of September 30, 2000 and September 30, 1999, respectively.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Budgetary adjustment: Section 212, Act 294, P.A. 2000, and Section 204, Act 135, P.A. 1999, allow for funds in addition to the funds appropriated in Part I of the Acts (for write-offs of accounts receivable, deferral, and for prior year obligations in excess of prior appropriations) an amount equal to the total write-offs and prior year expenditures not to exceed amounts available in prior year revenues or current year revenues in excess of

authorized amounts. The budgetary adjustment amounts for fiscal year 1999-2000 and fiscal year 1998-99 were \$9,460,000 and \$25,728,000, respectively.

- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- d. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue-authorized or restricted revenue - not authorized.
- e. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation.
- f. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. Significant multi-year projects in fiscal year 1999-2000 were for Food Stamp Investment Initiatives, the Automated Social Services Information System, the Child Support Enforcement System, and the Child Support Distribution System. Significant multiyear projects in fiscal year 1998-99 were for the Automated Social Services Information System and the Child Support Distribution System.
- g. Encumbrances: Authorizations carried forward to finance payments for goods and services ordered in the old fiscal year but not received by fiscal

year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

- h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- i. Overexpended: The total overexpenditure of line-item authorizations. FIA is required to seek a supplemental appropriation to authorize the expenditure.

Note 3 Contingencies and Commitments

a. Estimated Mispayments for Major Public Assistance Programs

The FIA Office of Quality Assurance (OQA) conducts ongoing quality assurance reviews of cases within the Temporary Assistance of Needy Families Program, Medical Assistance Program (Medicaid; Title XIX), and the Food Stamps Program. Based on its reviews, OQA projected the following mispayments, excluding underpayments, for federal program reporting purposes (in millions):

	September 30	
	2000	1999
Family Independence Program (FIP)	\$ 12.9	\$ 28.7
Medical Assistance Program	\$ 45.1	\$ 43.3
Food Stamps Program	\$ 36.0	\$ 62.3

The amounts reported as of September 30, 1999 are final projections and will differ from the preliminary projections reported in the *SOMCAFR* for the fiscal year ended September 30, 1999. These amounts are not required to be reported in the schedule of questioned costs. Mispayments also occur in other federal and/or State programs that OQA does not review.

FIA also has ongoing processes to recover the mispayments from clients. Recoveries related to these mispayments are described in Note 1c.

b. Federal Penalties, Settlement Agreements, and Accounts Payable

(1) Michigan Child Support Enforcement System

The U.S. Department of Health and Human Services (HHS) penalized FIA \$17.3 million and \$8.4 million in fiscal years 1999-2000 and 1998-99, respectively, for failing to have an operational Statewide computerized enforcement system in effect by October 1, 1999. The Statewide computerized support enforcement system must control, account for, and monitor all the factors in support collection and paternity determination processes under the State plan for Michigan's child support enforcement program.

FIA's payment of the penalty amounts will be through a \$17.3 million and a \$8.4 million reduction in its fiscal year 2001-02 and fiscal year 2000-01 Child Support Enforcement federal grant award, respectively.

FIA's target date for a complete Statewide computerized support enforcement system is September 30, 2001. FIA will be subject to an additional \$38.6 million penalty for fiscal year 2000-01 unless it adheres to this target date.

(2) Adoption and Foster Care Analysis and Reporting System

HHS penalized FIA \$570,000 in fiscal year 1999-2000 and fiscal year 1998-99 after determining the State was not in substantial compliance with the Title IV-E Foster Care State Plan regarding reporting required information to HHS. FIA paid \$285,000 of the fiscal year 1998-99 penalty in fiscal year 1999-2000. HHS suspended the remaining penalty amounts pending FIA's corrective action. Federal regulation provides for additional penalties for each year the State is not in substantial compliance with the requirement.

(3) Settlement Agreements with U.S. Department of Agriculture (USDA)

The FIA Food Stamps mispayment rates continue to be above the national average. FIA exceeded the tolerable federal mispayment rate in both fiscal years 1999-2000 and 1998-99, resulting in sanctions from the USDA. FIA has entered into settlement agreements with the USDA to resolve the sanctions through fiscal

year 1998-99. The settlement agreements provide for FIA's investment in initiatives to reduce the mispayment rate. It is reasonably possible that the USDA Food and Nutrition Service may require the reinvestment of State dollars for fiscal year 1999-2000. A summary of the sanctions and settlement agreements is as follows:

<u>Program</u>	<u>Fiscal Year Ended</u>	<u>Initial Sanction</u>	<u>Remaining Sanction</u>	<u>Settlement Agreement Provisions</u>
Food Stamps	1996	\$ 3,388,777	\$ 1,308,946	Reinvestment of \$1,308,946 by September 30, 2003
Food Stamps	1997	\$ 2,770,968	\$ 1,308,946	Reinvestment of \$1,308,946 by September 30, 2004
Food Stamps	1998	\$15,756,414	\$ 9,585,638	Reinvestment of \$4,333,500 by September 30, 2003 with deferral of \$5,252,138
Food Stamps	1999	\$19,772,853	\$19,772,853	Reinvestment of \$9,886,427 by September 30, 2003 with deferral of \$9,886,426
Food Stamps	2000	\$ 8,953,811	\$ 8,953,811	No settlement agreement signed as of June 2001. Estimated reinvestment of \$8,953,811

(4) Accounts Payable to Federal Government in Connection with FIA's Automated Recoupment System (ARS)

FIA potentially owes the federal government \$2,170,000 and \$2,080,000 in fiscal years 1999-2000 and 1998-99, respectively, for its share of the ARS account receivable collections in connection with the Family Independence Program.

c. Wayne County Friend of the Court

The Wayne County Friend of the Court notified the State that it might have misdirected payments to FIA. Any potential reimbursements for these payments cannot be reasonably estimated.

Note 4 Overexpenditure of Authorizations

FIA overexpended its legislative authorizations for the fiscal years ended September 30, 2000 and September 30, 1999 by \$5.6 million and \$13.5

million, respectively, as reported on the schedule of sources and disposition of General Fund authorizations. Article IX, Section 17 of the State Constitution prohibits expenditures except in pursuance of appropriations made by law.

Note 5 Children's Trust Fund (CTF)

a. Investments

Section 21.171 of the *Michigan Compiled Laws* directs the State Treasurer to invest CTF money in the same manner as State surplus funds are invested pursuant to Section 21.143 of the *Michigan Compiled Laws*. "Equity in Common Cash" represents an interest in the State's Common Cash pool, which is used by most State funds as a short-term investment vehicle.

Governmental Accounting Standards Board (GASB) Statement No. 3 requires certain disclosures regarding policies and practices with respect to investments and the custodial risk associated with them. Disclosures pursuant to GASB Statement No. 3 for the State's Common Cash pool are included in the notes to the *SOMCAFR*. All of the investments of the CTF were insured or registered, or held by the State or its agent in the State's name (GASB risk category 1).

At September 30, 2000 and September 30, 1999, the CTF held investments in U.S. government agency or government-sponsored enterprise securities in the name of the State. All investments were reported at fair value.

b. Expenditure Limitation of CTF

Section 21.171 of the *Michigan Compiled Laws* limits the CTF expenditures to the total of investment earnings from the previous fiscal year, grants and donations, and one half of the funds contributed from the personal income tax checkoffs. The Fund records a fund balance reserve for one half of donations from income tax checkoffs that are not available for expenditure.

During fiscal year 1999-2000, the CTF received supplemental appropriations of \$13.1 million that fully funded the trust, resulting in the

increased equity in common cash and reserve for funds held as permanent investment as of September 30, 2000.

c. Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Budget detail by revenue account and expenditure account for fiscal years 1999-2000 and 1998-99 is not available because the various miscellaneous revenues and expenditures are budgeted as single amounts.

d. Unrealized Investment Gain/(Loss)

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, FIA decreased investment income by \$18,049 and \$322,060 in fiscal years 1999-2000 and 1998-99, respectively, to reflect the decrease in fair market value of investments.

Note 6 Child Support Collection Fund (CSCF)

CSCF accounts payable and other liabilities consist primarily of electronic transmissions that are in transit, collections not yet associated with a child support case, and other miscellaneous amounts that will be returned to employers.

CSCF amount due to other funds represents amounts due to the General Fund. The General Fund provides funds to be used for cash shortages that result from not sufficient funds checks and other items returned by the bank.

The CSCF cash balance consists of deposits in the various bank accounts that the CSCF maintains, deposits in transit not yet reflected on the books of the bank, and negotiable instruments maintained on the premises in a safe.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires certain disclosures regarding policies and practices with respect to deposits and the custodial credit risk associated with them.

In accordance with GASB Statement No. 3, deposits are classified into three categories of credit risk as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3: Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name).

At September 30, 2000, the carrying amount of CSCF deposits was \$199,692 and the bank balance was \$180,932. Of the bank balance, \$100,000 was covered by federal depository insurance and \$80,932 was covered by collateral held by the State's agent in the State's name (GASB credit risk category No. 1).

Note 7 Subsequent Events

HHS penalized FIA an additional \$38.6 million in fiscal year 2000-01 for failing to have an operational Statewide computerized enforcement system in effect by October 1, 2000. The Statewide computerized support enforcement system must control, account for, and monitor all the factors in support collection and paternity determination processes under the State plan for Michigan's child support program. HHS policy allows for a 90% reduction of the penalty in the year that a state comes into compliance with the federal law requiring a Statewide system.

SUPPLEMENTAL FINANCIAL SCHEDULES

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FAMILY INDEPENDENCE AGENCY
Schedule of Certain General Fund Assets and Liabilities
As of September 30
(In Thousands)

	<u>2000</u>	<u>1999</u>
ASSETS		
Current Assets:		
Due from federal agencies	\$ 345,051	\$ 307,219
Due from local units of government	\$ 23,156	\$ 70,366
Other current receivables	\$ 89,024	\$ 91,003
Accounts receivable	\$ 5,860	\$ 6,281
Other receivables		\$ 16
Food stamps	\$ 73,112	\$ 97,019
Finished goods for resale/sales	\$ 349	\$ 741
Travel advances receivable	\$ 63	\$ 31
Noncurrent Assets:		
Due from local units of government	\$ 4,384	\$ 4,346
Miscellaneous accounts receivable (long-term)	\$ 1,778	\$ 1,812
LIABILITIES		
Accounts payable - operating and grants	\$ 118,776	\$ 73,789
Child support collections/incentives payable	\$ 7,837	\$ 8,057
Unearned receipts payable	\$ 45,969	\$ 149,023
Deferred revenue - unearned	\$ 73,164	\$ 97,079
Amounts held in custody for others	\$ 173	
Due to other funds	\$ 67	

This schedule of certain General Fund assets and liabilities is not representative of a balance sheet and is not intended to report financial condition. This schedule presents certain significant General Fund assets and liabilities which result directly from the operations of, and are the responsibility of, the Family Independence Agency. The schedule excludes certain other assets, such as land, buildings, equipment, equity in Common Cash, and cash in transit, and certain other liabilities, such as warrants outstanding, that are accounted for centrally by the State.

FAMILY INDEPENDENCE AGENCY
 Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2000
 (In Thousands)

Appropriation Unit	Total Authorizations	Expenditures and Operating Transfers	Multi-Year Projects
Executive operations	\$ 273,718	\$ 236,237	\$ 37,355
Central support accounts	237,478	236,993	
Disability Determination Services	58,804	58,863	
Public assistance	1,427,405	1,423,216	
Residential Care Division	192,634	196,117	
Assistance payments, services, and clerical field staff	447,954	430,681	16,991
Office of Child and Youth Services	558,520	558,244	
Field Policy and Operations Administration	239,040	237,675	1,000
Miscellaneous accounts receivable write-offs/disallowances	3,805	3,805	
Court judgments			
Prior year expenditures in excess of available balance	5,655	5,655	
Total	<u>\$ 3,445,011</u>	<u>\$ 3,387,486</u>	<u>\$ 55,346</u>

<u>Encumbrances</u>	<u>Balances Lapsed</u>	<u>Overexpended</u>
\$ 392	\$ 854	\$ (1,119)
134	359	(8)
		(59)
	4,188	
483	221	(4,187)
408	106	(232)
168	107	
250	115	
<u>\$ 1,834</u>	<u>\$ 5,951</u>	<u>\$ (5,606)</u>

FAMILY INDEPENDENCE AGENCY
 Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1999
 (In Thousands)

Appropriation Unit	Total Authorizations	Expenditures and Operating Transfers	Multi-Year Projects
Executive operations	\$ 261,987	\$ 208,633	\$ 52,253
Central support accounts	218,639	221,977	
Disability Determination Services	57,376	57,376	
Public assistance	1,491,843	1,492,218	
Residential Care Division	84,352	91,266	
Assistance payments, services, and clerical field staff	405,487	402,876	
Office of Child and Youth Services	589,698	587,753	
Field Policy and Operations Administration	181,401	173,491	500
Miscellaneous accounts receivable write-offs/disallowances	25,507	25,507	
Court judgments	321	321	
Prior year expenditures in excess of available balance	221	221	
Total	\$ 3,316,832	\$ 3,261,639	\$ 52,753

<u>Encumbrances</u>	<u>Balances Lapsed</u>	<u>Overexpended</u>
\$ 970	\$ 131	
8	155	\$ (3,501)
268	1,077	(1,721)
532	849	(8,296)
402	2,209	
5	1,940	
182	7,228	
<u>\$ 2,368</u>	<u>\$ 13,590</u>	<u>\$ (13,518)</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1998 through September 30, 2000
(In Thousands)

Federal Agency/Program or Cluster	CFDA** Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 1999		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Agriculture					
Food Stamp Cluster:					
Direct Programs:					
Food Stamps (Note 2.a.)	10.551		\$ 515,251	\$	\$ 515,251
State Administrative Matching Grants for Food Stamp Program (Note 2.b.(1))	10.561		66,053	6,675	72,728
Total Food Stamp Cluster			<u>\$ 581,303</u>	<u>\$ 6,675</u>	<u>\$ 587,978</u>
Child Nutrition Cluster:					
Pass-Through Programs:					
Department of Education School Breakfast Program	10.553	USDA 196 Sect 11 and USDA 197 Breakfast USDA 195 Sect 4	\$ 1,027	\$	\$ 1,027
National School Lunch Program	10.555		68		68
Total Child Nutrition Cluster			<u>1,095</u>	<u>\$ 0</u>	<u>\$ 1,095</u>
Total U.S. Department of Agriculture			<u>\$ 582,398</u>	<u>\$ 6,675</u>	<u>\$ 589,073</u>
U.S. Department of Housing and Urban Development					
Direct Program:					
Supportive Housing Program	14.235		\$ 778	\$ 524	\$ 1,302
Total U.S. Department of Housing and Urban Development			<u>\$ 778</u>	<u>\$ 524</u>	<u>\$ 1,302</u>
U.S. Department of Justice					
Direct Programs:					
Juvenile Accountability Incentive Block Grants	16.523		\$ 1,301	\$	\$ 1,301
Juvenile Justice and Delinquency Prevention: Allocation to States	16.540		4,924	19	4,942
Title V: Delinquency Prevention Program	16.548		204		204
Violence Against Women Formula Grants	16.588		649	3,433	4,081
Total Direct Programs			<u>\$ 7,077</u>	<u>\$ 3,451</u>	<u>\$ 10,528</u>
Pass-Through Program:					
Department of Community Health Residential Substance Abuse Treatment for State Prisoners	16.593	90002-3S98	\$ 625	\$	\$ 625
Total U.S. Department of Justice			<u>\$ 7,702</u>	<u>\$ 3,451</u>	<u>\$ 11,153</u>
U.S. Department of Energy					
Direct Program:					
Weatherization Assistance for Low-Income Persons	81.042		\$ 674	\$ 7,763	\$ 8,437
Total U.S. Department of Energy			<u>\$ 674</u>	<u>\$ 7,763</u>	<u>\$ 8,437</u>
U.S. Department of Education					
Special Education Cluster:					
Direct Programs:					
Special Education: Grants to States	84.027	0448/64, 0499/64	\$ 38	\$	\$ 38
Total Special Education Cluster			<u>\$ 38</u>	<u>\$ 0</u>	<u>\$ 38</u>
Direct Programs:					
Rehabilitation Services: Vocational Rehabilitation Grants to States (Note 2.d.)	84.126		\$ 10,591	\$ 1	\$ 10,593
Independent Living: State Grants	84.169		210		210
Rehabilitation Services: Independent Living Services for Older Individuals Who Are Blind	84.177		214		214

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2000

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 458,557	\$	\$ 458,557	\$ 973,807
	<u>71,968</u>	<u>9,811</u>	<u>81,779</u>	<u>154,507</u>
	<u>\$ 530,524</u>	<u>\$ 9,811</u>	<u>\$ 540,336</u>	<u>\$ 1,128,315</u>
 USDA 196 Sect 11 and USDA 197 Breakfast USDA 195 Sect 4	 \$ 956 <u>65</u>	 \$ <u>0</u>	 \$ 956 <u>65</u>	 \$ 1,983 <u>133</u>
	<u>\$ 1,021</u>	<u>\$ 0</u>	<u>\$ 1,021</u>	<u>\$ 2,116</u>
	<u>\$ 531,546</u>	<u>\$ 9,811</u>	<u>\$ 541,357</u>	<u>\$ 1,130,431</u>
	 \$ 595	 \$ 699	 \$ 1,293	 \$ 2,595
	<u>\$ 595</u>	<u>\$ 699</u>	<u>\$ 1,293</u>	<u>\$ 2,595</u>
	 \$ 1,740 682 936	 \$ 3,529 3,678 407 4,173	 \$ 5,268 4,360 407 5,109	 \$ 6,569 9,302 611 9,191
	<u>\$ 3,358</u>	<u>\$ 11,786</u>	<u>\$ 15,144</u>	<u>\$ 25,672</u>
 90002-4S99, N1670862-1K99	 \$ 1,101	 \$	 \$ 1,101	 \$ 1,726
	<u>\$ 4,459</u>	<u>\$ 11,786</u>	<u>\$ 16,245</u>	<u>\$ 27,399</u>
	 \$ 371	 \$ 6,310	 \$ 6,681	 \$ 15,118
	<u>\$ 371</u>	<u>\$ 6,310</u>	<u>\$ 6,681</u>	<u>\$ 15,118</u>
 0449/64, 0490/64	 <u>\$ 62</u>	 <u>\$ 0</u>	 <u>\$ 62</u>	 <u>\$ 101</u>
	<u>\$ 62</u>	<u>\$ 0</u>	<u>\$ 62</u>	<u>\$ 101</u>
	 \$ 12,377 96 111	 \$ 1 57	 \$ 12,377 153 111	 \$ 22,970 363 325

FAMILY INDEPENDENCE AGENCY
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1998 through September 30, 2000
(In Thousands)
Continued

For the Fiscal Year Ended September 30, 1999					
Federal Agency/Program or Cluster	CFDA **	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Supported Employment Services for Individuals with Severe Disabilities	84.187		\$ 187	\$	\$ 187
Rehabilitation Training: State Vocational Rehabilitation Unit					
In-Service Training	84.265		20		20
Eisenhower Professional Development State Grants	84.281		2		2
Education Consolidation Improvement Act	84	***	126		126
Total Direct Programs			<u>\$ 11,351</u>	<u>\$ 1</u>	<u>\$ 11,352</u>
Pass-Through Programs:					
Department of Education					
Adult Education: State Grant Program	84.002	1199/99135	\$ 90	\$	\$ 90
Title I Program for Neglected and Delinquent Children	84.013	1598/8506, 1599/9506	499		499
Vocational Education: Basic Grants to States	84.048	3328/8602, 3329/4722	210		210
Special Education: Grants for Infants and Families with Disabilities	84.181	1338/ACFIA, 1369/AFCIA	149		149
Safe and Drug-Free Schools and Communities: State Grants	84.186	2868/DRUG4798	5		5
Innovative Education Program Strategies	84.298				
Total Pass-Through Programs			<u>\$ 953</u>	<u>\$ 0</u>	<u>\$ 953</u>
Total U.S. Department of Education			<u>\$ 12,343</u>	<u>\$ 1</u>	<u>\$ 12,344</u>
<u>U.S. Department of Health and Human Services</u>					
Child Care Cluster:					
Direct Programs:					
Child Care and Development Block Grant	93.575		\$ 54	\$	\$ 54
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2.e.)	93.596		134,971	19,661	154,633
Total Child Care Cluster			<u>\$ 135,025</u>	<u>\$ 19,661</u>	<u>\$ 154,686</u>
Medicaid Cluster:					
Pass-Through Program:					
Department of Community Health					
Medical Assistance Program (Medicaid; Title XIX)	93.778	05 97 05 MI 5028 and 05 97 05 MI 5048	<u>\$ 97,516</u>	<u>\$ 286</u>	<u>\$ 97,802</u>
Total Medicaid Cluster			<u>\$ 97,516</u>	<u>\$ 286</u>	<u>\$ 97,802</u>
Direct Programs:					
Promoting Safe and Stable Families (Note 2.b.(1))	93.556		\$ 2,697	\$ 6,707	\$ 9,405
Temporary Assistance for Needy Families (TANF) (Note 2.e.)	93.558		394,346	184,144	578,490
Child Support Enforcement (CSE) (Note 2.a.)	93.563		96,918	45,481	142,399
Refugee and Entrant Assistance: State Administered Programs	93.566		2,988	2,268	5,256
Low-Income Home Energy Assistance (Note 2.b.(1))	93.568		54,819	778	55,597
Community Services Block Grant	93.569			18,275	18,275
Refugee and Entrant Assistance: Discretionary Grants	93.576		104	23	128
Repatriation Program	93.579		3		3
Refugee and Entrant Assistance: Targeted Assistance	93.584		7	282	290
Social Services in Empowerment Zones and Enterprise Communities	93.585			6,702	6,702
Community-Based Family Resource and Support Grants	93.590				
Grants to States for Access and Visitation Programs	93.597		93	223	316
Head Start	93.600		136	168	304
Adoption Incentive Payments	93.603				
Children's Justice Grants to States	93.643		129		129
Child Welfare Services: State Grants (Note 2.b.(1))	93.645		16,312	83	16,394
Adoption Opportunities	93.652		74		74

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2000

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 125	\$	\$ 125	\$ 312
	72		72	92
	55	18	73	199
	<u>\$ 12,836</u>	<u>\$ 75</u>	<u>\$ 12,911</u>	<u>\$ 24,264</u>
1190/200036	\$ 90	\$	\$ 90	\$ 180
1599/9506, 1590/9900	450		450	949
3329/4722, 3320/8602	109		109	319
1339/ACFIA, 1330/ACFIA	134		134	283
2869/DRUG4799, 2860/DRUG4600	13		13	19
0279/9899	1		1	1
	<u>\$ 797</u>	<u>\$ 0</u>	<u>\$ 797</u>	<u>\$ 1,750</u>
	<u>\$ 13,696</u>	<u>\$ 75</u>	<u>\$ 13,771</u>	<u>\$ 26,115</u>
	\$ 16,206	\$ 21,870	\$ 38,076	\$ 38,130
	32,082		32,082	186,714
	<u>\$ 48,288</u>	<u>\$ 21,870</u>	<u>\$ 70,158</u>	<u>\$ 224,844</u>
05 00 05 MI 5048 and 05 00 05 MI 5028	<u>\$ 99,644</u>	<u>\$ 354</u>	<u>\$ 99,998</u>	<u>\$ 197,800</u>
	<u>\$ 99,644</u>	<u>\$ 354</u>	<u>\$ 99,998</u>	<u>\$ 197,800</u>
	\$ 1,322	\$ 8,164	\$ 9,486	\$ 18,890
	504,960	226,809	731,769	1,310,259
	124,174	52,146	176,319	318,718
	3,989	2,790	6,779	12,036
	62,823	7,485	70,307	125,904
	1,037	18,957	19,995	38,269
	59	617	676	804
		178	178	3
		10,160	10,160	16,863
	692		692	692
		201	201	517
	92	100	192	496
	1,061	176	1,237	1,237
	318		318	447
	9,416		9,416	25,810
	163		163	237

FAMILY INDEPENDENCE AGENCY
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1998 through September 30, 2000
(In Thousands)
Continued

For the Fiscal Year Ended September 30, 1999					
Federal Agency/Program or Cluster	CFDA** Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Foster Care: Title IV-E (Note 2.a.)	93.658		\$ 139,317	\$ 1,372	\$ 140,689
Adoption Assistance (Note 2.a.)	93.659		58,428	26	58,454
Social Services Block Grant (SSBG) (Note 2.b.(1) and 2.e.)	93.667		135,575	6,803	142,377
Child Abuse and Neglect State Grants	93.669		1,094	41	1,135
Child Abuse and Neglect Discretionary Activities (Note 2.b.(1))	93.670		113		113
Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	93.671		59	2,001	2,060
Independent Living	93.674		4,277		4,277
Preventive Health and Health Services Block Grant	93.991			602	974
Total Direct Programs			<u>\$ 907,859</u>	<u>\$ 275,981</u>	<u>\$ 1,183,840</u>
Pass-Through Program:					
Department of Education					
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	002759/HIV499	<u>\$ 8</u>	<u>\$</u>	<u>\$ 8</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,140,407</u>	<u>\$ 295,928</u>	<u>\$ 1,436,335</u>
<u>Corporation for National and Community Service</u>					
Pass-Through Program:					
Michigan Department of Career Development AmeriCorps	94.006	94ASCM10231401	\$ (413)	\$	\$ (413)
Total Corporation for National and Community Service			<u>\$ (413)</u>	<u>\$ 0</u>	<u>\$ (413)</u>
<u>Social Security Administration</u>					
Disability Insurance/SSI Cluster:					
Social Security: Disability Insurance	96.001		<u>\$ 57,334</u>	<u>\$ 8</u>	<u>\$ 57,343</u>
Total Social Security Administration			<u>\$ 57,334</u>	<u>\$ 8</u>	<u>\$ 57,343</u>
Total Expenditures of Federal Awards			<u>\$ 1,801,224</u>	<u>\$ 314,352</u>	<u>\$ 2,115,576</u>

* Basis of Presentation: This schedule includes the federal grant activity of the Family Independence Agency and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and schedules.*

** CFDA is defined as *Catalog of Federal Domestic Assistance*.

*** CFDA number not available. Number derived from federal agency number and grant or contract number, if available.

The accompanying notes are an integral part of this supplemental financial schedule.

For the Fiscal Year Ended September 30, 2000

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 147,842	\$ 2,086	\$ 149,929	\$ 290,618
	70,864	85	70,949	129,403
	125,660	18,296	143,956	286,333
	813	126	939	2,074
	352		352	465
		1,962	1,962	4,022
	3,346	2,179	5,525	9,802
	187	889	1,077	2,050
	<u>\$ 1,059,168</u>	<u>\$ 353,407</u>	<u>\$ 1,412,575</u>	<u>\$ 2,596,415</u>
002759/HIV499	\$ _____	\$ _____	\$ _____	\$ _____ 8
	<u>\$ 1,207,100</u>	<u>\$ 375,631</u>	<u>\$ 1,582,731</u>	<u>\$ 3,019,067</u>
94ASCMIO231401	\$ 185	\$ _____	\$ 185	\$ (227)
	<u>\$ 185</u>	<u>\$ 0</u>	<u>\$ 185</u>	<u>\$ (227)</u>
	<u>\$ 59,070</u>	<u>\$ 32</u>	<u>\$ 59,102</u>	<u>\$ 116,445</u>
	<u>\$ 59,070</u>	<u>\$ 32</u>	<u>\$ 59,102</u>	<u>\$ 116,445</u>
	<u>\$ 1,817,022</u>	<u>\$ 404,345</u>	<u>\$ 2,221,366</u>	<u>\$ 4,336,942</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Significant Accounting Policies

The schedule of expenditures of federal awards (SEFA) is prepared in accordance with accounting principles generally accepted in the United States of America. The modified accrual basis of accounting is used in connection with federal expenditures reported on the SEFA. Differences will exist between federal expenditures shown on the SEFA and related assistance award amounts because of additional accrual amounts recorded on the Michigan Administrative Information Network (MAIN) after the preparation of the federal financial reports for these fiscal years.

Note 2 Grant Awards

- a. Supplemental grant awards are pending for the following federal program areas for fiscal year 1999-2000 and fiscal year 1998-99:

	Fiscal Year	
	1999-2000	1998-99
Child Support Enforcement (93.563)		X
Foster Care: Title IV-E (93.658)	X	X
Adoption Assistance (93.659)	X	X

There is no official amount of award for the food stamp coupons. The following amounts represent the value of the food stamps issued:

	(Amounts in millions)	
	Fiscal Year	
	<u>1999-2000</u>	<u>1998-99</u>
To comply with the Governmental Accounting Standards Board Statement No. 24, FIA recorded the accrued expenditure and revenue value of the food stamps distributed:	\$325.5	\$355.5
Food stamps federal claims for the Food Stamp Cash Out Program:	\$131.0	\$159.8
FIA also recorded the inventory and deferred revenue value of the undistributed food stamps:	\$ 73.1	\$ 97.0

- b. Federal claims exceeded their grant award authorizations (over the ceiling) in the following program areas and were not reimbursed for the over the ceiling amounts. The expenditures not reimbursed could be reimbursed if program disallowances occur. The SEFA shows the net

federal claim amounts (total federal claims less the amounts over the grant award amounts).

Claims exceeding their grant award authorizations:

	(Amounts in Thousands)	
	Fiscal Year	
	1999-2000	1998-99
(1) State Administrative Matching Grants for Food Stamp Program (10.561)		\$ 3,586.0
Promoting Safe and Stable Families (93.556)		\$ 312.1
Low-Income Home Energy Assistance (93.568)		\$ 1,853.9
Child Welfare Services: State Grants (93.645)	\$ 35,293.0	\$ 85,886.7
Social Services Block Grant (93.667)	\$ 71,958.7	\$ 16,636.6
Child Abuse and Neglect Discretionary Activities (93.670)		\$ 7.3
(2) Federal claims including accruals (for purchase of services by other State departments) had the corresponding revenue transferred from FIA revenue accounts to the applicable State agencies revenue accounts, as follows:	\$177,163.8	\$143,467.6
(3) FIA may retain all of the State's share (GF/GP) of food stamp overissuance collections as an offset to GF/GP costs. Excess collections over GF/GP costs shall be applied against the federal deduct in the Executive Operation Appropriation Unit. Total food stamp overissuance is as follows:	\$ 1,730.9	\$ 998.6
(4) Other federal claim adjustments on federal reports, including decreasing federal claims, were offset by supplemental appropriations and by food stamp recoveries as follows:	\$ (35,018.5)	\$(5,260.4)

- c. Additional federal claims as reported on FIA's quarterly federal reports will be different from the federal claims shown on the schedule of expenditures of federal awards because of the following:

	(Amounts in Thousands)	
	Fiscal Year	
	1999-2000	1998-99
Federal Revenue (net) Appropriation No. 99990, established through write-off of prior year decreasing claims:	\$2,494.2	\$9,026.4

- d. The Michigan Commission for the Blind received program income from Social Security Administration (SSA) of \$649,279 in fiscal year 1999-2000. The income is for payments from SSA for rehabilitating Social Security beneficiaries. FIA treated this as an addition to the grant funds and used it for additional allowable program expenditures, in accordance with Title 34, Part 80, Section 25(g)(2) of the *Code of Federal Regulations*. The program income was added to the "amount of award" and corresponding "expenditures" to Rehabilitation Services: Vocational Rehabilitation Grants to States (CFDA 84.126).
- e. FIA moved grant award money from TANF to the following as allowed by the Welfare Reform Plan:

	(Amounts in Thousands)	
	Fiscal Year	
	1999-2000	1998-99
From: Temporary Assistance for Needy Families (93.558)	\$ 89,151.6	\$ 175,587.5
To: Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)	\$ 9,636.2	\$ 96,052.3
To: Social Services Block Grant (93.667)	\$ 79,788.4	\$ 79,535.3

OTHER SCHEDULES

FAMILY INDEPENDENCE AGENCY
Summary Schedule of Prior Audit Findings
As of November 9, 2000

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND STATEMENTS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439902
Finding Title: Adoption Subsidy Payment System
Finding: The Family Independence Agency's (FIA's) internal control did not help ensure that data entered into the adoption subsidy payment system was verified for accuracy and completeness.
Comments: Service requests were submitted to develop a weekly transaction log that would compare the changes entered by the Payment Document Control System into the Adoption Subsidy Payroll database with the payroll requests initiated and approved by the Adoption Subsidy Program Unit and to randomly review cases. Within the Payment Document Control Division, all information entered into the Adoption Subsidy Payroll database is verified. The original document is audited and entered into the database by a clerk in the Program Payments Unit. The documents are then forwarded to the Payment Reconciliation Section where each calculation and entry is verified.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439901
Finding Title: Personnel and Payroll Transactions
Finding: FIA did not comply with prescribed Personnel-Payroll Information System for Michigan (PPRISM) internal control procedures for preparing time and attendance reports. Also, FIA did not maintain effective internal control over the processing of personnel and payroll transactions.

Comments: FIA issued a memorandum to remind timekeepers and certifiers of appropriate procedures, deleted the control transaction from most of the employees who did not reconcile the report, and will continue to issue reminders regarding the correct way to reconcile the control report.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1996 through September 30, 1998

Finding Number: 439904

Finding Title: Cash Management

Finding: FIA should claim expenditures eligible for reimbursement under the federal Temporary Assistance for Needy Families (TANF) program in a timely manner.

Comments: For fiscal year 1999-2000, the management decision on the transfer amount from TANF to the Social Services Block Grant (SSBG) came in December 1999. The first TANF draw for the transfer from TANF to SSBG was made in January 2000. The transfer from TANF to the federal Child Care and Development Fund (CCDF) for fiscal year 1999-2000 will not be completed until the last quarter of fiscal year 1999-2000 as the transfer will be a very small amount (less than one month's expenditures).

Audit Period: October 1, 1996 through September 30, 1998

Finding Number: 439905

Finding Title: Supplanting of State Funds

Finding: FIA did not always comply with federal regulations that prohibit the supplanting of State funds with federal funds.

Comments: The error identified in the audit finding was because of improper coding in the accounting system. FIA made the correction on the Title IV-B Sub-Part 2 report for the quarter ended September 30, 1999.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439909
Finding Title: Child Support Participation Payments
Finding: FIA inappropriately charged State child support "participation payments" made to custodial parents to the TANF grant.
Comments: FIA has corrected the coding for this program code and it is now maintenance of effort (MOE) only.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439911
Finding Title: Teen Parent Program Cost Allocation
Finding: FIA allocated an ineligible portion of Teen Parent Program costs to the TANF grant in fiscal year 1997-98.
Comments: As of January 1, 1999, the Teen Parent Program contracts began using TANF eligibility forms to distribute costs to Title XX and TANF. The Teen Parent Program contracts for fiscal year 2000-01 will use TANF Purpose 3 funds (reduce out-of-wedlock births) which has no financial eligibility requirements.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439912
Finding Title: Documentation and Allowability for Federally Funded Expenditures
Finding: FIA did not maintain required supporting documentation for certain federally reimbursed expenditures and charged unallowable costs to federal grants.
Comments: Advance payments utilizing the Family Preservation and Support Service funds require an approved contract and a detailed budget. Procedures have been implemented to ensure that FIA obtains appropriate documentation for the Child Support Enforcement System (CSES) expenditures incurred through the interagency agreement with the Department of Management and Budget (DMB) and interagency billings with insufficient documentation are returned. Adjusting entries have been processed and a decreasing claim has been reported on the Foster Care: Title IV -E expenditure report for the quarter ended June 30, 2000.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439916
Finding Title: Adoption Subsidy Payment System
Finding: See Finding 439902.
Comments: See Finding 439902.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439917
Finding Title: Screening and Monitoring of Aides and Relative Care Providers
Finding: FIA often did not verify that applicants were not on the Central Registry* before they were enrolled or periodically check the status of enrollees to determine if they had been added to the Registry.
Comments: In response to the performance audit, FIA has implemented a process whereby a check is made against the Central Registry prior to the issuance of checks to the aides and relative care providers. The result of FIA's first payroll match of child care aides and relative care providers to the Central Registry demonstrated that FIA's corrective action is effective.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439903
Finding Title: Fixed Assets
Finding: FIA did not identify, maintain property records for, and properly account for equipment acquired with Child Support Enforcement (CSE) Program funds for CSES Data Center in accordance with State policy and federal regulations.
Comments: Revised operational procedures have been implemented to properly account for fixed assets in accordance with State of Michigan policy and federal regulations. The CSES computer hardware items purchased in fiscal year 1996-97, identified as a questioned cost, were identified, tagged, and recorded in the FIA Fixed Asset Accounting System subsequent to the audit finding. In addition, the amount of CSES equipment booked in the general

* See glossary at end of report for definition.

fixed asset account group has been adjusted to reflect assets with an individual value of \$5,000 or more. A review of all fixed asset acquisitions is underway to ensure there are no additional outstanding issues or adjustments to be made.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439906
Finding Title: Client Disqualification
Finding: FIA local offices often did not comply with established internal control for initiating client disqualification or, ultimately, case closure when a client failed to cooperate in obtaining child support.
Comments: Local office directors and zone managers will share the audit finding with local office workers and program managers so deficiencies are brought to their attention and corrected.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439907
Finding Title: Noncooperation Penalties
Finding: FIA has not revised its child support noncooperation penalties to comply with federal welfare reform requirements.
Comments: FIA policy for sanctioning noncooperative parents was established in the administrative rules which existed prior to TANF regulations. The administrative rules require that FIA disqualify the individual for four months and then close the case if the parent has not complied with child support requirements. Unfortunately, in some cases this turned out to be less than the 25% TANF requirement for four months. FIA will comply with the TANF requirement and seek changes to the boilerplate language.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439908
Finding Title: Child Support Enforcement Efforts
Finding: FIA child support specialists often did not comply with established internal control regarding locating absent parents and following up referrals to the prosecutor.
Comments: a. There have been major changes to improve the CSES locate module. The child support specialists have been advised that the system is producing reliable and usable results. The

CSES Customer Service Team has been providing training to re-educate the specialists on how to use the Parent Locating Service and how to access the results.

- b. Several actions have taken place to ensure that child support specialists make a diligent effort to establish an order of child support obligation for CSE clients:
 - 1. The district managers monitor Title IV-D reports (daily activity reports for child support specialists) and mandatory case readings.
 - 2. An automated Case Initiation Process was rolled out through CSES, ensuring that Title IV-D cases continually move along enabling automatic notices of new cases and the need for action to child support specialists.
 - 3. Monthly lists are issued to child support specialists for Title IV-D cases without orders that may be eligible for closure. This allows cases to come to the attention of the child support specialist for review and action.
 - 4. Procedures are being developed to use a system query that will identify active Title IV-D cases without child support orders that have not had action in over six months and is not in automatic locate status.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439910
Finding Title: Discontinuance Adoption Subsidy Payments
Finding: FIA sometimes did not discontinue adoption subsidy payments to parents who failed to submit a required annual report to the Adoption Subsidy Unit.
Comments: The Adoption Subsidy Unit has modified internal procedures for the annual report. The 1999 annual report will be sent to families currently living out of the country. Beginning with annual reports for

the calendar year 2000, the Adoption Subsidy Unit will have a separate mailing to out-of-country families utilizing information from the Payment Document Control Division.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439913
Finding Title: Federal Payroll Certifications
Finding: FIA did not complete federally required payroll documentation for employees charged to the CSE Program.
Comments: FIA will include language in future agreements with DMB to ensure that DMB is aware of the federal requirements of U.S. Office of Management and Budget (OMB) Circular A-87.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439914
Finding Title: Case File Internal Control
Finding: FIA local office staff frequently did not comply with established case file internal control procedures for documenting client eligibility and the propriety of payments made to or on behalf of clients.
Comments: Local office directors and zone managers will share the audit finding with local office workers and program managers so that deficiencies are brought to their attention and corrected.

Audit Period: October 1, 1996 through September 30, 1998
Finding Number: 439915
Finding Title: Financial Penalties for Noncompliance with Federal Guidelines and Regulations
Finding: FIA's Food Stamps Program and CSE Program often did not comply with federal guidelines and regulations, resulting in federal sanctions.
Comments: FIA continues to improve its Food Stamps error rate. The Office of Quality Control and Special Projects has calculated the year-to-date Statewide average error rate through May 2000 to be 12.68%. FIA continues to work towards a Statewide computerized child support enforcement system. There are currently 73 counties operating on CSES. There are 10 counties not operating on CSES. Two more counties are expected to be implemented within the next

six months. FIA is currently evaluating bids for completion of the system for those sites.

Audit Period: October 1, 1996 through September 30, 1998

Finding Number: 439918

Finding Title: Deceased Recipients

Finding: FIA had not periodically matched its Client Information System recipient records with Department of Community Health death records to prevent the issuance of benefits to deceased recipients.

Comments: FIA plans to implement a file match with Social Security Administration (SSA) as soon as SSA is ready to provide data.

FAMILY INDEPENDENCE AGENCY

Corrective Action Plan

As of August 1, 2001

FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND STATEMENTS

Finding Number: 430101
Finding Title: Schedule of Expenditures of Federal Awards
Management Views: FIA agrees with the recommendation and will comply. Necessary adjustments have been made to the SEFA for this audit period and were submitted to the OAG.
Corrective Action: The Bureau of Accounting, Federal Reporting and Cost Allocation Section, will review the SEFA against the Catalog of Federal Domestic Assistance (CFDA) to ensure that names and clusters are reported on the SEFA are correct.
Anticipated Completion Date: February 1, 2003 (This represents the anticipated completion date of the SEFA for the two-year audit period ending September 30, 2002).
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430102
Finding Title: Expenditure Recognition
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action: The Bureau of Accounting, Payment Document Control Division, procedures will be updated to explain to staff how payables should be recognized after the standard deadlines, based on dollar thresholds. Additional information will be included in the training materials presented to FIA staff at the Year End Closing Training.
Anticipated Completion Date: October 1, 2001
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number:

430103

Finding Title:

Personnel and Payroll Transactions

Management Views:

- a. FIA agrees with the recommendation and will comply.

FIA's Office of Human Resources (OHR) began piloting on-line timekeeping for employees, supervisors, and certifiers on July 8, 2001. If successful, the majority of FIA should be on-line by early 2002. With the on-line timekeeping, a password must be used for access. Therefore, only authorized approvers (supervisors) and certifiers will have access to these functions. This will alleviate unauthorized personnel from approving and certifying time and attendance.

OHR still believes the OAG was unaware of FIA's time-and-attendance procedures where certification is a manual process off-line, which meant the timekeeper performed the function on-line giving the impression it was an unauthorized certification.

- b. FIA agrees with the recommendation and will comply.

With the implementation of the Human Resources Management Network, there currently is no reconciliation process for entering and reviewing personnel and payroll transactions. To date, there is no replacement for the CNTL daily transaction report or Daily Transaction Log.

Corrective Action:

A memo will be issued to remind staff that only the authorized timekeeper and certifier may prepare and certify payroll. In addition, OHR will conduct random reviews of the signed HR-306, Detailed Time Report, to verify the signature of the certifier.

Anticipated Completion Date: September 1, 2001
Responsible Individual: Cindy Osga, Audit Specialist

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 430104
Finding Title: MAIN Coding of Federally Funded Programs
Management Views: FIA agrees with the recommendation and has complied.
Corrective Action:

- a. FIA reported an increasing adjustment of Grant 90RT0068/02 and a decreasing adjustment to Grant G99AAMI5110. These adjustments are included in a revised federal report submitted to the U.S. Department of Health and Human Services for the period ended March 31, 2001. The report is dated April 26, 2001.
- b. FIA processed changes of the CFDA number for Grant 090039, Refugee TAG Discretionary Access) from 93.566 to 93.567. A change was entered to the D47 screen in MAIN on April 24, 2001.

Anticipated Completion Date: Completed.
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430105
Finding Title: Case File Internal Control
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action: FIA field and program offices will jointly review current policy and practices to identify areas with high incidences of noncompliance to determine the feasibility of simplifying and standardizing policy regarding eligibility and documentation. Simplification of documentation requirements could prove beneficial

for FIA staff and the client. The development of checklists will be pursued which will assist in meeting eligibility and documentation requirements for both staff and customers. Additionally, training needs will be reviewed to assess availability and staff needs.

Anticipated Completion Date: July 1, 2002
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430106
Finding Title: Identifying, Monitoring, and Reporting Payments to Subrecipients
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action: The following actions have been taken:

- a. It has been determined that because Letters of Agreement are less than \$10,000, these are considered vendor purchases because the small dollar amount makes it impossible for these providers to have program implementation responsibility.
- b. FIA has implemented a new process for Inter-Agency Agreements, effective October 1, 2001. The process ensures appropriate subrecipient or vendor language is included in the agreement. The agreements will be included in the OCRS database when executed.

These actions will allow FIA to properly identify its subrecipients so it can monitor and correctly report payments.

Anticipated Completion Date: October 1, 2001
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430107
Finding Title: Contracts With Entities Receiving Federal Funds
Management Views: FIA agrees with the recommendation and will comply.

Corrective Action: Effective October 1, 2001, all human service purchases within the Refugee Assistance Program of \$10,000 or more will be purchased under contract.

Appropriate action will be taken to ensure that multiyear contracts comply with policy and that the necessary parties are informed of expired end dates and/or amendments.

Anticipated Completion Date: October 1, 2001

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430108

Finding Title: Child Support Enforcement Efforts

Management Views: a. FIA agrees with the finding and recommendation and will comply.

b. FIA agrees with the recommendation and will comply. However, FIA disagrees with items b.(1) and b.(3) of the finding:

(1) There is no statutory requirement in either federal or State law mandating documentation of a search of the Central Paternity Registry. The absence of a history note does not reflect that the child support specialist did not search the Registry. Instead, the absence of a paternity acknowledgement and the fact that referrals were passed to the legal unit demonstrates that appropriate actions were, in fact, taken. Mandating time-consuming history notes solely for audit purposes is not justifiable.

(3) Support specialists appropriately use the referenced form letters as tools when complying with their responsibility to perform locating duties. In the cited case, the absent

parent had already been located. The support specialist provides the employer information to the county prosecuting attorney for further action. However, FIA will review the policy language for clarification.

Corrective Action: FIA is reviewing its procedures and will take the necessary actions to ensure compliance with federal requirements. For Finding b. (2), FIA will review policy to either extend the time frame or monitor through self-assessment.

Anticipated Completion Date: April 1, 2002

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430109

Finding Title: Interstate Central Registry

Management Views: FIA agrees with the recommendation and will comply.

Corrective Action:

- a. The Interstate Central Registry will interface with CSES when the system is implemented Statewide.

- b. All mail is now date stamped when opened in the mailroom.

- c. CSES will have a monitoring system designed for this purpose.

Anticipated Completion Date: July 1, 2002

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430110

Finding Title: Documentation and Allowability of Federally Funded Expenditures

Management Views: FIA agrees with the recommendation and will comply.

- a. The item is being researched for supporting documentation. It should be noted that the contract under which the billings occurred appears to have consultant rates which are inclusive of

travel rates. However, the vendor issued, and FIA paid, invoices with a lower hourly rate than the contract amount. Travel expenses were included on the invoices, but as a separate amount. Total expenditures paid to the contractor did not exceed what would have been paid had the consultant rate identified in the contract been applied.

- b. The overpayment was because of a calculation error for one contract staff. A request was made to the vendor to issue a credit memo or issue a refund for the overpayment amount. The vendor complied with the request and issued a refund to the State for the overpayment.

Corrective Action: FIA will ensure rates comply with contract terms prior to payment authorization and monitor for calculation errors.

Anticipated Completion Date: October 1, 2001

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430111

Finding Title: Noncooperation Penalties

Management Views: FIA agrees with the recommendation and will comply.

Corrective Action: The sanction amounts are currently established in P.A. 280. Changes must be made to the legislation to revise the sanction and deferral amounts.

Anticipated Completion Date: April 1, 2002

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430112

Finding Title: Client Disqualification

Management Views: FIA agrees with the recommendation and will comply.

Corrective Action: FIA will inform local office directors and zone managers of the need to ensure local staff comply with client disqualification and case closure requirements.

Anticipated Completion Date: December 31, 2001

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430113
Finding Title: Discontinuance of Adoption Subsidy Payments
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action: The mailing list was updated in fiscal year 1999-2000, which ensured that all active adoption support families received the annual report. The program staff are working with ITMS to identify an automated system that will facilitate tracking receipt of the annual reports, which would eliminate the need for manually tracking with limited staff resources. Unfortunately, the Access database cannot accommodate addresses outside the United States. A work plan will be developed to ensure that these families are identified by the January payroll and annual reports are mailed in a timely manner.

Anticipated Completion Date: December 31, 2001
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430114
Finding Title: Vendor Verification of Client Eligibility
Management Views: FIA agrees with the recommendation and has complied. The finding cited two health screenings which occurred after the 90-day period of the refugees' arrival dates. This was a subset of approximately 4,000 screenings conducted during the audit period. Both exceptions occurred during a period when the staff position responsible for monitoring compliance was vacant.

Corrective Action: Monitoring staff are in place with no reoccurrence of the condition.

Anticipated Completion Date: Completed.
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430115
Finding Title: Payments at Prevailing Minimum Wage
Management Views: FIA agrees with the recommendation and will comply.

Corrective Action: Changes are being made to the Administrative Handbook Item 800 series which addresses travel policy. Significant revisions are being made because of changes in the DMB State Standardized Travel Regulations and the time that has elapsed since the last revision.

Anticipated Completion Date: March 31, 2001

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430116

Finding Title: Administrative Cost Limitation

Management Views: FIA agrees with the recommendation and will comply.

Corrective Action: The Bureau of Accounting, Federal Reporting Unit, met with the Family Preservation and Prevention Office and the Budget Office on April 24, 2001. In that meeting, all parties agreed to retain current accounting codes but redefine allowable costs to monitor administrative and program costs appropriately. The program office will issue new instructions on allowable costs through an L-Letter, which will have an effective date of October 1, 2001. The Federal Reporting Unit will begin monitoring the administrative costs and will report any problem with the 10% administrative cost limitation to the program office.

Anticipated Completion Date: October 1, 2001

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430117

Finding Title: Allowable Funding Sources for Federal Matching Requirements

Management Views: FIA agrees with the recommendation and will comply.

Corrective Action: FIA's Commission for the Blind, Budget Division, and Accounting Division have discussed the finding to ensure only allowable funding sources are used to comply with the matching requirements.

Anticipated Completion Date: Completed.

Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430118
Finding Title: Financial Penalties for Noncompliance with Federal Guidelines and Regulations
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action:

- a. FIA continues to improve its Food Stamp error rate. The Office of Quality Control and Special Projects has calculated the year-to-date Statewide average error rate through March 2001; the rates are 10.79% for all errors and 7.56% for overissuances only.
- b. FIA has placed a priority on the implementation of a Statewide computerized child support enforcement system. There remain only five counties to complete implementation.
- c. FIA is in the process of implementing the Services Worker Support System for Foster Care, Adoptions, and Juvenile Justice programs. This is the source of data for federal reporting. The last county to be implemented expects completion in October 2001. When this occurs, FIA will be in a position to report federally required data.

Anticipated Completion Date: October 1, 2002
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430119
Finding Title: Fixed Assets
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action: FIA has initiated discussions with the SDU contractor to ensure that the equipment title will pass to and vest with the State, as required by the contract.

Anticipated Completion Date: March 1, 2002
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430120
Finding Title: Federal Payroll Certifications
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action:
a. FIA is establishing a process for program areas to document and maintain payroll certifications for staff whose personnel costs are charged to federal programs.
b. FIA has implemented a process for interagency agreements with other State departments. The process includes language in the agreement specific to payroll documentation required by OMB Circular A-87 and responsibility for that documentation.
Anticipated Completion Date: October 1, 2001
Responsible Individual: Cindy Osga, Audit Specialist

Finding Number: 430121
Finding Title: Deceased Recipients
Management Views: FIA agrees with the recommendation and will comply.
Corrective Action: The agreement with the Department of Community Health is still being negotiated. FIA will submit a Data Systems Service Request to accomplish match after the implementation of the Customer Information Management System project in 2003. There is a freeze on most projects affecting the area responsible for this project until the Customer Information Management System is completed.
Anticipated Completion Date: Late 2003
Responsible Individual: Cindy Osga, Audit Specialist

Glossary of Acronyms and Terms

ARS	Automated Recoupment System.
BAFM	Administration for Budget, Analysis, and Financial Management.
Central Registry	The automated data system maintained and used by FIA to keep a record of all reports filed with FIA pursuant to the Child Protection Law (Sections 722.621 - 722.638 of the <i>Michigan Compiled Laws</i>) in which a preponderance of relevant and accurate evidence of child abuse or neglect is found to exist.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
CNTL	daily transaction report.
control activities	A component of internal control which consists of the policies and procedures that help ensure that management directives are carried out.
CSCF	Child Support Collection Fund.
CSE	Child Support Enforcement.
CSES	Child Support Enforcement System.
CTF	Children's Trust Fund.
Data Collection and Distribution System (DCDS)	A client/server system with the primary purpose of supporting the capture of time, attendance, and labor distribution data and providing extended labor distribution functionality.

DMB	Department of Management and Budget.
FIP	Family Independence Program.
FFP	federal financial participation.
FIA	Family Independence Agency.
FIS	family independence specialist.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
FOC	Friend of the Court.
GAAP	accounting principles generally accepted in the United States of America.
GASB	Governmental Accounting Standards Board.
GF/GP	General Fund/general purpose.
HHS	U.S. Department of Health and Human Services.
Human Resources System (HRS)	The personnel and payroll component of MAIN.
ICR	Interstate Central Registry.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.

ITMS	Information Technology Management Services.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or statement amounts.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
Michigan Administrative Information Network (MAIN)	A fully integrated automated financial management system for the State of Michigan.

mission	The agency's main purpose or the reason that the agency was established.
non-State employee	A person who does not work for the State of Michigan.
OCRS	Office of Contracts Management and Rate Setting.
OCS	Office of Child Support.
OMB	U.S. Office of Management and Budget.
OQA	Office of Quality Assurance.
Personnel Payroll Information System for Michigan (PPRISM)	An online database system used for updating and inquiry of personnel and payroll records.
qualified opinion	An auditor's opinion in which the auditor identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements in conformity with the disclosed basis of accounting or an auditor's opinion in which the auditor expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

REAP	Refugee and Entrant Assistance: State Administered Programs.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
SDU	State Disbursement Unit.
SEFA	schedule of expenditures of federal assistance.
September 31	A date established by the Office of Financial Management, Department of Management and Budget, to identify accounting transactions occurring after September 30 that should be recognized and recorded in the fiscal year just ended September 30.
SF/SC	Strong Families/Safe Children.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and

the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR *State of Michigan Comprehensive Annual Financial Report.*

SSA Social Security Administration.

TANF Temporary Assistance for Needy Families.

USC *United States Code.*

USDA U.S. Department of Agriculture.

unqualified opinion An auditor's opinion in which the auditor states, without reservation, that the financial schedules and/or financial statements are fairly presented in conformity with the disclosed basis of accounting or are fairly presented in relation to the primary financial schedules and/or statements or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.