

PERFORMANCE AUDIT  
OF THE

**WORK FIRST PROGRAM**

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT  
AND FAMILY INDEPENDENCE AGENCY

October 2002

## EXECUTIVE DIGEST

# WORK FIRST PROGRAM

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### INTRODUCTION

This report, issued in October 2002, contains the results of our performance audit\* of the Work First Program, Michigan Department of Career Development (MDCD) and Family Independence Agency (FIA).

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### AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness\* and efficiency\*.

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### BACKGROUND

The Program's primary goal\* is to help FIA clients\* who receive cash assistance through FIA's Family Independence Program (FIP) become self-sufficient\* and thus eliminate their need for cash assistance. FIA is the source of nearly all types of referrals\* for the Program, and MDCD is the primary Program administrator.

At the time of our audit, the Program required FIA to refer unemployed and under-employed, able-bodied FIP clients (participants\*) to contracted service providers (contractors) of Michigan Works Agencies (MWAs), which help participants obtain employment.

\* See glossary at end of report for definition.

If a client fails to participate in the Program, the FIA local office and the MWA contractor are required to take steps to resolve the nonparticipation. Resolution might result in the client receiving a deferral\* from the Program or a reduction in FIP cash payments.

For the period October 1994 (the inception of the Program) through November 1999, FIA referred 827,682 FIP cases to contractors.

For fiscal year 1998-99, Program expenditures were approximately \$110 million. The Program uses the efforts of approximately 11,000 FIA employees, 22 MDCD employees, and the employees of 25 MWAs and their approximately 120 contractors.

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**AUDIT OBJECTIVES,  
CONCLUSIONS, AND  
NOTEWORTHY  
ACCOMPLISHMENTS**

**Audit Objective:** To assess the effectiveness of the Program in placing public assistance recipients into jobs and reducing their dependence on public assistance.

**Conclusion:** We concluded that the Program was effective in placing many public assistance recipients into jobs and reducing their dependence on public assistance. However, our assessment disclosed reportable conditions\* related to the continuous quality improvement process\*, difficult-to-serve participants, and best practices\* (Findings 1 through 3).

**Audit Objective:** To assess the effectiveness and efficiency of MDCD in administering the Program.

**Conclusion:** We concluded that MDCD was generally effective in administering the Program. Also, MDCD, was somewhat effective in monitoring and managing the efficiency of MWAs. However, our assessment

\* See glossary at end of report for definition.

disclosed reportable conditions related to MWA efficiency and conflict of interest disclosures (Findings 4 and 5). **In addition, based on MDCD's limited information regarding the efficiency of MWAs, we could not draw a conclusion on MDCD's efficiency in administering the Program.**

**Noteworthy Accomplishments:** On numerous occasions, Program administrators have proactively taken steps to modify the Program as they believed necessary. The administrators' proven willingness to revise policies and procedures, develop additional training programs, and enhance Program goals is an important attribute when operating relatively new, large, and complex programs.

**Audit Objective:** To assess the effectiveness of FIA in referring public assistance recipients to the Program and resolving nonparticipating cases.

**Conclusion:** We concluded that FIA was generally effective in referring public assistance recipients to the Program but often was not effective in resolving nonparticipating cases. We noted one material condition\*:

- FIA should improve its controls to help ensure that FIA local office staff determine and document "good cause"\* for clients who are terminated by MWAs for nonparticipation and could be subject to potential fiscal penalties (Finding 6).

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**AUDIT SCOPE AND  
METHODOLOGY**

Our audit scope was to examine selected Michigan Department of Career Development and Family Independence Agency records related to the Work First Program. The audit scope included the examination of

\* See glossary at end of report for definition.

case files and other records at four Michigan Works Agencies (City of Detroit, Lansing Tri-County, Saginaw-Midland-Bay, and Washtenaw County) and/or their contracted service providers and six Family Independence Agency local offices (Ingham, Midland, Washtenaw, Wayne County Grand River/Warren, Wayne County Maddelein, and Wayne County Oakman/Grand River). Our audit was conducted in accordance with *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.

Our audit procedures included an examination of Program records and activities from the inception of the Program in October 1994 through February 2000. Our audit methodology included gaining an understanding of the Program through a review of Program policies and procedures; analyses of the MDCCD management information system database; and interviews with MDCCD, FIA, and MWA employees and MWA contractors.

For our first objective, we tested Program case files at four MWAs and/or their contracted service providers to determine what Program resources were provided and what Program outcomes\* were accomplished, and we determined the extent to which best practices within FIA local offices, MWAs, and MWA contractors were identified and shared. For our second objective, we analyzed approved MWA annual plans, including budgets, and activity reports to determine if MDCCD management evaluated MWA operations for efficiency. For our third objective, we tested case files for compliance with FIA policies regarding client referrals and resolution of nonparticipating cases.

\* See glossary at end of report for definition.

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**AGENCY RESPONSES**

Our audit report contains 6 findings and 6 corresponding recommendations. The agency preliminary responses indicated that MDCD and FIA generally agreed with the 5 recommendations and 1 recommendation, respectively, pertaining to their operations. Also, MDCD informed us that corrective actions have been implemented for all of its recommendations.

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October 25, 2002

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Michigan Department of Career Development  
Victor Center  
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and  
Mr. Douglas E. Howard, Director  
Family Independence Agency  
Grand Tower  
Lansing, Michigan

Dear Dr. Bolin and Mr. Howard:

This is our report on the performance audit of the Work First Program, Michigan Department of Career Development and Family Independence Agency.

This report contains our executive digest; description of program; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agencies' responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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## Description of Program

The Work First Program's primary goal is to help Family Independence Agency (FIA) clients who receive cash assistance through FIA's Family Independence Program (FIP) become self-sufficient and thus eliminate their need for cash assistance. Initially, the Program served only FIP clients. The Program has evolved to also include other client populations, such as unemployed noncustodial parents and clients who receive noncash assistance (e.g., Food Stamps or Medicaid). FIA is the source of nearly all types of referrals for the Program, and the Michigan Department of Career Development (MDCD) is the primary Program administrator.

At the time of our audit, the Program required FIA to refer unemployed and underemployed, able-bodied FIP clients (participants) to contracted service providers (contractors) of Michigan Works Agencies (MWAs). These contractors provide participants with a Program overview, then job search services to help them obtain employment. Participants continue to receive services until they are no longer eligible for such services (e.g., self-sufficiency earnings from employment exceeds FIP eligibility limitations). Prior to October 1, 1997, some MWAs provided client services.

If a client fails to participate in the Program, the FIA local office and the MWA contractor are required to take steps to resolve the nonparticipation. The contractor's resolution efforts might include attempts to persuade the nonparticipant to attend or return to the Program and/or identify the reason for the continuing failure to participate. If unsuccessful in persuading the client to participate, the contractor is required to terminate the client from the Program and notify the applicable FIA office for its determination of whether to defer the client from the Program or initiate a reduction in FIP cash payments for noncompliance.

For the period October 1994 (the inception of the Program) through November 1999, the MDCD management information system database reports that FIA has referred 827,682 FIP cases (361,687 distinct clients) to contractors. The most common referral was white (48%), female (84%), aged 23 (5%), with a 12th grade education (39%). Program expenditures have totaled approximately \$382 million. The following chart

shows other MDCD management information system database information for the same time period:

	<u>Cases</u>	<u>Individuals</u>
Joint orientation* attendance	590,138	311,562
Job search component attendance	312,936	201,912
Job acquired after attending a job search component	163,693	152,723
Job acquired without attending a job search component	72,711	35,921
Average number of times individuals referred		3

For fiscal year 1998-99, Program expenditures were approximately \$110 million. The Program uses the efforts of approximately 11,000 FIA employees, 22 MDCD employees, and the employees of 25 MWAs and their approximately 120 contractors.

\* See glossary at end of report for definition.

## **Audit Objectives, Scope, and Methodology and Agency Responses**

### Audit Objectives

Our performance audit of the Work First Program, Michigan Department of Career Development (MDCD) and Family Independence Agency (FIA), had the following objectives:

1. To assess the effectiveness of the Program in placing public assistance recipients into jobs and reducing their dependence on public assistance.
2. To assess the effectiveness and efficiency of MDCD in administering the Program.
3. To assess the effectiveness of FIA in referring public assistance recipients to the Program and resolving nonparticipating cases.

### Audit Scope

Our audit scope was to examine selected Michigan Department of Career Development and Family Independence Agency records related to the Work First Program. The audit scope included the examination of case files and other records at four Michigan Works Agencies (City of Detroit, Lansing Tri-County, Saginaw-Midland-Bay, and Washtenaw County) and/or their contracted service providers and six Family Independence Agency local offices (Ingham, Midland, Washtenaw, Wayne County Grand River/Warren, Wayne County Maddelein, and Wayne County Oakman/Grand River). Our audit was conducted in accordance with *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.

### Audit Methodology

Our audit procedures included an examination of Program records and activities from the inception of the Program in October 1994 through February 2000. We conducted two reviews of this period. The first review covered the period through August 1998. The second review covered the period subsequent to August 1998. Our fieldwork was conducted during the periods June 1997 through September 1998 and December 1999 through March 2000.

Our audit methodology included gaining an understanding of the Program through a review of Program policies and procedures; analyses of the MDCD management information system database; and interviews with MDCD, FIA, and Michigan Works Agency (MWA) employees and MWA contractors.

For our first objective, our methodology included a review of documents to gain an understanding of the Program's history at both MDCD and FIA; the Program's decentralized structure, policies, and procedures; and its grant awarding, monitoring, and reporting requirements. We reviewed the MDCD management information system database to obtain an overview of certain Program activities. Also, through inquiries, observations, and a review of policies and procedures, we determined the extent to which Program administrators had developed a continuous quality improvement process. In addition, we tested Program case files at four MWAs (City of Detroit, Lansing Tri-County, Saginaw-Midland-Bay, and Washtenaw County) and/or their contracted service providers to determine what Program resources were provided and what Program outcomes were accomplished. Further, we determined the extent to which best practices within FIA local offices, MWAs, and MWA contractors were identified and shared.

For our second objective, we reviewed applicable Program policies and procedures and various publications, journals, and reports to help identify Program administrative expectations. Also, we inquired of MDCD, MWA, and MWA contractor staff regarding administrative effectiveness and efficiency. Further, we analyzed approved MWA annual plans, including budgets, and activity reports to determine if MDCD management evaluated MWA operations for efficiency.

For our third objective, we reviewed applicable policies, interviewed Program employees, and tested case files at six FIA local offices (Ingham, Midland, Washtenaw, Wayne County Grand River/Warren, Wayne County Maddelein, and Wayne County Oakman/Grand River). The case files were tested for compliance with FIA policies regarding client referrals and resolution of nonparticipating cases.

#### Agency Responses

Our audit report contains 6 findings and 6 corresponding recommendations. The agency preliminary responses indicated that MDCD and FIA generally agreed with the 5 recommendations and 1 recommendation, respectively, pertaining to their operations.

Also, MDCD informed us that corrective actions have been implemented for all of its recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agencies' written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require MDCD and FIA to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

# COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## REDUCTION OF DEPENDENCE ON PUBLIC ASSISTANCE

### COMMENT

**Audit Objective:** To assess the effectiveness of the Work First Program in placing public assistance recipients into jobs and reducing their dependence on public assistance.

**Conclusion:** We concluded that the Program was effective in placing many public assistance recipients into jobs and reducing their dependence on public assistance. However, our assessment disclosed reportable conditions related to the continuous quality improvement process, difficult-to-serve participants, and best practices.

### FINDING

#### 1. Continuous Quality Improvement (CQI) Process

The Michigan Department of Career Development (MDCD) should improve its CQI process to make it more comprehensive and to better evaluate and improve the effectiveness and efficiency of the overall Program and the individual Michigan Works Agencies (MWAs).

Program effectiveness can often be evaluated and improved by having an effective CQI process. Such a process should include: performance indicators\* for measuring outputs\* and outcomes; performance standards\* or goals that describe the desired level of outputs and outcomes based on management expectations, peer group performance, and/or historical performance; a management information system to accurately gather relevant output and outcome data on a timely basis; a comparison of the actual data to desired outputs and outcomes; a reporting of the comparison results to management; and recommendations to improve effectiveness and efficiency or change the desired performance standards or goals.

\* See glossary at end of report for definition.

Also, in Executive Directive 2001-3, which rescinded Executive Directive 1996-1 effective June 8, 2001, the Governor stated that it was his goal to increase efforts toward continuous improvement and directed department and agency heads to actively support the State's Quality Recognition System and ensure the implementation of quality and customer service management techniques.

MDCD gathered and compiled certain MWA data for reporting purposes and, therefore, has used partial components of a CQI process. However, MDCD could improve several key elements of a CQI process. For example:

- a. The Program's performance indicators should be enhanced.

Generally, MDCD gathered data from each MWA on the number of: FIA referrals, MWA participants, placements\*, costs per placement, participants remaining employed for at least 90 days, cases closed based on income, and two-parent families meeting work participation requirements.

Effective October 1, 1998, the Program's primary goal was revised to helping participants end their need for cash assistance. However, except for the number of cases closed based on income, the Program's performance indicators related to the revised goal did not include elements such as increases in participant earnings or cost per public assistance case closed.

- b. MDCD had not established output and outcome standards or goals as criteria to evaluate the reasonableness of most performance indicators in each MWA's annual plan.

Establishing standards or goals for performance indicators in each MWA's annual plan would provide Program management with a basis against which to compare actual results for the MWA (see Finding 4.a.).

- c. MWAs were not required to report and MDCD did not evaluate pertinent output and outcome information to support the effectiveness and efficiency of MWA performance indicators and the relevancy of MWA annual plans.

\* See glossary at end of report for definition.

For example, an MWA's fiscal year 1998-99 annual plan stated that, with a budget of \$11.6 million, 30% of its 42,000 anticipated job search services participants would be placed in jobs. The MWA subsequently reported that it actually placed 60% of its 26,000 actual job search services participants in jobs but did not report actual job search services costs. In total, the MWA expended 26% (\$6.0 million) more than budgeted for total direct services, which included job search services. For fiscal year 1999-2000, the MWA's annual plan stated that, with a budget of \$11.5 million, 30% of its 19,000 anticipated job search services participants would be placed in jobs. MDCD did not evaluate the efficiency variance (cost per placement) for fiscal year 1998-99 or the planned decreased effectiveness (30% versus 60% placement rate) for fiscal year 1999-2000 (see Finding 4.c.).

- d. The Program often revised policy without documenting the decisions made or alternatives considered using CQI concepts.

The Program has succeeded in placing many participants in the work force. However, as the Program continues to mature and participants become harder to serve or as economic conditions change, documenting that pertinent Program information was obtained and evaluated and how issues were addressed through policy changes will be critical for future Program decisions.

### **RECOMMENDATION**

We recommend that MDCD improve its CQI process to make it more comprehensive and to better evaluate and improve the effectiveness and efficiency of the overall Program and the individual MWAs.

### **AGENCY PRELIMINARY RESPONSE**

MDCD generally agreed with the recommendation and informed us that it has taken various actions to implement continuous improvement processes for improving quality management of day-to-day operations. These actions are concurrent with MDCD's efforts to implement Baldrige principles on a departmentwide basis. The QUEST (Quality Underlies Every Single Task) team was established in July 2001 and is coordinating current efforts to achieve Navigator Recognition from the Michigan Quality Council.

## **FINDING**

### **2. Difficult-to-Serve Participants**

The Program should develop an effective process for identifying and resolving barriers that "difficult-to-serve" participants may encounter when becoming self-sufficient.

Difficult-to-serve participants are individuals who have barriers that prevent them from obtaining and holding employment to be self-sufficient. These barriers may include physical abuse, substance abuse, illiteracy, uncooperative attitude, or a lack of basic job skills. When these individuals do not participate in Program services or deliberately fail to obtain or hold employment, Program policy requires MWA contract service providers (contractors) to terminate them from the Program for nonparticipation. When terminated, FIA procedures require staff to determine whether the participant had "good cause" for his/her nonparticipation and re-refer the participant to the Program. If the participant did not have good cause, FIA is required to initiate financial penalties that could lead to case closure if noncompliance continues.

During the first four years of the Program, a participant was successful when he/she continued employment for 90 days. Beginning October 1, 1998, the Program's goal was enhanced to require participants to be self-sufficient. To achieve this enhanced goal, contractors must manage a participant's case by resolving barriers to both initial and continued employment until he/she becomes self-sufficient.

To determine if barriers were being resolved, we evaluated Program data and concluded that the number of times a participant was referred would be an indicator of a difficult-to-serve participant. Repeated referrals may indicate that MWAs often did not effectively manage cases to help participants become

self-sufficient. As shown in the following table, many participants were referred numerous times:

#### Work First Program Participant Referrals

For the Three Months Ended	Total Referrals	Referred Three Times or More	Percentage of Total Referrals
September 1996	22,520	3,164	14%
September 1997	58,533	20,848	36%
September 1998	41,784	22,313	53%
September 1999	39,865	22,425	56%

Several factors may contribute to the high percentage of repeat referrals:

- a. The Program did not have an effective system to identify and quantify the types and extent of employment barriers that reduced Program success.

FIA staff and MWA contractors were not required to compile and analyze data on barriers. For example, MDCCD's management information system contained barrier information for only 3,710 (1%) of 342,009 unsuccessful participant terminations recorded on the system for the period October 1994 through November 1999.

This lack of data prevents Program management from evaluating why participants terminate at each MWA and determining where additional resources are needed or current resources can be better utilized to resolve barriers.

- b. Although Program policy required periodic meetings between MWA and FIA Program managers to improve the Program at the local level, MWA contractors and FIA local offices usually could not document their collaboration to help individual participants overcome barriers to self-sufficiency.

The Program has always operated on a dual case-management basis. FIA is responsible for providing participants with financial and medical assistance and other services, and MDCCD provides Program services through MWAs.

For the Program to be effective, MWA contractors, FIA, and participants must work together and document efforts to remove barriers to continued employment. However, neither Program nor FIA policies required MWA contractors and FIA staff to document their sharing of relevant information and joint management of each participant's case.

Our review of case files for 139 participants at MWA contractors and FIA local offices during the period August through November 1999 disclosed:

- (1) FIA case files did not document communication with the contractor or with the participant regarding how to overcome barriers for 49 (64%) and 47 (62%) of 76 participants, respectively.
- (2) Contractor case files did not document communication with FIA staff or with the participant regarding how to overcome barriers for 36 (57%) and 39 (62%) of 63 participants, respectively.
- (3) FIA case files did not document communication with either the contractor or the participant regarding barriers for 43 (57%) of 76 participants.
- (4) Contractor case files did not document communication with either FIA or the participant regarding barriers for 34 (54%) of 63 participants.
- (5) Neither FIA nor contractor case files documented communication between the entities regarding the participant for 9 (64%) of 14 participants.
- (6) Neither FIA nor contractor case files documented communication with the participant regarding how to overcome barriers to continued employment for 10 (83%) of 12 participants.
- (7) Neither FIA nor contractor case files documented communication between the entities or with the participant regarding barriers for 7 (58%) of 12 participants.

The lack of documented collaboration prevents Program managers from evaluating the effectiveness of each MWA and its contractors in collaboration with FIA local

offices and from identifying and resolving barriers that difficult-to-serve participants may encounter when becoming self-sufficient.

### **RECOMMENDATION**

We recommend that the Program develop an effective process for identifying and resolving barriers that difficult-to-serve participants may encounter when becoming self-sufficient.

### **AGENCY PRELIMINARY RESPONSE**

MDCD generally agreed with the recommendation and informed us that it has initiated corrective actions. The FIA/MDCD policy now requires that there be a three-way meeting of the FIA case worker, MWA case manager, and the client after a predetermined number of referrals to the Work First Program (the number of referrals is determined by each FIA local office and MWA). At the meeting, the barriers to successful participation are identified and steps to address them are established. In addition, the management information system has been modified so that the Individual Service Strategy (ISS) for each client tracks progress toward resolving barriers.

### **FINDING**

#### **3. Best Practices**

The Program should formalize and improve its process used to identify and share "best practices."

At the time of our audit, the 25 MWAs located throughout the State provided various Program services, through contractors, to participants. These MWAs and their contractors have developed various processes for administering the Program or providing services. During our field visits, we identified certain processes (best practices) which appeared more effective than others.

The U.S. General Accounting Office, other governmental agencies, and the private sector acknowledge that identifying and sharing best practices is a cost-effective approach for improving program operations. A formal process to identify and share best practices is particularly important when similar services are provided in a decentralized process in programs such as the Work First Program.

Our visits to four MWAs and 11 of their contractors disclosed the following examples of best practices that had not been formally shared:

- a. One MWA implemented an automated case management system that it had identified as a best practice in other states. The system was designed to provide services to participants more efficiently by tracking demographic and service data and allowing the electronic transfer of files.
- b. One contractor provided on-site child care service. The lack of convenient child care is frequently considered a barrier to Program participation and success.
- c. One contractor provided participants who were nearing their pregnancy due date with training on how to be working mothers.
- d. One MWA entered into multiple-year contracts with its contractors. The MWA stated that this helped to provide continuity of services, improve efficiency by reducing contracting costs, and eliminate repetitive start-up costs and training for new contractors.
- e. One MWA used postal zip codes to determine which contractor would service a participant. A participant's proximity to services and available transportation is frequently considered a barrier to Program participation and success.
- f. One MWA provided its contractors and the FIA local office with the opportunity to evaluate each other's practices to help maximize Program coordination and effectiveness.

Formalizing and enhancing the Program's process to identify and share best practices should improve overall effectiveness and efficiency. In response to our preliminary audit finding, MDCD initiated informal best practices processes that provided for MDCD staff or MWAs to identify, evaluate, and share proven best practices.

### **RECOMMENDATION**

We recommend that the Program formalize and improve its process used to identify and share best practices.

## **AGENCY PRELIMINARY RESPONSE**

MDCD generally agreed with the recommendation and informed us that it has initiated corrective actions. MDCD stated that it has completed best practices surveys and instituted an electronic system through which best practices and other Program information are posted and can be assessed by all staff. Also, Work First and Non-Custodial Parent Program forums have been conducted focused on best practices from the MWA areas. In addition, MDCD and FIA have held a series of joint regional forums with staff, employers, and other community partners.

## **MDCD PROGRAM ADMINISTRATION**

### **COMMENT**

**Audit Objective:** To assess the effectiveness and efficiency of MDCD in administering the Program.

**Conclusion:** We concluded that MDCD was generally effective in administering the Program. Also, MDCD was somewhat effective in monitoring and managing the efficiency of MWAs. However, our assessment disclosed reportable conditions related to MWA efficiency and conflict of interest disclosures. In addition, based on MDCD's limited information regarding the efficiency of MWAs, we could not draw a conclusion on MDCD's efficiency in administering the Program.

**Noteworthy Accomplishments:** On numerous occasions, Program administrators have proactively taken steps to modify the Program as they believed necessary. The administrators' proven willingness to revise policies and procedures, develop additional training programs, and enhance Program goals is an important attribute when operating relatively new, large, and complex programs.

## **FINDING**

### **4. MWA Efficiency**

MDCD should improve its efforts to monitor and manage the efficiency\* of MWAs.

Program administrators have a responsibility to manage programs efficiently to make the best use of limited State resources. Efficient programs most often result when administrators acquire the appropriate type, quality, and amount of resources at an appropriate cost; avoid duplication of effort and unnecessary work; use efficient operating procedures; and have a comprehensive management control system to measure, report, and monitor program efficiency.

Selected Program indices and activity rates showed contrasting trends in MWA costs, outputs, and outcomes. For the four-year period October 1, 1995 through September 30, 1999, Program expenditures increased approximately 73%. In contrast, for the same period, the number of participants attending joint orientation, attending a service component\*, and obtaining jobs increased 14%, 45%, and 46%, respectively. Also, the percentage of participants who attended a service component and obtained employment remained nearly constant (approximately 60%), while the percentage of participants with successful terminations (90-day employment) decreased 3% prior to this outcome goal being changed for fiscal year 1997-98.

Our review of MDCD efforts to monitor and manage the efficiency of MWAs disclosed:

- a. MDCD's reporting requirements did not enable management to fully measure, report, and monitor MWA efficiency.

The 25 MWAs and their approximately 120 contractors each maintain accounting and cost reporting systems. Program directives require MWAs to report quarterly Program expenditures categorized within direct services, administration, data processing, and support services. While MDCD reviewed Program expenditure information, reporting requirements for direct services, which are the predominant Program activity, were too broad to permit a useful efficiency analysis.

\* See glossary at end of report for definition.

For example, fiscal year 1998-99 MWA spending plans contained up to 14 distinct components, if applicable, that identified various direct service activities. In contrast, fiscal year 1998-99 MWA expenditure reports combined costs for all direct service activities, which represented 66% of all MWA Program expenditures. As a result, planned to actual cost and level of service comparisons for efficiency could not be made for each MWA and its contractors or among similar MWAs based on geographic or demographic characteristics.

- b. Program monitoring, including visits performed by the Welfare Reform and Reporting/Monitoring Divisions, Workforce Development/Job Training, was not directed at assessing, measuring, or reporting on MWA efficiency.

For example, in fiscal year 1998-99, MDCCD reported that an MWA's cost per placement ranged from \$345 to \$2,411. Our review of monitoring visit documentation and discussions with MDCCD staff disclosed that an analysis of efficiency issues to explain and support cost per direct service activity was not included within the scope of MWA monitoring visits.

- c. Program administrators need to place a higher priority on developing policies and procedures that will ensure that MWA efficiency is evaluated in relation to Program effectiveness.

The Work First Program is a "process-oriented"\* program, with multiple operational and administrative levels, that promotes MWA and contractor flexibility Statewide. With such attributes, it is essential that management implement a philosophy that ensures efficiency is both promoted and evaluated. The Program's limitation of administrative costs and requirement of competitive bid processes promote efficiency. However, as described in items a. and b. of this finding and in Findings 1, 2, and 3, the Program's ability to evaluate the efficiency of MWAs and their contractors is limited.

Achieving and documenting improved MWA efficiency should result in reduced Program expenditures or make additional funds available to help increase overall Program success and reduce the impact of future economic downturns.

\* See glossary at end of report for definition.

## **RECOMMENDATION**

We recommend that MDCD improve its efforts to monitor and manage the efficiency of MWAs.

## **AGENCY PRELIMINARY RESPONSE**

MDCD generally agreed with the recommendation and informed us that it has implemented several procedures to address these issues. MDCD indicated that monthly field visit reviews have been expanded to examine a broader range of Program outcomes and a comparative quarterly performance analysis report, examining fiscal, participant, and activity outcomes, is also prepared for each MWA. Also, additional State-level reports are now generated to review overall Program performance. MDCD believes that the implementation of these measures negates the need for additional MWA reporting requirements.

## **FINDING**

### **5. Conflict of Interest Disclosures**

The Program did not require both key MWA staff and the MWA contractors' employees to periodically disclose and resolve potential conflicts of interest.

Effective October 1, 1997, MWAs were required to use contractors to provide services to Program participants. It is essential that persons responsible for issuing and managing contracts and working with entities that will provide employment opportunities to participants are free of any potential conflicts of interest.

Program procedures require that workforce development boards file an annual conflict of interest report for its board members. However, the Program had not established procedures requiring both key MWA staff and the MWA contractors' employees to periodically complete conflict of interest disclosures. None of the MWAs and their contractors that we visited required their employees to periodically disclose potential conflicts of interest.

Implementing a conflict of interest disclosure and resolution procedure helps ensure that key employees conduct their Program duties in a fair and independent manner.

## **RECOMMENDATION**

We recommend that the Program require both key MWA staff and the MWA contractors' employees to periodically disclose and resolve potential conflicts of interest.

## **AGENCY PRELIMINARY RESPONSE**

MDCD agreed with the recommendation and informed us that it has initiated corrective action. Effective December 31, 2000, MDCD instituted a policy and procedure that requires key MWA staff and the MWA contractors' employees to periodically disclose and resolve potential conflicts of interest.

# **FIA REFERRALS AND RESOLUTION OF NONPARTICIPATING CASES**

## **COMMENT**

**Audit Objective:** To assess the effectiveness of FIA in referring public assistance recipients to the Program and resolving nonparticipating cases.

**Conclusion:** We concluded that FIA was generally effective in referring public assistance recipients to the Program but often was not effective in resolving nonparticipating cases. We noted one material condition. FIA should improve its controls to help ensure that FIA local office staff determine and document "good cause" for clients who are terminated by MWAs for nonparticipation and could be subject to potential fiscal penalties.

## **FINDING**

### **6. Potential Penalties for Client Nonparticipation**

FIA should improve its controls to help ensure that FIA local office staff determine and document "good cause" for clients who are terminated by MWAs for nonparticipation and could be subject to potential fiscal penalties.

FIA policy requires that most public assistance clients participate in employment-related Program activities and accept employment when offered. Program Eligibility Manual (PEM) item 233 requires that FIA penalize clients who, without good cause, do not comply with Program requirements and are terminated from the

Program by MWA contractors. PEM item 233 states that such "Clients must experience the consequences of their decisions and actions." It also states that ". . . a penalty must be imposed to try to correct the errant behavior, not to punish the individual." PEM item 233 generally provides for a 25% reduction in FIP cash benefits for clients who do not initially comply with Program requirements and case closure (100% reduction) for continued noncompliance.

Also, effective October 1, 1999, as a result of our preliminary audit findings, FIA revised PEM item 233 and developed a good cause determination form (FIA-71) to help ensure that local office staff conducted and documented good cause determinations. However, FIA's revised policy did not require FIA local managers to test, and managers usually did not test, cases referred by MWAs for nonparticipation to assess whether staff conducted and documented good cause determinations and implemented nonparticipation penalties, when appropriate, in accordance with PEM item 233.

To determine the effectiveness of this internal control, we reviewed 76 and 174 (a total of 250) client case files at various FIA local offices in January 1998 and January 2000, respectively. As shown in the following table, during both reviews, we found a substantial number of case files in which FIA potentially should have penalized, but did not penalize, nonparticipating clients:

Local Office	Cases Reviewed		Cases Subject to Potential Penalties (But Not Penalized)			
	2000	1998	Number		Percentage	
			2000	1998	2000	1998
A		39		19		49%
B	24	38	8	18	33%	47%
C	21		9		43%	
D	17	31		4	0%	13%
E	14	37	1	6	7%	16%
F		29		2		7%
Total	76	174	18	49	24%	28%

For the 67 (18 + 49) FIP cases subject to potential penalties, the average monthly cash payment was \$420. Based on a minimum 25% penalty, FIA potentially should

have reduced monthly FIP cash benefits by approximately \$105 for each nonparticipating case. For the period October 1, 1999 through December 31, 1999, there were 10,099 FIP cases that had the potential to be penalized.

Implementing controls to ensure compliance with PEM item 233 should help FIA motivate clients to use the Program, increase self-sufficiency, and reduce their dependence on cash assistance.

### **RECOMMENDATION**

We recommend that FIA improve its controls to help ensure that FIA local office staff determine and document good cause for clients who are terminated by MWAs for nonparticipation and could be subject to potential fiscal penalties.

### **AGENCY PRELIMINARY RESPONSE**

FIA agrees and has partially complied. As noted in the finding, FIA developed a good cause determination form (FIA-71), which documents good cause determinations. PEM item 233A requires use of the form to document good cause. FIA will consider adding this form to Program Administration Manual item 301, Case Reading Guidelines, as a required review for the family independence manager review in reading cases at the time that the manual item is updated.

## Glossary of Acronyms and Terms

<b>best practices</b>	The management processes, practices, and systems identified in public and private organizations that have performed exceptionally well and are widely recognized as having improved an organization's performance and efficiency in specific areas. Identifying and applying best practices to other organizations should reduce their costs and improve their organizational effectiveness and efficiency.
<b>client</b>	An individual who has an active public assistance case or who has applied for public assistance and may be eligible for referral to the Program as a participant.
<b>continuous quality improvement (CQI) process</b>	A process that aligns the vision and mission of an organization with the needs and expectations of internal and external customers. It normally includes a process to improve program effectiveness and efficiency by assessing performance indicators that measure outputs and outcomes related to the program vision, mission, goals, and objectives.
<b>deferral</b>	A determination made by FIA that a particular client is ineligible for the Program (e.g., recent child birth or caregiver of ill family member).
<b>effectiveness</b>	Program success in achieving mission and goals.
<b>efficiency</b>	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
<b>FIA</b>	Family Independence Agency.
<b>FIP</b>	Family Independence Program.

<b>goals</b>	The agency's intended outcomes or impacts for a program to accomplish its mission.
<b>good cause</b>	An acceptable reason for failure of a FIP client to participate in the Program (e.g., stricken ill, lack of suitable transportation, or unhealthy work environment at a new job).
<b>joint orientation</b>	A meeting conducted jointly by representatives of FIA and MDCD. The purpose of the joint orientation is to explain employment and training requirements, supportive services, and child support requirements with the expectation that clients will become self-supporting. The sessions outline the Work First Program and other programs available to applicants that will assist them in becoming self-sufficient. Failure to attend orientation can result in termination of benefits.
<b>material condition</b>	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
<b>MDCD</b>	Michigan Department of Career Development.
<b>MWA</b>	Michigan Works Agency.
<b>outcomes</b>	The actual impacts of the program. Outcomes should positively impact the purpose for which the program was established.
<b>outputs</b>	The products or services produced by the program. The program assumes that producing its outputs will result in favorable program outcomes.
<b>PEM</b>	Program Eligibility Manual.

<b>participant</b>	An FIA client who attends at least one aspect of the Program (most likely the joint orientation).
<b>performance audit</b>	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
<b>performance indicators</b>	Information of a quantitative or qualitative nature indicating program outcomes, outputs, or inputs. Performance indicators are typically used to assess achievement of goals and/or objectives.
<b>performance standards</b>	A desired level of output or outcome as identified in statutes, regulations, contracts, management goals, industry practices, peer groups, or historical performance.
<b>placement</b>	A participant who has become employed.
<b>process-oriented</b>	Although the Program serves each participant on an individual basis, the Program steps (i.e., the process) that each participant follows are similar.
<b>referral</b>	Informing FIP applicants and recipients of their mandatory attendance in the Work First Program.
<b>reportable condition</b>	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

**self-sufficient**

A participant who has a level of income at which he or she would be determined ineligible for FIP cash assistance.

**service component**

Services provided directly to the participant, e.g., job search services, job development services, or job skills training.