

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

FAMILY INDEPENDENCE AGENCY

October 1, 2000 through September 30, 2002

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

*Including the Provisions of the Single Audit Act
 October 1, 2000 through September 30, 2002*

Family Independence Agency (FIA)

Report Number:
 43-100-03

Released:
 July 2004

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules and Financial Statements:

Auditor's Reports Issued

We issued unqualified opinions on FIA's financial schedules and on the financial statements of the Children's Trust Fund and the Child Support Collection Fund.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 through 9).

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Noncompliance Material to the Financial Schedules or Financial Statements

We did not identify any instances of noncompliance applicable to the financial schedules or financial statements that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 19 programs as major programs and issued 8 unqualified opinions, 8 qualified opinions, and 3 adverse opinions. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified reportable conditions related to internal control over major programs (Findings 10 through 25). We consider Findings 10, 12, 13, 15 through 19, and 21 through 23 to contain material weaknesses.

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 10 through 25).

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Systems of Accounting and Internal Control:

We determined that FIA was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
10.551 and 10.561	Food Stamp Cluster	Qualified
16.523	Juvenile Accountability Incentive Block Grants	Unqualified
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	Qualified
16.588	Violence Against Women Formula Grants	Qualified
83.543	Individual and Family Grants	Unqualified
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	Unqualified
93.556	Promoting Safe and Stable Families	Unqualified
93.558	Temporary Assistance for Needy Families (TANF)	Qualified
93.563	Child Support Enforcement (CSE)	Qualified
93.566	Refugee and Entrant Assistance: State Administered Programs	Adverse
93.568	Low-Income Home Energy Assistance (LIHEAP)	Qualified
93.569	Community Services Block Grant (CSBG)	Unqualified
93.575 and 93.596	Child Care Cluster	Qualified
93.645	Child Welfare Services: State Grants	Unqualified
93.658	Foster Care: Title IV-E	Adverse
93.659	Adoption Assistance	Qualified
93.667	Social Services Block Grant (SSBG)	Unqualified
93.674	Chafee Foster Care Independent Living	Adverse
93.778	Medicaid Cluster	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://www.audgen.michigan.gov>



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Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

July 30, 2004

Marianne Udow, Director
Family Independence Agency
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Family Independence Agency (FIA) for the period October 1, 2000 through September 30, 2002.

This report contains our report summary; our independent auditor's reports on the financial schedules and financial statements; and the FIA financial schedules, the Children's Trust Fund financial statements, and the Child Support Collection Fund financial statements, notes to the financial schedules and financial statements, and supplemental financial schedules. This report also contains our independent auditor's reports 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 and our schedule of findings and questioned costs. In addition, this report contains FIA's summary schedule of prior audit findings, its corrective action plan, 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 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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INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL SCHEDULES,
AND FINANCIAL STATEMENTS



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AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

September 4, 2003, except for Note 3b(3)
as to which the date is November 24, 2003

Marianne Udow, Director
Family Independence Agency
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

We have audited the financial schedules of the Family Independence Agency for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents. 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.

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 financial schedules include only the revenues and transfers and the sources and disposition of authorizations for the Family Independence Agency's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, 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 revenues and transfers and the sources and disposition of authorizations of the Family Independence Agency for the fiscal years ended September 30, 2002 and September 30, 2001, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2003, except for Note 3b(3) as to which the date is November 24, 2003, 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 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, as identified in the table of contents, 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



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

September 4, 2003

Marianne Udow, Director
Family Independence Agency
and
Pamela Posthumus, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Udow and Ms. Posthumus:

We have audited the financial statements of the Children's Trust Fund, Family Independence Agency, as of and for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents. These financial statements are the responsibility of the State Child Abuse and Neglect Prevention Board's management and the Family Independence Agency's 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 financial statements present only the Children's Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Michigan or its permanent funds as of September 30, 2002 and September 30, 2001 and the changes in financial position thereof for the fiscal years then ended in

conformity with accounting principles generally accepted in the United States of America.

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, 2002 and September 30, 2001 and the changes in financial position 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 September 4, 2003, except for Note 3b(3) as to which the date is November 24, 2003, 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 schedule of expenditures of federal award 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 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.

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AUDITOR GENERAL

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

September 4, 2003

Marianne Udow, Director
Family Independence Agency
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

We have audited the financial statements of the Child Support Collection Fund, Family Independence Agency, as of and for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents. These financial statements are the responsibility of the Family Independence Agency's 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 financial statements present only the Child Support Collection Fund and do not purport to, and do not, present fairly the financial position of the State of Michigan or its agency funds as of September 30, 2002 and September 30, 2001 and changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Child Support Collection Fund as of September 30, 2002 and September 30, 2001 and the changes in financial position 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 September 4, 2003, except for Note 3b(3) as to which the date is November 24, 2003, 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

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

	2002	2001
REVENUES		
From federal agencies	\$ 2,580,901	\$ 2,283,399
From local agencies	54,619	66,009
From services	7	6
Miscellaneous:		
Child support recovery of grants	40,988	26,490
Other sources	38,236	46,239
Total Revenues	\$ 2,714,751	\$ 2,422,143
TRANSFERS		
Total Transfers	5	0
Total Revenues and Transfers	\$ 2,714,756	\$ 2,422,143

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)

	2002	2001
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 1,167,935	\$ 1,216,744
Budgetary adjustment (Note 2b)	19,876	28,750
Balances carried forward	46,467	57,927
Restricted financing sources	2,678,943	2,399,287
Less: Intrafund expenditure reimbursements	(463)	(18,138)
Total	\$ 3,912,758	\$ 3,684,569
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers (Note 2f)	\$ 3,868,028	\$ 3,653,099
Less: Intrafund expenditure reimbursements	(462)	(18,138)
Net expenditures and transfers	\$ 3,867,566	\$ 3,634,961
Balances carried forward:		
Multi-year projects	\$ 24,980	\$ 41,858
Encumbrances	5,765	4,126
Restricted revenues - not authorized	1,445	483
Total balances carried forward	\$ 32,190	\$ 46,467
Balances lapsed	\$ 14,534	\$ 3,142
Overexpended	\$ (1,532)	\$ 0
Total	\$ 3,912,758	\$ 3,684,569

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

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

	2002	2001
ASSETS		
Current Assets:		
Equity in Common Cash (Note 4a)	\$ 3,586,993	\$ 6,265,177
Other current assets	240,569	321,993
Total Current Assets	\$ 3,827,562	\$ 6,587,170
Investments (Notes 4a and 4d)	18,320,400	15,205,053
Total Assets	\$ 22,147,962	\$ 21,792,223
LIABILITIES AND FUND BALANCE		
Liabilities:		
Warrants outstanding	\$ 992	\$ 24,312
Accounts payable and other liabilities	99,288	95,946
Amounts due to other funds	1,530	
Total Liabilities	\$ 101,810	\$ 120,258
Fund Balance:		
Reserved for funds held as permanent investments (Note 4b)	\$ 21,048,372	\$ 21,177,378
Encumbrances	103,140	72,073
Unreserved	894,640	422,514
Total Fund Balance	\$ 22,046,152	\$ 21,671,965
Total Liabilities and Fund Balance	\$ 22,147,962	\$ 21,792,223

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>2002</u>	<u>2001</u>
REVENUES		
Investment income (Note 4d)	\$ 1,050,068	\$ 1,988,255
From federal agencies	822,041	781,219
Income tax checkoff (Note 4b)	1,732	70,440
Other donations	1,096,682	748,546
Total Revenues	<u>\$ 2,970,523</u>	<u>\$ 3,588,460</u>
EXPENDITURES		
Grants	\$ 1,620,505	\$ 1,676,040
Administration	980,384	913,661
Total Expenditures	<u>\$ 2,600,889</u>	<u>\$ 2,589,701</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 369,634</u>	<u>\$ 998,759</u>
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	\$ 10,000	\$ 52,500
Transfers to other funds	(5,447)	(11,218)
Total Other Financing Sources (Uses)	<u>\$ 4,553</u>	<u>\$ 41,282</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 374,187	\$ 1,040,041
Fund Balance - Beginning of fiscal year	21,671,965	20,631,924
Fund Balance - End of fiscal year	<u><u>\$ 22,046,152</u></u>	<u><u>\$ 21,671,965</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, 2002

Statutory/Budgetary Basis (Note 4c)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER SOURCES			
Total miscellaneous (Note 4b)	\$ 2,148,482	\$ 2,148,482	\$ 0
From federal agencies	822,041	822,041	0
Transfers in	10,000	10,000	0
Total Revenues and Other Sources	\$ 2,980,523	\$ 2,980,523	\$ 0
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES			
Grants		\$ 1,620,505	
Administration		980,384	
Transfers out		5,447	
Encumbrances		103,140	
Total Expenditures, Transfers Out, and Encumbrances	\$ 3,013,814	\$ 2,709,476	\$ 304,338
Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (Statutory/Budgetary Basis)	\$ (33,291)	\$ 271,047	\$ 304,338
Reconciling Item:			
Encumbrances at September 30		103,140	
Excess of Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (GAAP Basis)		\$ 374,187	
FUND BALANCE (GAAP BASIS)			
Beginning balance		21,671,965	
Ending balance (GAAP Basis)		\$ 22,046,152	

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, 2001

Statutory/Budgetary Basis (Note 4c)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER SOURCES			
Total miscellaneous (Note 4b)	\$ 2,807,241	\$ 2,807,241	\$ 0
From federal agencies	781,219	781,219	0
Transfers in	52,500	52,500	0
Total Revenues and Other Sources	\$ 3,640,960	\$ 3,640,960	\$ 0
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES			
Grants		\$ 1,676,040	
Administration		913,661	
Transfers out		11,218	
Encumbrances		72,073	
Total Expenditures, Transfers Out, and Encumbrances	\$ 2,902,982	\$ 2,672,992	\$ 229,990
Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (Statutory/Budgetary Basis)	\$ 737,978	\$ 967,968	\$ 229,990
Reconciling Item:			
Encumbrances at September 30		72,073	
Excess of Revenues and Other Sources Over (Under) Expenditures, Encumbrances, and Other Uses (GAAP Basis)		\$ 1,040,041	
FUND BALANCE (GAAP BASIS)			
Beginning balance		20,631,924	
Ending balance (GAAP Basis)		\$ 21,671,965	

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, 2002

	Balance October 1, 2001	Additions	Deductions	Balance September 30, 2002
ASSETS				
Current Assets:				
Cash (Note 5)	\$ 6,773,368	\$ 1,197,146,723	\$ 1,171,958,561	\$ 31,961,530
Other current assets	172,327	4,268,842	172,327	4,268,842
Total Assets	<u>\$ 6,945,695</u>	<u>\$ 1,201,415,565</u>	<u>\$ 1,172,130,888</u>	<u>\$ 36,230,372</u>
LIABILITIES				
Current Liabilities (Note 5):				
Accounts payable and other liabilities	\$ 6,731,191	\$ 1,213,532,079	\$ 1,184,305,725	\$ 35,957,545
Amounts due to other funds	214,503	272,827	214,503	272,827
Total Liabilities	<u>\$ 6,945,695</u>	<u>\$ 1,213,804,906</u>	<u>\$ 1,184,520,229</u>	<u>\$ 36,230,372</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, 2001

	Balance October 1, 2000	Additions	Deductions	Balance September 30, 2001
ASSETS				
Current Assets:				
Cash (Note 5)	\$ 199,692	\$ 605,788,993	\$ 599,215,317	\$ 6,773,368
Other current assets		172,327		172,327
Total Assets	<u>\$ 199,692</u>	<u>\$ 605,961,320</u>	<u>\$ 599,215,317</u>	<u>\$ 6,945,695</u>
LIABILITIES				
Current Liabilities (Note 5):				
Accounts payable and other liabilities	\$ 189,792	\$ 606,026,906	\$ 599,485,507	\$ 6,731,191
Amounts due to other funds	9,900	221,487	16,883	214,503
Total Liabilities	<u>\$ 199,692</u>	<u>\$ 606,248,393</u>	<u>\$ 599,502,390</u>	<u>\$ 6,945,695</u>

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

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, 2002 and September 30, 2001. 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 changes in financial position of FIA's Children's Trust Fund (CTF) as of and for the fiscal years ended September 30, 2002 and September 30, 2001. This fund is a part of the State of Michigan's reporting entity and is reported as a permanent fund in the *SOMCAFR*.
- (2) The financial position of FIA's Child Support Collection Fund (CSCF) as of and for the fiscal years ended September 30, 2002 and September 30, 2001. 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, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; Deposits and Investments; Pension Benefits and Other Postemployment Benefits; and Contingencies and Commitments.

b. Basis of Accounting and Presentation

The financial schedules and the CTF financial statements contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by

generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable. The CSCF financial statements contained in this report are presented using the economic resources measurement focus and the accrual basis of accounting as provided by generally accepted accounting principles applicable to governments.

The accompanying financial schedules present only the revenues and transfers and the sources and disposition of authorizations for FIA's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not constitute a complete financial presentation of either FIA or the State's General Fund in conformity with generally accepted accounting principles.

The accompanying financial statements present only the CTF and the CSCF. Accordingly, they do not purport to, and do not present fairly the financial position and changes in financial position of the State of Michigan or its permanent and agency funds in conformity with generally accepted accounting principles.

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 for the Family

Independence Program, General Assistance, Refugee and Entrant Assistance, and Food Assistance Program (in thousands):

	September 30	
	2002	2001
Overpayments and advances:		
ARS	\$ 136,216	\$ 157,871
Potential and manual records	\$ 9,832	\$ 10,092

Because of the uncertainty of collecting these amounts, FIA, in accordance with generally accepted accounting principles, recorded accounts receivable for the amount of 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 (in thousands):

	September 30	
	2002	2001
Accounts receivable:		
ARS	\$ 1,029	\$ 1,166
Potential and manual records	\$ 352	\$ 94
Accounts payable:		
ARS	\$ 396	\$ 462
Potential and manual records	\$ 6	\$ 8

The ARS Food Assistance Program accounts receivable balance, based on total overpayments, was \$43.8 million as of September 30, 2002 and \$52.3 million as of September 30, 2001. However, the Food Assistance Program accounts receivable balance is not recorded in the State's accounting records on the Michigan Administrative Information Network* (MAIN). Only the State portion (20% for administrative errors, 35% for fraudulent errors) will actually be retained by FIA and recorded in MAIN.

Collections of Food Assistance Program accounts receivable retained by FIA were estimated to be \$0.3 million in the first 60 days of fiscal year

* See glossary at end of report for definition.

2002-03 and actual collections which were recorded as accounts receivable, totaled \$0.3 million in the first 60 days of fiscal year 2001-02.

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 revenues.
- b. Budgetary adjustment: Section 212, Act 82, P.A. 2001, and Section 212, Act 294, P.A. 2000, appropriate an amount in addition to the funds appropriated in part 1 of the Acts (for write-offs of accounts receivable, deferral, and prior year obligations in excess of prior appropriations) 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 2001-02 and fiscal year 2000-01 were \$19.9 million and \$28.8 million, respectively.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - 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 revenues - not authorized.
- d. Restricted financing sources: Collections of restricted revenues, restricted 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 revenues - authorized or restricted revenues - not authorized.

- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.
- f. Expenditures: Charges incurred for work performed, supplies and materials delivered, services rendered, and grants and debt service due, regardless of whether payment has been made. In fiscal year 2000-01, this also included \$149.8 million of disbursed food stamp coupons in accordance with Governmental Accounting Standards Board (GASB) Statement No. 24.
- g. 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 carry-forwards of this type were FIA's Automated Social Services Information Systems project and other data system enhancements.
- h. Encumbrances: Authorizations carried forward to finance payments for goods or 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.
- i. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular department or activity. However, FIA had not received legislative authorization to expend the revenues.
- j. 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.
- k. 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 Family Independence Program, Food Assistance Program, and Medical Assistance Program (Medicaid, Title XIX). Based on its reviews, OQA projected the following mispayments, excluding underpayments, for federal program reporting purposes (in thousands):

	September 30	
	2002	2001
Family Independence Program	\$ 32,092	\$ 25,010
Food Assistance Program	\$ 56,402	\$ 43,165
Medicaid	\$ 45,789	\$ 48,880

Based on the preceding results, OQA projects an error rate. The U.S. Department of Agriculture (USDA) reviews a subsample from each state and computes a national average error rate, which is compared to Michigan's rate for the Food Assistance Program. Sanctions are imposed for the Food Assistance Program for states with higher error rates than the national average. There was a sanction in the amount of \$13.9 million for fiscal year 2000-01 and a projected sanction (as of March 13, 2003) in the amount of \$24.0 million for fiscal year 2001-02. Federal sanctions that may result in a loss for the Food Assistance Program are discussed in this Note in part b (2). Under block grants, there is no sanction based on the Family Independence Program mispayment rate after fiscal year 1995-96. There will be no sanctions in Medicaid for fiscal years 2000-01 and 2001-02.

These mispayment amounts are not required to be reported in the schedule of findings and questioned costs. Mispayments also occur in other federal and/or state programs that OQA does not review.

b. Federal Penalties, Settlement Agreements, and Accounts Payable

(1) Accounts Payable to Federal Government in Connection With FIA's ARS

FIA potentially owes the federal government \$47.7 million and \$54.9 million in fiscal years 2001-02 and 2000-01, respectively, for its share of the ARS account receivable collections in connection with the Family Independence Program (Note 1c). There is no litigation and the Attorney General is not involved.

(2) Settlement Agreements with USDA

The FIA Food Assistance Program error rates continue to be above the national average. FIA exceeded the tolerable federal mispayment rate in both fiscal years 2001-02 and 2000-01, resulting in sanctions from the USDA. FIA has entered into settlement agreements with the USDA to resolve the sanctions through fiscal year 1999-2000. The settlement agreements provide for FIA's reinvestment in initiatives to reduce the mispayment rate, rather than repayment. Amounts to be reinvested by FIA are recorded as expenditures when incurred. The USDA Food and Nutrition Service (FNS) has also deferred payment on \$18.3 million of the sanctioned amount. FIA will not have to pay these deferred amounts if it achieves specified targets for reduction in the mispayment rates. It is reasonably possible that the FNS may also require the reinvestment of State dollars for the fiscal year 2001-02 and 2000-01 sanctions, rather than repayment. No liability has been recorded for unpaid sanctions because the amount, if any,

that will be paid cannot be determined. A summary of the sanctions and settlement agreements as of September 30, 2002 is as follows (in thousands):

Program	Related Year	Initial Sanction	Remaining Amount	Comments
Food Assistance	1996	\$ 3,389	\$ 984	Reinvestment of \$984 by September 30, 2003.
Food Assistance	1997	\$ 2,771	\$ 686	Reinvestment of \$686 by April 30, 2003.
Food Assistance	1998	\$15,756	\$ 5,252	Deferral of \$5,252.
Food Assistance	1999	\$19,773	\$12,547	Reinvestment of \$2,660 by September 30, 2003 with deferral of \$9,887.
Food Assistance	2000	\$ 8,954	\$ 8,954	Reinvestment of \$5,820 by December 31, 2003 with deferral of \$3,134.
Food Assistance	2001	\$13,921	\$ 8,500	No settlement agreement signed as of May 1, 2003. "Good cause" appeal currently before FNS has a probable outcome to reduce sanction from \$13,921 to \$8,500.
Food Assistance	2002	\$20,000	\$20,000	Estimated penalty as of October 4, 2002.

(3) Michigan Child Support Enforcement System (MiCSES)

The U.S. Department of Health and Human Services (HHS) penalized FIA \$38.6 million in fiscal year 2000-01 for failing to have an operational Statewide computerized enforcement system in effect by October 1, 2000. This penalty was paid through quarterly reductions in its Child Support Enforcement federal grant award in fiscal year 2000-01. In order to be certified, 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.

FIA received federal certification of MiCSES on November 24, 2003. FIA recovered \$34.8 million (90%) of the \$38.6 million penalty that had been imposed. This recovery was not recorded in these financial schedules because FIA did not learn that the refund would be made until fiscal year 2002-03.

Note 4 Children's Trust Fund (CTF)

a. Investments

In fiscal year 2000-01, 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.

In fiscal year 2001-02, Section 21.171 of the *Michigan Compiled Laws* directs the State Treasurer to invest CTF money. The State Treasurer had the same authority to invest the assets of the trust fund as was granted to an investment fiduciary under the Public Employee Retirement System Investment Act, pursuant to Sections 38.1132 - 38.1140 of the *Michigan Compiled Laws*.

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 credit risk category 1).

At September 30, 2002 and September 30, 2001, 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 the CTF

Section 21.171 of the *Michigan Compiled Laws* limits CTF expenditures to the total of investment earnings from the current fiscal year, grants and

donations. The CTF records a fund balance reserve for amounts not available for expenditure for donations from personal income tax checkoffs and a \$13,145,200 supplemental appropriation from Act 291, P.A. 2001. The CTF received revenue from personal income tax checkoffs until 2001 when the CTF had more than \$20.0 million in assets. The income tax checkoffs received during the audit period were from late or amended tax returns for 2001 and earlier years.

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

Budget detail by revenue account and expenditure account for fiscal years 2001-02 and 2000-01 is not available because the various miscellaneous revenues and expenditures are budgeted as single amounts. The total revenue budget amounts are based on revenue estimates by the Department of Treasury and the FIA program office. The expenditure budgets are appropriations as adjusted for approved transfers and restricted revenue adjustments.

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 \$129,872 in fiscal year 2001-02 and increased investment income by \$686,777 in fiscal year 2000-01 to reflect the change in fair market value of investments.

Note 5 Child Support Collection Fund (CSCF)

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.

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 amounts due to other funds represent 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 large increase in additions and deductions from fiscal year 1999-2000 to fiscal year 2001-02 for cash and accounts payable and other liabilities is a result of the phasing in of additional employers and counties onto the CSCF over the past two fiscal years.

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).

The carrying amount of the CSCF cash balance was \$32.0 million and \$6.8 million as of September 30, 2002 and September 30, 2001, respectively. The bank balance was \$35.1 million and \$4.2 million as of September 30, 2002 and September 30, 2001, respectively. Of the bank balance, \$0.1 million was covered by federal depository insurance and an additional \$9.8 million was collateralized with assets pledged in the name of the State of Michigan. On October 1, 2002, the collateral was increased to \$40.0 million. The remainder was uncollateralized as the collateral was not held in the entity's name. FIA is currently working with the Department of Treasury and the financial institution to ensure that collateral pledged is in the name of the State of Michigan. The uncollateralized negotiable instruments maintained on the premises in a safe were \$0.1 million and \$2.6 million as of September 30, 2002 and September 30, 2001, respectively.

Note 6 Subsequent Events

The U.S. Department of Health and Human Services (HHS) issued a review report in March 2003 entitled "Review of Aid to Families with Dependent Children [AFDC] Overpayment Recoveries for the period July 1, 1996 through June 30, 2002." During the period of the review, FIA offset AFDC overpayment collections through the Temporary Assistance to Needy Families (TANF) Program, which was the successor program after AFDC was discontinued. This recognized the need to report the collections to the federal funding source through the new public assistance program claim process for TANF. However, HHS's review of AFDC overpayment collections recommended that FIA refund directly to HHS \$15.3 million for the federal share of recovered AFDC payments. FIA has agreed to refund this amount. In addition, HHS requested that FIA refund the AFDC portion of overpayment collections of \$6.2 million that contained a mix of AFDC and TANF recoveries. FIA proposed application of the percentages of the known AFDC and TANF recoveries for each year of the audit period to estimate the amount of AFDC recoveries. Applying those percentages and the federal funding rate would result in FIA returning an additional \$3.0 million to HHS for the period September 1996 through September 2001. FIA expected to have a system change in place to properly separate AFDC and TANF recoupments for any newly established claims by September 30, 2003.

SUPPLEMENTAL
FINANCIAL SCHEDULES

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

	<u>2002</u>	<u>2001</u>
ASSETS		
Current Assets:		
Amounts due from federal agencies	\$ 221,148	\$ 296,836
Amounts due from local units of government	\$ 3,855	\$ 21,714
Amounts due from other funds	\$ 273	\$ 215
Other current receivables	\$ 68,029	\$ 74,820
Accounts receivable	\$ 7,613	\$ 5,314
Other receivables	\$ 7	\$ 7
Finished goods for resale/sales	\$ 380	\$ 356
Travel advances receivable	\$ 60	\$ 62
Noncurrent Assets:		
Amounts due from local units of government	\$ 4,526	\$ 4,520
Miscellaneous accounts receivable (long-term)	\$ 2,226	\$ 2,025
LIABILITIES		
Current Liabilities:		
Accounts payable - operating and grants	\$ 147,322	\$ 145,112
Child support collections/incentives payable		\$ 4,356
Unearned receipts payable	\$ 44,295	\$ 41,061
Deferred revenue - unearned	\$ 5,473	\$ 6,557
Amounts held in custody for others	\$ (438)	\$ 1,769
Amounts due to other funds	\$ 259	

This schedule is not a balance sheet and is not intended to report financial condition. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Family Independence Agency. The schedule does not include assets and liabilities that are accounted for centrally by the State such as capital assets (land, buildings, equipment), equity in Common Cash, and cash in transit, and warrants outstanding.

FAMILY INDEPENDENCE AGENCY
Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2002

Appropriation Unit	Total Authorizations	Gross Expenditures and Transfers	Intrafund Expenditure Reimbursements
Executive operations	\$ 330,052,439	\$ 305,791,170	\$
Central support accounts	256,937,922	256,219,145	
Disability Determination Services	65,289,480	65,700,809	(462,601)
Public assistance	1,773,306,085	1,766,208,081	
Residential Care Division	241,877,393	240,232,058	
Assistance payments, services, and clerical field staff	455,652,125	445,197,016	
Office of Child and Youth Services	549,374,979	550,728,794	
Field Policy and Operations Administration	220,391,513	218,074,928	
Accounts authorized by boilerplate	19,876,202	19,876,202	
Total	<u>\$ 3,912,758,139</u>	<u>\$ 3,868,028,204</u>	<u>\$ (462,601)</u>

<u>Net Expenditures and Transfers</u>	<u>Multi-Year Projects</u>	<u>Encumbrances</u>	<u>Restricted Revenues - Not Authorized</u>	<u>Balances Lapsed</u>	<u>Overexpended</u>
\$ 305,791,170	\$ 20,576,392	\$ 2,855,282	\$ 432,143	\$ 397,451	\$
256,219,145		533,243		185,534	
65,238,207				51,273	
1,766,208,081		6,734	694,073	6,397,199	
240,232,058		1,463,939		181,396	
445,197,016	4,403,888	671,123		5,380,098	
550,728,794		14,193	111,277	53,135	(1,532,419)
218,074,928		220,392	207,809	1,888,383	
19,876,202					
<u>\$ 3,867,565,602</u>	<u>\$ 24,980,280</u>	<u>\$ 5,764,906</u>	<u>\$ 1,445,301</u>	<u>\$ 14,534,469</u>	<u>\$ (1,532,419)</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2001

Appropriation Unit	Total Authorizations	Gross Expenditures and Transfers	Intrafund Expenditure Reimbursements
Executive operations	\$ 294,684,751	\$ 261,297,114	\$
Central support accounts	259,406,580	258,363,088	
Disability Determination Services	60,003,018	60,407,665	(615,000)
Public assistance	1,529,612,877	1,529,330,196	
Individual and Family Grants	52,663,961	70,186,841	(17,522,880)
Residential Care Division	235,989,654	234,503,250	
Assistance payments, services, and clerical field staff	458,763,377	446,737,651	
Office of Child and Youth Services	545,514,192	544,963,975	
Field Policy and Operations Administration	219,181,393	218,559,201	
Accounts authorized by boilerplate	28,749,530	28,749,530	
Total	\$ 3,684,569,333	\$ 3,653,098,511	\$ (18,137,880)

<u>Net Expenditures and Transfers</u>	<u>Multi-Year Projects</u>	<u>Encumbrances</u>	<u>Restricted Revenues - Not Authorized</u>	<u>Balances Lapsed</u>	<u>Overexpended</u>
\$ 261,297,114	\$ 30,530,924	\$ 1,998,732	\$ 237,091	\$ 620,890	\$
258,363,088		631,067		412,425	
59,792,665				210,353	
1,529,330,196		1,272		281,409	
52,663,961					
234,503,250		683,899		802,505	
446,737,651	11,327,551	513,877		184,298	
544,963,975		44,033	80,850	425,334	
218,559,201		252,704	164,917	204,571	
28,749,530					
<u>\$ 3,634,960,632</u>	<u>\$ 41,858,475</u>	<u>\$ 4,125,582</u>	<u>\$ 482,858</u>	<u>\$ 3,141,785</u>	<u>\$ 0</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2000 through September 30, 2002
(In Thousands)

For the Fiscal Year Ended September 30, 2001

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>					
Food Stamp Cluster:					
Direct Programs:					
Food Stamps	10.551		\$ 496,819	\$	\$ 496,819
State Administrative Matching Grants for Food Stamp Program	10.561		84,316	6,731	91,047
Total Food Stamp Cluster			<u>\$ 581,135</u>	<u>\$ 6,731</u>	<u>\$ 587,866</u>
Child Nutrition Cluster:					
Pass-Through Programs:					
Michigan Department of Education School Breakfast Program	10.553	USDA 196 Sect 11, USDA 197 Breakfast	\$ 767	\$	\$ 767
National School Lunch Program	10.555	USDA 195 Sect 4, USDA 198 Snacks	54		54
Total Child Nutrition Cluster			<u>\$ 821</u>	<u>\$ 0</u>	<u>\$ 821</u>
Total U.S. Department of Agriculture			<u>\$ 581,956</u>	<u>\$ 6,731</u>	<u>\$ 588,687</u>
<u>U.S. Department of Housing and Urban Development</u>					
Direct Program:					
Supportive Housing Program	14.235		\$ 1,035	\$ 285	\$ 1,320
Total U.S. Department of Housing and Urban Development			<u>\$ 1,035</u>	<u>\$ 285</u>	<u>\$ 1,320</u>
<u>U.S. Department of Justice</u>					
Direct Programs:					
Juvenile Accountability Incentive Block Grants	16.523		\$ 3,392	\$ 6,396	\$ 9,788
Juvenile Justice and Delinquency Prevention: Allocation to States	16.540		1,010	2,413	3,423
Title V: Delinquency Prevention Program	16.548		9	237	246
Part E: State Challenge Activities	16.549		86	234	320
Violence Against Women Formula Grants	16.588		1,062	3,880	4,942
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589		176		176
Total Direct Programs			<u>\$ 5,735</u>	<u>\$ 13,160</u>	<u>\$ 18,895</u>
Pass-Through Program:					
Michigan Department of Community Health Residential Substance Abuse Treatment for State Prisoners	16.593	90002-4S99, 70862-1K99	\$ 1,111	\$	\$ 1,111
Total U.S. Department of Justice			<u>\$ 6,846</u>	<u>\$ 13,160</u>	<u>\$ 20,006</u>
<u>U.S. Department of Energy</u>					
Direct Program:					
Weatherization Assistance for Low-Income Persons	81.042		\$ 5,589	\$ 4,100	\$ 9,689
Total U.S. Department of Energy			<u>\$ 5,589</u>	<u>\$ 4,100</u>	<u>\$ 9,689</u>
<u>Federal Emergency Management Agency</u>					
Pass-Through Program:					
Michigan Department of State Police Individual and Family Grants	83.543	FEMA-1128-DR	\$ 52,754	\$	\$ 52,754
Total Federal Emergency Management Agency			<u>\$ 52,754</u>	<u>\$ 0</u>	<u>\$ 52,754</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2002

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 643,127	\$	\$ 643,127	\$ 1,139,946
	85,198	8,011	93,209	184,256
	<u>\$ 728,325</u>	<u>\$ 8,011</u>	<u>\$ 736,336</u>	<u>\$ 1,324,202</u>
USDA 196 Sect 11, USDA 197 Breakfast USDA 195 Sect 4, USDA 198 Snacks	\$ 629	\$	\$ 629	\$ 1,396
	46		46	100
	<u>\$ 675</u>	<u>\$ 0</u>	<u>\$ 675</u>	<u>\$ 1,496</u>
	\$ 729,000	\$ 8,011	\$ 737,011	\$ 1,325,698
	\$ 31	\$ 993	\$ 1,024	\$ 2,344
	\$ 31	\$ 993	\$ 1,024	\$ 2,344
	\$ 2,218	\$ 6,147	\$ 8,365	\$ 18,153
	444	1,807	2,251	5,674
		690	690	936
		397	397	717
	511	3,596	4,107	9,049
	40	196	236	412
	<u>\$ 3,213</u>	<u>\$ 12,833</u>	<u>\$ 16,046</u>	<u>\$ 34,941</u>
9002-4S99, 70862-1K99	\$ 1,121	\$	\$ 1,121	\$ 2,232
	\$ 4,334	\$ 12,833	\$ 17,167	\$ 37,173
	\$ 698	\$ 12,235	\$ 12,933	\$ 22,622
	\$ 698	\$ 12,235	\$ 12,933	\$ 22,622
FEMA-1128-DR	\$	\$	\$ 0	\$ 52,754
	\$ 0	\$ 0	\$ 0	\$ 52,754

FAMILY INDEPENDENCE AGENCY
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2000 through September 30, 2002
(In Thousands)
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2001		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Education					
Special Education Cluster					
Pass-Through Programs:					
Michigan Department of Education					
Special Education: Grants to States	84.027	0449/64, 0490/64	\$ 255	\$	\$ 255
Wayne County Regional Educational Service Agency					
Special Education: Grants to States	84.027		72	13	85
Total Special Education Cluster			\$ 327	\$ 13	\$ 340
Direct Programs:					
Rehabilitation Services: Vocational Rehabilitation Grants to States	84.126		\$ 10,751	\$	\$ 10,751
Independent Living: State Grants	84.169		147	57	204
Rehabilitation Services: Independent Living Services for Older Individuals Who are Blind	84.177		757		757
Supported Employment Services for Individuals with Severe Disabilities	84.187		150		150
Rehabilitation Training: State Vocational Rehabilitation Unit In-Service Training	84.265		20		20
Total Direct Programs			\$ 11,825	\$ 57	\$ 11,882
Pass-Through Programs:					
Michigan Department of Career Development					
Adult Education: State Grant Program	84.002	1190/200036	\$ 63	\$	\$ 63
Vocational Education: Basic Grants to States	84.048	3329/4722, 3320/8602	179		179
Rehabilitation Services: Vocational Rehabilitation Grants to States	84.126	H 126A-01-0031	435		435
Total Michigan Department of Career Development			\$ 677	\$ 0	\$ 677
Michigan Department of Education					
Title I Program for Neglected and Delinquent Children	84.013	1599/9506, 1590/9900	\$ 629	\$	\$ 629
Special Education: Grants for Infants and Families with Disabilities	84.181	1339/ACFIA, 1330/ACFIA	86		86
Safe and Drug-Free Schools and Communities: State Grants	84.186	2869/DRUG4799, 2860/DRUG4600	5		5
Total Michigan Department of Education			\$ 720	\$ 0	\$ 720
Total Pass-Through Programs			\$ 1,397	\$ 0	\$ 1,397
Total U.S. Department of Education			\$ 13,549	\$ 70	\$ 13,619
U.S. Department of Health and Human Services					
Child Care Cluster					
Direct Programs:					
Child Care and Development Block Grant	93.575		\$ 46,335	\$ 7,112	\$ 53,447
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		73,564	11,304	84,868
Total Child Care Cluster			\$ 119,899	\$ 18,416	\$ 138,315
Medicaid Cluster					
Pass-Through Program:					
Michigan Department of Community Health					
Medical Assistance Program (Medicaid, Title XIX)	93.778	05 01 05 MI 5048, 05 01 05 MI 5028	\$ 106,339	\$	\$ 106,339
Total Medicaid Cluster			\$ 106,339	\$ 0	\$ 106,339

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2002

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
0440/64, 0490/64	\$ 56	\$	\$ 56	\$ 311
	76		76	161
	<u>\$ 132</u>	<u>\$ 0</u>	<u>\$ 132</u>	<u>\$ 472</u>
	\$ 10,560	\$	\$ 10,560	\$ 21,311
	169	68	237	441
	651		651	1,408
	99		99	249
	(19)		(19)	1
	<u>\$ 11,460</u>	<u>\$ 68</u>	<u>\$ 11,528</u>	<u>\$ 23,410</u>
1190/0004 3320/6701 H 126A-02-0031	\$ 83	\$	\$ 83	\$ 146
	97		97	276
	395		395	830
	<u>\$ 575</u>	<u>\$ 0</u>	<u>\$ 575</u>	<u>\$ 1,252</u>
1590/0001 1330/ACFIA	\$ 142	\$	\$ 142	\$ 771
	106		106	192
				5
	<u>\$ 248</u>	<u>\$ 0</u>	<u>\$ 248</u>	<u>\$ 968</u>
	\$ 823	\$ 0	\$ 823	\$ 2,220
	<u>\$ 12,415</u>	<u>\$ 68</u>	<u>\$ 12,483</u>	<u>\$ 26,102</u>
	\$ 53,138	\$ 9,469	\$ 62,607	\$ 116,054
	67,922	12,364	80,286	165,154
	<u>\$ 121,060</u>	<u>\$ 21,833</u>	<u>\$ 142,893</u>	<u>\$ 281,208</u>
05 02 05 MI 5048, 05 02 05 MI 5028	\$ 102,317	\$	\$ 102,317	\$ 208,656
	<u>\$ 102,317</u>	<u>\$ 0</u>	<u>\$ 102,317</u>	<u>\$ 208,656</u>

FAMILY INDEPENDENCE AGENCY
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2000 through September 30, 2002
(In Thousands)
Continued

For the Fiscal Year Ended September 30, 2001

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Direct Programs:					
Promoting Safe and Stable Families	93.556		\$ 200	\$ 9,873	\$ 10,073
Temporary Assistance for Needy Families (TANF)	93.558		560,297	206,395	766,692
Child Support Enforcement (CSE)	93.563		116,421	57,251	173,672
Refugee and Entrant Assistance: State Administered Programs	93.566		3,258	5,837	9,095
Low-Income Home Energy Assistance (LIHEAP)	93.568		112,184	4,561	116,745
Community Services Block Grant (CSBG)	93.569		965	18,672	19,637
Community Services Block Grant: Discretionary Awards	93.570				0
Community Services Block Grant Discretionary Awards: Community Food and Nutrition	93.571		117		117
Refugee and Entrant Assistance: Discretionary Grants	93.576		134	857	991
U.S. Repatriation	93.579		1		1
Refugee and Entrant Assistance: Targeted Assistance	93.584		18	516	534
Social Services in Empowerment Zones and Enterprise Communities	93.585			14,165	14,165
Community-Based Family Resource and Support Grants	93.590		208	573	781
Grants to States for Access and Visitation Programs	93.597			305	305
Head Start	93.600		69	224	293
Adoption Incentive Payments	93.603		911	267	1,178
Children's Justice Grants to States	93.643		248		248
Child Welfare Services: State Grants	93.645		8,916		8,916
Adoption Opportunities	93.652		198		198
Foster Care: Title IV-E	93.658		150,689	1,760	152,449
Adoption Assistance	93.659		81,955		81,955
Social Services Block Grant (SSBG)	93.667		82,687	512	83,199
Child Abuse and Neglect State Grants	93.669		488	144	632
Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	93.671		25	2,001	2,026
Chafee Foster Care Independent Living	93.674		2,873	2,034	4,907
Total Direct Programs			\$ 1,122,862	\$ 325,947	\$ 1,448,809
Pass-Through Programs:					
Michigan Department of Community Health Preventive Health and Health Services Block Grant	93.991	VF1/CCV519922-01	\$	\$ 937	\$ 937
Total U.S. Department of Health and Human Services			\$ 1,349,100	\$ 345,300	\$ 1,694,400
<u>Corporation for National and Community Service</u>					
Pass-Through Program:					
Michigan Department of Career Development AmeriCorps	94.006	94ASCM10231401	\$ 339	\$	\$ 339
Total Corporation for National and Community Service			\$ 339	\$ 0	\$ 339
<u>Social Security Administration</u>					
Disability Insurance/SSI Cluster					
Direct Program:					
Social Security - Disability Insurance	96.001		\$ 59,978	\$	\$ 59,978
Total Social Security Administration			\$ 59,978	\$ 0	\$ 59,978
Total Expenditures of Federal Awards			\$ 2,071,146	\$ 369,646	\$ 2,440,792

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

See accompanying notes to the schedule of expenditures of federal awards.

For the Fiscal Year Ended September 30, 2002

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 4,387	\$ 9,424	\$ 13,811	\$ 23,884
	688,841	140,465	829,306	1,595,998
	193,051	62,384	255,435	429,107
	2,429	6,939	9,368	18,463
	87,643	6,955	94,598	211,343
	10,935	12,285	23,220	42,857
	20		20	20
	121		121	238
		937	937	1,928
			0	1
		680	680	1,214
		19,405	19,405	33,570
	134	688	822	1,603
		540	540	845
	57	272	329	622
	1,089	102	1,191	2,369
	304		304	552
	10,266		10,266	19,182
	192		192	390
	144,478	1,482	145,960	298,409
	90,789		90,789	172,744
	86,944	798	87,742	170,941
	568	139	707	1,339
	57	2,005	2,062	4,088
	2,559	2,280	4,839	9,746
	<u>\$ 1,324,864</u>	<u>\$ 267,780</u>	<u>\$ 1,592,644</u>	<u>\$ 3,041,453</u>
VF1/CCV519922-01	<u>\$ 226</u>	<u>\$ 865</u>	<u>\$ 1,091</u>	<u>\$ 2,028</u>
	<u>\$ 1,548,467</u>	<u>\$ 290,478</u>	<u>\$ 1,838,945</u>	<u>\$ 3,533,345</u>
94ASCM10231401	<u>\$ 351</u>	<u>\$</u>	<u>\$ 351</u>	<u>\$ 690</u>
	<u>\$ 351</u>	<u>\$ 0</u>	<u>\$ 351</u>	<u>\$ 690</u>
	<u>\$ 65,608</u>	<u>\$</u>	<u>\$ 65,608</u>	<u>\$ 125,586</u>
	<u>\$ 65,608</u>	<u>\$ 0</u>	<u>\$ 65,608</u>	<u>\$ 125,586</u>
	<u>\$ 2,360,904</u>	<u>\$ 324,618</u>	<u>\$ 2,685,522</u>	<u>\$ 5,126,314</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the Family Independence Agency and is presented on the modified accrual basis of accounting. The information in this SEFA is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 Significant Accounting Policies

The 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 federal expenditures on federal financial reports because of additional accrual amounts recorded after the preparation of the federal financial reports for the fiscal year.

Note 3 Grant Awards

- a. Federal claims exceeded their grant award authorizations in the following program areas and were not reimbursed for the amounts in excess of the grant awards. 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).

The following claims exceeded their grant award authorizations (amounts in thousands):

	Fiscal Year	
	2001-02	2000-01
(1) Promoting Safe and Stable Families (93.556)		\$ 23.5
Low-Income Home Energy Assistance (LIHEAP) (93.568)	\$ 3,353.0	\$ 3,447.0
Child Welfare Services: State Grants (93.645)	\$ 57,620.7	\$ 61,018.9
(2) The amount expended for the Food Stamps Program includes the State's share (General Fund/general purpose) of food stamp overissuance collections that are used to fund the cost of collection efforts. Collections in excess of the cost of collection efforts are used to fund the Executive Operations Appropriation Unit per Section 213, Act 82, P.A. 2001, and Section 213, Act 294, P.A. 2000. Total food stamp overissuance collections are as follows:	\$ 1,425.9	\$ 1,403.9
(3) The Children's Trust Fund (CTF) had total expenditures and transfers to other funds of \$2,606.3 in fiscal year 2001-02 while the total grant was only \$822.0. In fiscal year 2000-01, CTF's total expenditures and transfers to other funds were \$2,600.9 while the total grant was \$781.2:	\$ 1,784.3	\$ 1,819.7

- b. Additional federal expenditures as reported on FIA's quarterly federal reports will be different from the federal expenditures shown on the SEFA because of the following:

	(Amounts in Thousands)	
	Fiscal Year	
	2001-02	2000-01
(1) Federal Revenue (Net) Appropriation No. 99900, established through write-off of prior year decreasing claims per Section 212, Act 82, P.A. 2001, and Section 212, Act 294, P.A. 2000:	\$ 11,292.6	\$ 7,779.0
(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:	\$ 92,796.8	\$150,917.6

- c. FIA moved grant award money from Temporary Assistance for Needy Families (TANF) to the following as allowed by the Welfare Reform Plan:

	(Amounts in Thousands)	
	Fiscal Year	
	2001-02	2000-01
From: Temporary Assistance for Needy Families (93.558)	\$(27,250.5)	\$(33,115.4)
To: Child Care and Development Block Grant (93.575)		\$ 14,678.2
To: Social Services Block Grant (93.667)	\$ 27,250.5	\$ 18,437.2

d. Other adjustments on the SEFA include:

	(Amounts in Thousands)	
	Fiscal Year	
	<u>2001-02</u>	<u>2000-01</u>
1. FIA was not able to claim federal funds for a portion of eligible Foster Care: Title IV-E (93.658) expenditures for fiscal years 2001-02 and 2000-01 as a result of the Title IV-E waiver terms and condition on cost neutrality limits:	\$ (295.7)	\$ (274.6)
2. Federal revenue for prior year federal increasing claims was reclassified to miscellaneous general purpose revenues:	\$ 2,147.1	\$ 6,788.0
3. Indirect civil service federal claims resulted in federal revenue being transferred to the Department of Civil Service:	\$ 2,850.0	\$ 3,244.1
4. FIA did not record expenditures or the related federal revenue for payments made to the Michigan State University Cooperative Extension Contract for the Food Stamps Program. The federal revenue was transferred to Michigan State University:	\$ 5,037.3	\$ 4,319.0

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INDEPENDENT AUDITOR'S REPORTS ON
COMPLIANCE AND INTERNAL CONTROL



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

September 4, 2003, except for Note 3b(3) as to
which the date is November 24, 2003

Marianne Udow, Director
Family Independence Agency
and
Pamela Posthumus, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Udow and Ms. Posthumus:

We have audited the financial schedules and financial statements of the Family Independence Agency as of and for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents, and have issued our report thereon dated September 4, 2003, except for Note 3b(3) as to which the date is November 24, 2003. 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 and financial statements 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 financial 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 statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving 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 internal control over financial reporting that, in our judgment, could adversely affect the Family Independence Agency's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 9.

A material weakness is a reportable 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 financial 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 internal control over financial reporting would not necessarily disclose all matters in 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 identified 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



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
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

September 4, 2003, except for Note 3b(3) as to
which the date is November 24, 2003

Marianne Udow, Director
Family Independence Agency
and
Pamela Posthumus, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Udow 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 two-year period ended September 30, 2002. 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.

Except as discussed in the following paragraph, 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.

We were unable to obtain sufficient documentation supporting the compliance of the Family Independence Agency with the Violence Against Women Formula Grants and Chafee Foster Care Independent Living Programs regarding matching, level of effort, and earmarking requirements nor were we able to satisfy ourselves as to the Family Independence Agency's compliance with those requirements by other auditing procedures.

As described in Findings 10, 12, 13, 15 through 19 and 21 through 23 in the accompanying schedule of findings and questioned costs, the Family Independence Agency did not comply with requirements regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; subrecipient monitoring; and special tests and provisions that are applicable to its Food Stamp Cluster, Juvenile Justice and Delinquency Prevention: Allocation to States, Violence Against Women Formula Grants, Temporary Assistance for Needy Families, Child Support Enforcement, Refugee and Entrant Assistance: State Administered Programs, Low-Income Home Energy Assistance, Child Care Cluster, Foster Care: Title IV-E, Adoption Assistance, and Chafee Foster Care Independent Living 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, because of the effects of the noncompliance described in the previous paragraph, the Family Independence Agency did not comply in all material respects, with the requirements referred to in the fourth previous paragraph that are applicable to the Refugee and Entrant Assistance: State Administered Programs, Foster Care: Title IV-E, and Chafee Foster Care Independent Living Programs. Also, in our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Family Independence Agency's compliance with the requirements of the Violence Against Women Formula Grants Program regarding matching, level of effort, and earmarking requirements and 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 fourth previous paragraph that are applicable to each of its other major federal programs for the two-year period ended September 30, 2002. 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 10, 11, 13 through 20, and 23 through 25.

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

We noted matters involving 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 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. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 10 through 25.

A material weakness is a reportable 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 internal control over compliance would not necessarily disclose all matters in 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 identified in the previous paragraph, we consider Findings 10, 12, 13, 15 through 19, and 21 through 23 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules and Financial 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 or financial 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:

Adverse*

Refugee and Entrant Assistance: State Administered Programs

Foster Care: Title IV-E

Chafee Foster Care Independent Living

Qualified*

Food Stamp Cluster

Juvenile Justice and Delinquency Prevention: Allocation to States

Violence Against Women Formula Grants

Temporary Assistance for Needy Families

Child Support Enforcement

Low-Income Home Energy Assistance

Child Care Cluster

Adoption Assistance

* See glossary at end of report for definition.

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
16.523	Juvenile Accountability Incentive Block Grants
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States
16.588	Violence Against Women Formula Grants
83.543	Individual and Family Grants
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 (LIHEAP)
93.569	Community Services Block Grant (CSBG)
93.575 and 93.596	Child Care Cluster
93.645	Child Welfare Services: State Grants

93.658	Foster Care: Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant (SSBG)
93.674	Chafee Foster Care Independent Living
93.778	Medicaid Cluster

Dollar threshold used to distinguish between type A and type B programs: \$15,378,942

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules and Financial Statements

FINDING 430301

1. Recording of Revenue

The Family Independence Agency's (FIA's) process to record certain revenue adjustments did not ensure that revenue was recorded in accordance with generally accepted accounting principles (GAAP).

As a result, federal revenue was overstated by \$7.3 million and understated by \$41.4 million in fiscal years 2001-02 and 2000-01, respectively. Also, miscellaneous revenue was understated by \$9.6 million and \$20.3 million in fiscal years 2001-02 and 2000-01, respectively. Further, expenditures were understated by \$2.3 million and \$61.7 million in fiscal years 2001-02 and 2000-01, respectively. Our review disclosed:

- a. FIA understated federal revenue and expenditures in fiscal year 2000-01 by \$38.6 million because it did not record penalties resulting from a federal sanction. The U.S. Department of Health and Human Services (HHS) penalized FIA \$38.6 million in fiscal year 2000-01 for failing to have an

* See glossary at end of report for definition.

operational Statewide computerized enforcement system in effect by October 1, 2000 for the Michigan Child Support Enforcement System (MiCSES). HHS collected this penalty through quarterly reductions in the Child Support Enforcement (CSE) federal grant award in fiscal year 2000-01.

GAAP (Section N50.123 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board (GASB)) required the payment of the penalty to be recorded as an expenditure.

- b. FIA overstated federal revenue and understated miscellaneous revenue by \$11.3 million and \$7.8 million in fiscal years 2001-02 and 2000-01, respectively.

During fiscal years 2001-02 and 2000-01, FIA used prior year revenue to provide spending authority in certain federally financed programs. However, rather than adjusting the budgetary authorizations, FIA incorrectly increased federal revenue and reduced miscellaneous revenue.

- c. FIA overstated miscellaneous revenue and understated federal revenue by \$2.1 million and \$6.8 million in fiscal years 2001-02 and 2000-01, respectively. These errors occurred when FIA recognized revenue for additional expenditures from the previous fiscal year. FIA recorded the additional federal revenue as miscellaneous revenue in order to separate the federal revenue related to prior year activity from federal revenue related to current year activity. However, the recording of the federal revenue as miscellaneous revenue results in the misclassification of the federal revenue.
- d. FIA understated miscellaneous revenue and expenditures by \$18.3 million in fiscal year 2000-01.

During fiscal years 1999-2000 and 1998-99, the Wayne County Friend of the Court overpaid FIA for child support recovery. When FIA returned the money to Wayne County in fiscal year 2000-01, FIA recorded a revenue reduction, rather than an expenditure. GAAP requires the refund of prior year revenue to be recorded as an expenditure.

- e. FIA understated federal revenue and expenditures by a net of \$4.7 million and \$3.8 million in fiscal years 2001-02 and 2000-01, respectively, because payments to some subrecipients* were not recorded correctly.

The Department of Management and Budget's (DMB's) Financial Reporting and Accounting Manual (FRAM) (Chapter 16, Section 1) provides how transactions with subrecipients within the General Fund should be recorded. The FRAM provides that payments to subrecipients who are both within the General Fund should be recorded as a revenue reduction by the paying agency and as federal revenue by the receiving agency. This accounting is used to avoid the double reporting of federal revenue within the General Fund. Our review disclosed:

- (1) FIA paid \$5.0 million and \$4.3 million in fiscal years 2001-02 and 2000-01, respectively, for the Food Stamps Program to a State university that was classified as a subrecipient. FIA recorded these payments as a revenue reduction rather than an expenditure. Because the State university is not a part of the State's General Fund, the payment should have been recorded as an expenditure.
 - (2) FIA paid \$0.3 million and \$0.5 million in fiscal years 2001-02 and 2000-01, respectively, for the Violence Against Women Program to two State agencies that were classified as subrecipients. FIA recorded these payments as expenditures. Because these State agencies and FIA were both accounted for within the State's General Fund, FIA should have recorded the payments as federal revenue reductions.
- f. FIA overstated federal revenue and expenditures by \$2.8 million in fiscal year 2001-02 when it recorded the reissuance of checks that were originally issued in the previous fiscal year. Although the checks were properly reissued, the accounting entries incorrectly increased revenue and expenditures. FIA appropriately credited federal programs to prevent federal grants from being billed again for the replaced checks but did not correct the overstatement of federal revenue and expenditures.

* See glossary at end of report for definition.

- g. FIA understated miscellaneous revenue and expenditures by \$0.4 million and \$1.0 million in fiscal years 2001-02 and 2000-01, respectively, in connection with the care of children who were wards of the State or counties and were not Title IV-E eligible.

FIA and counties each pay 50% of the cost for the care of children who are wards of the State or a county but who are not Title IV-E eligible. The counties pay up front for the children who are wards of the county and FIA pays up front for the children who are wards of the State. At the end of each month, FIA settles with each county for the difference between the costs that the State is responsible for and the costs that the county is responsible for. Depending on the number of children that are wards of the State and wards of the county and the cost of the care, FIA owes some counties each month and other counties owe FIA.

FIA computes the amounts owed using a process that is partially automated and partially manual. This process keys on the line items in various reports and sometimes improperly nets amounts with the same account coding. As a result, FIA understated miscellaneous revenue and expenditures by \$0.4 million and \$1.0 million in fiscal years 2001-02 and 2000-01, respectively.

RECOMMENDATION

We recommend that FIA improve its process of recording revenue adjustments to ensure that revenue is recorded in accordance with GAAP.

FINDING 430302

2. Local Accounting System Replacement (LASR)

FIA's LASR controls did not ensure that assets are safeguarded, transactions are properly approved, and improper transactions are prevented and detected.

As a result of the lack of controls over the LASR transactions, FIA did not adequately document and approve 13 (32%) of 41 LASR payments reviewed. This resulted in approximately \$14,000 of questioned costs in Section III of this report.

LASR is an accounting application used by the local units of government and FIA offices to process payments and record accounting transactions. Most notably,

LASR is used to provide emergency assistance payments or support services to individuals. Payments made using LASR are originally paid from county treasurer bank accounts and then recorded in the State's accounting system through various reimbursement processes. FIA recorded \$144.1 million in LASR transactions during the period October 1, 2000 through September 30, 2002.

Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Effective internal control includes documenting business processes and activities, including systems processing information; implementing policies and procedures to ensure that assets are secure and duties of personnel are separated; conducting ongoing and periodic monitoring of activities and controls; and documenting, approving, and reconciling transactions processed. Section 18.1485 of the *Michigan Compiled Laws* (a section of the Management and Budget Act) requires FIA to establish and maintain an internal accounting and administrative control system.

In obtaining an understanding of LASR, we found essential controls that were not placed in operation for LASR:

- a. FIA key personnel did not have a complete understanding of the various reimbursement and reconciliation processes of LASR activity, use of LASR by FIA's State Disbursement Unit for bank reconciliation, LASR data and its reliability, control procedures in practice over segregation of duties when processing LASR payments, and reasons for LASR payments made to FIA employees.
- b. FIA did not ensure that local FIA fiscal offices practiced separation of duties among personnel responsible for LASR payments. We determined that the local FIA fiscal office bookkeepers had the capability to initiate, process, and issue LASR payments without approval by another person.

In our review of LASR transactions recorded for the period October 1, 2000 through April 30, 2003, we noted that 60% of the transactions were created and approved by the same person. In response to our comments regarding this control weakness, FIA responded that the creator and approver fields in LASR were not reliable and some of the FIA local offices used an off-line approval process; however, FIA informed us that it did not monitor the off-line approval process.

We also noted transactions that did not have a creator or approver identified, even though these are required fields. This condition suggests that the LASR automated edit that requires these fields either is not working or has been bypassed.

- c. FIA did not have its accountants of zone offices routinely conduct fiscal reviews at the FIA local offices. FIA informed us that zone accountants conducted fiscal reviews only when there had been an FIA local office management change. FIA relied on its Office of Internal Audit (OIA) to conduct fiscal reviews of the FIA local offices. However, these reviews were conducted on a five-year cycle.

We reviewed two OIA reports of two FIA local offices conducted during our audit period. The reports included reviews of the controls over the FIA local offices' payment processes. The OIA audits reported conditions such as inadequate separation of duties and lack of approvals and inadequate documentation for payments issued. Routine fiscal reviews could help FIA ensure the propriety of payments.

- d. FIA did not monitor the creation of new vendors in LASR. Anyone with access to LASR had the capability to create a new vendor. Because the local FIA fiscal office bookkeepers also had the capability to create, process, and issue payments, the lack of monitoring of the creation of new vendors increases the risk of inappropriate payments.
- e. FIA did not reconcile LASR payments with the State's accounting system to ensure that all LASR payments were recorded in the State's accounting system.

FIA relied on various reimbursement processes to provide assurance that LASR payments were recorded in the State's accounting system. FIA did not conduct a central reconciliation. In response to our request, FIA developed an account coding crosswalk that documented how LASR payments were recorded to the State's accounting system through various reimbursement processes. However, we noted that FIA's account coding was also used for non-LASR payments. As a result, FIA would not have been able to identify only LASR payments to complete periodic reconciliations.

RECOMMENDATION

We recommend that FIA establish additional LASR controls to help ensure that assets are safeguarded, transactions are properly approved, and improper transactions are prevented and detected.

FINDING 430303

3. Cash Management

FIA's internal control did not ensure that federal funds were drawn on a timely basis. We estimated that the State lost approximately \$4.6 million in interest income during our audit period because of the exceptions related to the timeliness of cash draws.

The federal Cash Management Improvement Act of 1990 (CMIA) was enacted to achieve greater efficiency, effectiveness, and equity in the transfer of federal funds. The State has an agreement with the U.S. Department of Treasury to implement CMIA in accordance with Title 31, Part 205 of the *Code of Federal Regulations (CFR)*. To comply with CMIA, the State must annually compare actual and prescribed cash draws and determine if interest is due from or to the U.S. Department of Treasury. Also, Section 18.1395(5) of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1210.6 require State departments to obtain federal funds as soon as they become available and before issuing State warrants financed with federal funds.

FIA methods of determining the amount of its cash draws frequently resulted in a large negative cash position for its federal programs. A negative cash position occurs when the federal portion of program expenditures exceeds federal reimbursements. FIA's cash position schedules for our audit period indicated an average negative cash position of \$162.0 million at the end of each quarter. Much of this was from six larger federal programs covered under the CMIA agreement, including Temporary Assistance for Needy Families (TANF), Child Support Enforcement (CSE), Child Care Cluster, Foster Care: Title IV-E, Adoption Assistance, and Social Services Block Grant (SSBG). These grants had an average negative cash position of \$94.1 million, with a high of negative \$200.6

million, at the end of each quarter in our audit period as shown in the following table (in millions):

Quarterly Cash Position of Six Large Federal Programs

Quarter Ended	TANF	CSE	Child Care Cluster	Foster Title IV-E	Adoption Assistance	SSBG	Total
December 2000	\$ (6.3)	\$ 19.3	\$ 1.6	\$ (21.0)	\$ (8.5)	\$ (5.1)	\$ (20.0)
March 2001	\$ (0.5)	\$ (3.0)	\$ (35.0)	\$ (8.7)	\$ (0.7)	\$ (3.5)	\$ (51.4)
June 2001	\$ (35.7)	\$ (9.9)	\$ (5.6)	\$ (0.9)	\$ (2.3)	\$ (5.0)	\$ (59.4)
September 2001	\$ (127.8)	\$ (44.6)	\$ (8.7)	\$ (18.2)	\$ (1.3)		\$ (200.6)
December 2001	\$ (10.4)	\$ (8.6)	\$ 9.0	\$ (8.1)	\$ (3.7)	\$ (2.6)	\$ (24.4)
March 2002	\$ (109.3)	\$ (24.5)	\$ (4.6)	\$ (18.1)	\$ (5.4)	\$ (6.9)	\$ (168.8)
June 2002	\$ (20.5)	\$ (33.6)	\$ (6.9)	\$ (6.6)	\$ (0.5)	\$ (14.9)	\$ (83.0)
September 2002	\$ (60.0)	\$ (17.2)	\$ (50.4)	\$ (16.5)	\$ (1.4)		\$ (145.5)

Some of these amounts could not actually be drawn because of requirements of the CMIA agreements or other required adjustments, but the final quarterly settlements that considered the amounts that could not be drawn at the end of the quarter averaged a claim of \$76.9 million. It takes several weeks after the end of the quarter before FIA is able to draw these negative cash balances as part of this quarterly settlement process. Items that could have been drawn earlier included transfers between federal programs and amounts spent by other State departments. As a result, we estimate that the State lost interest income of approximately \$3.5 million, in addition to the amounts indicated as lost in items a. through d.

Our review of FIA's compliance with CMIA disclosed:

- a. FIA did not draw federal funds for the Rehabilitation Services Program in accordance with the CMIA agreement.

FIA drew federal funds every 90 days rather than the allowed 14 days and did not report the late draws to the Michigan Department of Treasury. As a result, the State lost interest income of approximately \$38,000 for fiscal year 2001-02 based on the State's Common Cash pool rate of return.

- b. FIA did not draw federal funds in accordance with the CMIA agreement for administrative costs. We noted:
- (1) FIA did not adjust 16 draws for the CSE Program. This resulted in delays in the draws of federal funds for fiscal year 2001-02 of \$86.0 million and lost interest income of approximately \$360,000.
 - (2) FIA did not adjust 11 draws for the new quarterly award amounts for the Foster Care Program. This resulted in delays in the draws of federal funds for fiscal years 2001-02 and 2000-01 of \$4.2 million and \$1.9 million, respectively. This also resulted in lost interest income of approximately \$42,000.
 - (3) FIA did not adjust 10 draws for new quarterly award amounts for the Food Stamps Program. This resulted in delays in the draws of federal funds for fiscal years 2001-02 and 2000-01 of \$166,000 and \$1.3 million, respectively. This also resulted in lost interest income of approximately \$15,000.
- c. FIA did not obtain reimbursement for lost interest incurred from providing funds to operate a federal program pending receipt of a federal grant award. FIA should have submitted a claim to the Michigan Department of Treasury for a CSE grant of \$11.6 million that had not yet been received. As a result, the State did not obtain interest reimbursement of approximately \$32,000.
- d. FIA did not draw for the federal portion of advances made to FIA subrecipients as allowed by the federal Common Rule. The Common Rule allows for the reimbursement of grants or subrecipient advances if the grantee (FIA) has procedures to minimize the time elapsing between drawing the funds and the disbursement of the funds by the grantee or subrecipient. Also, FIA is required by DMB Administrative Guide procedure 1210.6 to ensure that federal funds are on deposit in the appropriate account when initiating requests for issuance of State Treasurer's warrants for program payments.

FIA limited reimbursement requests to after the end of the month of payment by the subrecipients and reimbursed those requests by the end of the subsequent month. FIA also reduced the amount of the cash advances each month by deducting a portion of the advance from the monthly

reimbursements. As a result, subrecipients averaged cash balances of approximately zero during the first part of the year but had negative cash balances toward the end of the year because of the gradual reduction in the amount of the cash advances by FIA. Based on FIA's procedures, we conclude that FIA does have procedures to minimize the time elapsed between drawing the funds and the disbursement of the funds by the subrecipient.

FIA informed us that, until the beginning of our audit period, it used to draw the federal portion of the advances. However, FIA was told by one of its federal programs that the program did not want to fund cash advances. Based on the amount of federal revenue collected by FIA, we estimated that \$16.9 million of the \$25.3 million of cash advances that FIA made to its subrecipients in fiscal year 2001-02 should have been made from federal funds rather than State funds. As a result, we estimate that the State lost interest income of approximately \$618,000.

RECOMMENDATION

We recommend that FIA improve its internal control to ensure that federal funds are drawn on a timely basis.

FINDING 430304

4. Payroll Expenditures

FIA did not comply with established controls over payroll expenditures.

FIA's compliance would reduce the risk that sensitive information could be obtained and used inappropriately and that improper payroll expenditures could occur. FIA's payroll expenditures were approximately \$775.9 million and \$792.7 million for fiscal years 2001-02 and 2000-01, respectively.

Section 18.1485 of the *Michigan Compiled Laws* (a section of the Management and Budget Act) requires that FIA establish and maintain an internal accounting and administrative control system, including a system of authorization and recordkeeping procedures to control expenditures and a plan of organization that provides separation of duties among employees. The Michigan Administrative

Information Network (MAIN) Data Collection and Distribution System* (DCDS) Procedures Manual and FIA's Administrative Handbook procedures prescribe procedures to control payroll expenditures.

Our review of FIA's payroll operations disclosed:

- a. FIA did not maintain biweekly time sheets in accordance with Administrative Handbook procedures 632 and 633. FIA could not locate time sheets and other payroll documents for 2 (5%) of 41 employees sampled because the office was closed where the employees worked. These 2 sampled expenditures totaled \$825.
- b. FIA did not ensure that authorized personnel certified biweekly time and attendance records. MAIN DCDS Procedures Manual section 9.2 requires that only personnel with appropriate security perform the functions of auditing and certifying payroll information in DCDS. FIA did not have authorizing forms on file for 9 (19%) of 48 timekeepers or certifiers included in our sample because they do not always perform the auditing and certifying functions in DCDS. This condition was reported in six prior audits. FIA stated that it had initiated corrective action in October 2001.
- c. FIA did not ensure that biweekly time and attendance records were approved in accordance with its internal control criteria. FIA required timekeepers and certifiers to sign a biweekly time and attendance summary attesting to the accuracy of the payroll information in DCDS. FIA did not obtain approval from the timekeeper or certifier on 2 (5%) of 39 biweekly time and attendance summaries included in our sample.
- d. FIA did not ensure the separation of duties among payroll personnel. Administrative Handbook procedure 633-3 requires that timekeepers and certifiers not approve time and attendance summaries on which their own time and attendance is reported. Our review of 37 time and attendance summaries disclosed that timekeepers had approved 18 summaries on which their own time and attendance was reported. As a compensating control, procedure 633-3 requires that in such instances the certifier initial the particular line of the summary where the timekeeper's information was reported. However, the

* See glossary at end of report for definition.

certifier did not initial the timekeeper's information in 6 (33%) of the 18 summaries.

- e. FIA did not perform its post-certification reconciliation process in accordance with its internal control criteria. FIA required an employee, other than a timekeeper or certifier, to reconcile biweekly time and attendance summaries to the related biweekly time sheets. Our review of 12 timekeeping units for one pay period disclosed that 9 (75%) had no evidence of reconciliations or had performed the reconciliation incorrectly.

RECOMMENDATION

We recommend that FIA comply with established controls over payroll expenditures.

FINDING 430305

5. Schedule of Expenditures of Federal Awards (SEFA)

FIA's SEFA preparation process did not ensure the complete and accurate presentation of its SEFA in accordance with OMB Circular A-133 and State financial management policies.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires each recipient of federal awards to prepare a SEFA for the period covered by the recipient's financial schedules and to include the SEFA in the recipient's Single Audit* report. The SEFA reports the total expenditures of federal awards for each of the recipient's federal programs by federal grantor agency and program number.

Our verification of FIA's SEFA preparation process disclosed:

- a. FIA did not prepare the SEFA on an accounting basis that is in accordance with State financial management policies.

DMB's FRAM (Chapter 24, Section 1) states that the amounts reported as expenditures of federal awards should be presented on a basis consistent with

* See glossary at end of report for definition.

the accounting policies of the State of Michigan, which is the modified accrual basis of accounting.

FIA originally reported expenditures of federal awards for the Child Support Enforcement (CSE) Program on the cash basis of accounting instead of the modified accrual basis because the General Ledger Section thought the SEFA was required to match federal financial reports. CSE's federal financial reports are required to be reported on the cash basis of accounting. As a result, FIA overstated CSE expenditures of federal awards by \$6.0 million and \$18.9 million on its SEFA for fiscal years 2001-02 and 2000-01, respectively.

Upon our notification of the misstatements, FIA made the necessary adjustments of the amount of CSE expenditures of federal awards to provide for an accurate SEFA presentation for this report.

- b. FIA did not reconcile internal information used to determine the amounts "Distributed to Subrecipients" to amounts recorded in MAIN. As a result, FIA originally overstated amounts "Distributed to Subrecipients" totaling \$24.0 million and understated amounts "Distributed to Subrecipients" totaling \$26.9 million in fiscal years 2001-02 and 2000-01, respectively.

OMB Circular A-133 (Section 310) dictates the required contents of the SEFA. To ensure compliance with the Circular, DMB's FRAM (Chapter 24, Section 1) requires that the SEFA must be reconcilable to the information contained in FIA's financial schedules and requires FIA to identify in its accounts all federal awards received and expended and the federal programs under which they were received. This includes amounts directly expended by FIA and amounts that FIA distributes to its subrecipients.

FIA's financial schedules were prepared from financial activity recorded in MAIN. However, FIA used a contract management database to identify payments to subrecipients.

We compared the contract management database subrecipient listing to payments recorded to the subrecipients in MAIN. The misstatements, as

identified in the following table, occurred because the subrecipient payment report did not properly report payments in the correct fiscal year:

Misstatements in Subrecipient Payments			
<i>CFDA</i> Number	Name of Federal Program	Fiscal Year 2001-02 Misstatement	Fiscal Year 2000-01 Misstatement
10.551 and 10.561	Food Stamp Cluster	\$ 5,037,256	\$ 4,319,012
16.523	Juvenile Accountability Incentive Block Grants	719,793	(768,029)
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	383,739	(84,075)
16.588	Violence Against Women Formula Grants	24,420	9,205
93.556	Promoting Safe and Stable Families	3,375,479	(198,474)
93.558	Temporary Assistance for Needy Families (TANF)	(4,702,078)	(15,880,625)
93.563	Child Support Enforcement (CSE)	11,820,913	(7,121,649)
93.566	Refugee and Entrant Assistance: State Administered Programs	(3,606,418)	(3,307,681)
93.568	Low-Income Home Energy Assistance (LIHEAP)	756,263	(3,686,967)
93.569	Community Services Block Grant (CSBG)	9,922,222	(291,441)
93.575 and 93.596	Child Care Cluster	(220,515)	(10,139)
93.658	Foster Care: Title IV-E	161,734	(220,380)
93.667	Social Services Block Grant (SSBG)	268,403	307,714
93.674	Chafee Foster Care Independent Living	21,314	16,244
	Total	<u>\$ 23,962,525</u>	<u>\$ (26,917,285)</u>

Upon our notification of the misstatements, FIA made the necessary adjustments to the SEFA.

- c. FIA incorrectly identified a Food Stamp Cluster vendor as a subrecipient. As a result, FIA originally misstated \$5.0 million and \$4.3 million of Food Stamp Cluster expenditures of federal awards as "Distributed to Subrecipients" rather than as "Directly Expended" in fiscal years 2001-02 and 2000-01, respectively.

OMB Circular A-133 (Section 210) provides FIA guidance for determining whether payments made to entities constitute expenditures of a federal award by a subrecipient or payments for goods and services to a vendor. FIA's subrecipient/vendor determination depends primarily on the classification made by the FIA program office that administers the applicable federal program. FIA's Bureau of Accounting relies on the subrecipient/vendor determinations made in the program offices to determine the appropriate presentation of expenditures of federal awards on the SEFA.

The FIA Food Stamps Program personnel determined that the services provided by the Michigan State University Cooperative Extension Office were characteristic of those provided by a subrecipient. However, the FIA Office of Internal Audit (OIA) informed us that it determined that the services provided by the Cooperative Extension Office were characteristic of a vendor. We concurred with OIA's determination.

Upon our notification of the misstatements, FIA made the necessary adjustments to provide for an accurate SEFA presentation for this report.

- d. FIA did not correctly identify and engage in contracts for services with Refugee and Entrant Assistance: State Administered Programs (REAP) subrecipients.

As a result, FIA originally misstated \$3.7 million and \$2.7 million of REAP expenditures of federal awards as "Directly Expended" rather than as "Distributed to Subrecipients" in fiscal years 2001-02 and 2000-01, respectively.

FIA's Contracts Manual (item 100) requires a contract for the procurement of any service for \$10,000 or more within a 12-month period. Also, FIA's Office of Contracts and Rate Setting tracks the subrecipient/vendor status on its contract management database. FIA's Bureau of Accounting relies on the contract management database to gather information to report amounts "Distributed to Subrecipients" on its SEFA.

We determined that FIA had not entered into contracts with two REAP non-profit organizations providing refugee employment services and services to refugee unaccompanied minors. We determined that these organizations were subrecipients.

The absence of a contract hinders FIA's ability to properly track the entity as a subrecipient and accurately present the amounts distributed to the subrecipient on its SEFA. Upon our notification of the misstatements, FIA made the necessary adjustments to provide for an accurate SEFA presentation for this report.

We reported similar weaknesses in FIA's internal control over its SEFA preparation and reporting in our prior audit. Although FIA made some improvement in its SEFA

reporting this audit, it still needs to implement effective SEFA preparation procedures to help ensure the completeness and accuracy of its annual SEFA provided to DMB, the House and Senate Fiscal Agencies, and the Office of the Auditor General. In addition, effective preparation procedures would help to reduce the audit hours necessary, and related audit costs, for our verification of FIA's SEFA.

RECOMMENDATION

We recommend that FIA improve its SEFA preparation process to ensure the complete and accurate presentation of its SEFA in accordance with OMB Circular A-133 and State financial management policies.

FINDING 430306

6. Child Support Accrual

FIA did not maintain subsidiary accounting records to support its new methodology to estimate the fiscal year 2001-02 child support accrual. As a result, FIA could not support the calculation of the \$66.5 million child support accrual recorded as of September 30, 2002.

DMB Administrative Guide procedure 1210.27 requires that FIA maintain complete documentation of revenue estimating methods and application to ensure consistent treatment in future periods and for audit purposes.

FIA used the Child Support Enforcement System (CSES) to calculate the child support accrual. Because CSES includes confidential tax information, FIA could not allow us access to the information. Also, FIA may have understated the accrual because a substantial amount of information on CSES used to calculate the accrual was not complete for several large counties that were recently converted to CSES. FIA added an estimated \$22.2 million to its accrual calculation because Wayne County information was not on CSES. However, FIA did not maintain supporting documentation related to the methodology used to establish this estimate for Wayne County.

If FIA had used the methodology that was used in previous fiscal years to calculate the child support accrual, the accrual would have been increased by approximately \$12.7 million.

Child support collections include federal tax refunds for individuals who are delinquent with their child support payments. Federal tax information is subject to strict confidentiality requirements and, unless authorized by statute, FIA is not allowed to disclose this information to its contractors and agents. Internal Revenue Service (IRS) Publication 1075 provides detailed guidance on maintaining federal tax information in a manner that allows for the release of information only to those individuals within the Child Support Enforcement (CSE) Program who need access.

FIA was unable to provide us access to the federal income tax offset amounts used to calculate the accrual as a result of the IRS strict confidentiality requirements over the data used to calculate the accrual. In order to provide us access, FIA should have either obtained a waiver from the IRS to allow us access to the information or deleted the confidential portion of the information. Consequently, we could not effectively audit the new child support accrual methodology.

RECOMMENDATION

We recommend that FIA maintain subsidiary accounting records to support its methodology for the child support accrual.

FINDING 430307

7. Expenditure Documentation

FIA did not maintain a record of the location of the supporting documentation for many of its expenditures. Consequently, FIA sometimes could not locate supporting documentation for its expenditures.

FIA initiates payments at many of its local offices located throughout the State. FIA generally maintains documentation to support these payments at its local offices. However, FIA's Bureau of Accounting did not maintain an inventory of the documents that were stored at its various local offices. As a result, FIA could not locate supporting documentation for recorded expenditures we selected for testing or it took FIA several weeks or more to locate documentation. Without an inventory of documents, FIA cannot be sure where to look for needed documentation.

FIA is required by Section 18.1485 of the *Michigan Compiled Laws* (a section of the Management and Budget Act) to maintain an internal accounting and administrative control system that includes a system of authorization and

recordkeeping procedures to control expenditures. FIA expended approximately \$7.5 billion during our audit period so it is important for FIA to maintain records to support the propriety of these expenditures.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires costs to be adequately documented to be allowable costs for federal reimbursement. FIA obtains federal reimbursement for approximately 65% of its total expenditures. As a result, it is important for FIA to be able to document that these expenditures were allowable costs for federal reimbursement.

RECOMMENDATION

We recommend that FIA maintain a record of the location of the supporting documentation for its expenditures.

FINDING 430308

8. Cash Receipting at Central Office

FIA's internal control over the central office cash receipting process did not ensure separation of duties and secure storage of cash receipts. The central office deposited approximately \$135.8 million and \$120.1 million of cash receipts in fiscal years 2001-02 and 2000-01, respectively.

Our review disclosed:

- a. FIA did not ensure that more than one employee opened the mail and logged cash receipts. The process of opening the mail included two employees each taking a stack of mail and opening it separately instead of working together with one employee opening the mail and the other logging the mail. In addition, the mail openers did not initial the cash log.

DMB Administrative Guide procedure 1270.02 requires that cash items received by mail be recorded on a cash log prepared by mail openers. The log must contain the date received, type of cash item received, amount received, initials of mail openers (minimum two), and initials of cashier acknowledging verifications of count and transfers from the mail openers.

FIA's Accounting and Travel Administrative Handbook procedure 904 provides that the first mail opener actually opens each envelope, removes cash or checks, and restrictively endorses the items and the second designated employee enters each receipt on the cash log (FIA-1114).

A complete log of all cash items received through the mail that is initialed by two mail openers establishes accountability for cash receipts at the time of receipt and reduces the risk that errors and irregularities could occur and be concealed by any one person or not be detected in a timely manner.

- b. Cash receipts were not stored in a secure location. The cashier's unit was located within a room that had a half door that was locked at all times. Receipts from nonmail sources were placed in a basket attached to the inside of the half door and cash receipts waiting for deposit were placed in a locked bank bag on a counter in the cashier's unit.

DMB Administrative Guide procedure 1270.02 provides that cash receipts retained on-site until deposit must be stored in a secure location (e.g., a safe or locked file cabinet). Not maintaining cash receipts in a secure location increases the risk of loss and misuse.

RECOMMENDATION

We recommend that FIA improve its internal control over the central office cash receipting process.

FINDING 430309

9. Encumbrances

FIA's internal control did not ensure that encumbrances were recorded in accordance with generally accepted accounting principles (GAAP).

FIA originally established encumbrances of approximately \$5.8 million and \$5.6 million as of September 30, 2002 and September 30, 2001, respectively. We reviewed 12 encumbrances totaling \$2.6 million and 2 encumbrances totaling \$3.2

million as of September 30, 2002 and September 30, 2001, respectively. Our review disclosed the following errors:

- a. As of September 30, 2002, FIA recorded encumbrances for \$0.1 million for unpaid contracted services that were performed before September 30, 2002. In addition, as of September 30, 2001, FIA recorded an encumbrance of \$1.4 million that was for services performed before September 30, 2001. GAAP provides that unpaid services performed before the end of the fiscal year must be recorded as an account payable and an expenditure, rather than as an encumbrance.
- b. As of September 30, 2002, FIA recorded \$1.5 million of encumbrances in excess of the amount committed.

As a result of these errors, FIA understated accounts payable and expenditures by \$0.1 million and overstated encumbrances by \$1.6 million as of September 30, 2002. Based on the results of another audit, FIA corrected the error for \$1.4 million as of September 30, 2001.

RECOMMENDATION

We recommend that FIA improve its internal control to ensure that encumbrances are recorded in accordance with GAAP.

The status of the findings related to the financial schedules and financial 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

FINDING 430310

10. Food Stamp Cluster, CFDA 10.551 and 10.561

U.S. Department of Agriculture	CFDA 10.551 and 10.561: Food Stamp Cluster
Award Number: LOC42646 98 LOC42646 99 LOC42646 00 LOC22646 01 8MI400067 2MI400100 2MI420122 EBT-00 EBT-01 EBT-02	Award Period: 10/01/1997 - 09/30/1998 10/01/1998 - 09/30/1999 10/01/1999 - 09/30/2000 10/01/2000 - 09/30/2001 09/27/2001 - 09/30/2003 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/1999 - 09/30/2000 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002
	Questioned Costs: None

FIA's internal control over the Food Stamp Cluster did not ensure its compliance with federal laws and regulations regarding eligibility and special tests and provisions. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding eligibility.

Federal regulation 7 *CFR* 275.23(e) establishes a state's liability to the federal government for exceeding the federal tolerable payment error rate. Accordingly, the U.S. Department of Agriculture sanctioned FIA \$24.7 million and \$13.9 million for fiscal years 2001-02 and 2000-01, respectively. Also, FIA's internal control did not ensure that food stamp coupons were not misappropriated.

Federal expenditures for the Food Stamps Program were approximately \$1,139.9 million for the two-year period ended September 30, 2002. Federal expenditures for the State Administrative Matching Grants for the Food Stamp Program were approximately \$184.3 million for the two-year period ended September 30, 2002.

Our exceptions, by compliance area, are as follows:

a. Eligibility

FIA's Office of Quality Control and Special Projects determined that the error rate for distributions of federal Food Stamp Cluster benefits exceeded the federal tolerable payment error rate for both fiscal years 2001-02 and 2000-01. FIA's total payment error rates of 14.1% and 13.93% in fiscal years 2001-02 and 2000-01, respectively, exceeded the respective federal tolerable payment error rates of 8.26% and 8.66%. Errors occur when FIA distributes more or less Food Stamp Cluster benefits than the client was eligible to receive. As a result, FIA has been assessed \$38.4 million of actual and estimated sanctions.

We reported this condition in the prior audit. FIA informed us that it continues to implement new strategies to increase Food Stamp Cluster payment accuracy.

b. Special Tests and Provisions

- (1) FIA did not periodically match Client Information System (CIMS) recipient records with Department of Community Health (DCH) death records to prevent the issuance of benefits to deceased persons.

We identified 129 CIMS recipient records that matched DCH death records. From May through June 2003, FIA issued food stamp benefits totaling \$3,597 to 7 of 24 deceased persons reviewed. We referred the other 105 records to FIA's Office of Inspector General for further review.

We reported this same condition in the prior audit. FIA has negotiated an agreement with DCH to periodically match its CIMS recipient records to DCH death records. However, FIA indicated that there was no systems or program staff assigned to the project and, therefore, FIA had not implemented the periodic match.

- (2) FIA did not ensure the security over food stamp coupons as required by federal regulation 7 *CFR* 274.

In fiscal year 2000-01, FIA phased out the use of food stamp coupons so it transferred or destroyed approximately \$40.8 million of food stamp coupons.

Our review of FIA's procedures for transferring or destroying food stamp coupons disclosed:

- (a) FIA did not obtain signatures of the authorized persons at the transferring and receiving sites for approximately \$36.6 million of food stamp coupons transferred to other local offices or states. In addition, FIA did not document that the individuals who transported the coupons acknowledged in writing their receipt of the coupons.
- (b) FIA did not follow established procedures that required two individuals to witness and certify the destruction of food stamp coupons. Our review of approximately \$4.2 million of food stamp coupons destroyed disclosed that only one individual witnessed and certified the destruction of the food stamp coupons at 51 (69%) of 74 sites.

RECOMMENDATIONS

We recommend that FIA improve its internal control over the Food Stamp Cluster to ensure its compliance with federal laws and regulations regarding eligibility and special tests and provisions.

WE AGAIN RECOMMEND THAT FIA COMPLY WITH FEDERAL GUIDELINES FOR THE FOOD STAMP CLUSTER.

WE ALSO AGAIN RECOMMEND THAT FIA PERIODICALLY MATCH CIMS RECIPIENT RECORDS WITH DCH DEATH RECORDS TO PREVENT THE ISSUANCE OF BENEFITS TO DECEASED PERSONS.

FINDING 430311

11. Juvenile Accountability Incentive Block Grants (JAIBG), *CFDA* 16.523

U.S. Department of Justice	<i>CFDA</i> 16.523: Juvenile Accountability Incentive Block Grants
Award Number: 98-JB-VX-0026 99-JB-VX-0026 00-JB-VX-0026 01-JB-BX-0026	Award Period: 07/01/1998 - 03/31/2001 04/01/2000 - 03/31/2002 11/03/2000 - 11/02/2003 12/03/2001 - 12/02/2004
	Questioned Costs: \$8,738

FIA's internal control over the JAIBG Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and reporting.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of JAIBG awards.

JAIBG Program federal expenditures totaled approximately \$18.2 million for the two-year period ended September 30, 2002.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

FIA needs to improve its internal control to ensure that JAIBG Program expenditures are allowable costs. OMB Circular A-87 requires that costs charged to a federal award be adequately supported and properly authorized. We tested 76 JAIBG Program expenditures totaling \$7,322,393. As a result, of our tests we questioned costs in the amount of \$8,738:

- (1) FIA did not maintain supporting documentation for 2 (3%) of the 76 expenditures.
- (2) FIA did not properly approve 7 (9%) of the 76 expenditures tested.
- (3) FIA did not maintain a semiannual certification for one payroll expenditure.

- (4) FIA incorrectly coded 4 JAIBG Program payroll transactions to the Juvenile Justice and Delinquency Prevention: Allocation to States (JJDP) Program. FIA did not correct the SEFA and federal reimbursement requests.

FIA also incorrectly coded 13 JAIBG Program expenditures totaling \$559,678 to the JJDP Program. FIA later discovered the error and properly reported costs on the SEFA and in federal reimbursement requests but did not correct the error in the State's accounting records.

b. Reporting

FIA's internal control did not ensure that the JAIBG Program submitted performance reports in compliance with the applicable federal laws and regulations.

Our review of 9 quarterly, semiannual, and final performance reports disclosed that FIA did not submit 8 (89%) reports on a timely basis, ranging from 3 months to 15 months after they were due. Also, FIA had not submitted any performance reports for the reporting period January 1, 2002 through September 30, 2002 as of May 2003. Federal regulation 28 *CFR* 66.40 requires that quarterly and semiannual reports are due 30 days after the reporting period and final reports are due 90 days after the expiration or termination of grant support.

RECOMMENDATION

We recommend that FIA improve its internal control over the JAIBG Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and reporting.

FINDING 430312

12. Juvenile Justice and Delinquency Prevention: Allocation to States (JJDP), CFDA 16.540

U.S. Department of Justice	CFDA 16.540: Juvenile Justice and Delinquency Prevention: Allocation to States
Award Number: 98-JF-FX-0026 99-JF-FX-0026 00-JF-FX-0026 01-JF-FX-0026 02-JF-FX-0026	Award Period: 10/01/1997 - 09/30/2000 10/01/1998 - 09/30/2001 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004
	Questioned Costs: \$54,592

FIA's internal control over the JJDP Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of JJDP awards.

JJDP federal expenditures totaled approximately \$5.7 million for the two-year period ended September 30, 2002.

Our exceptions, by compliance area, are as follows:

Allowable Costs/Cost Principles

FIA needs to improve its internal control to ensure that JJDP Program expenditures are allowable costs. OMB Circular A-87 requires that costs charged to a federal award be adequately supported, properly allocable and authorized, and necessary and reasonable. We reviewed 62 expenditures totaling \$1,055,103 and noted that 21 (34%) expenditures did not comply with OMB Circular A-87 requirements. As a result, we questioned costs in the amount of \$54,592:

- (1) FIA did not maintain supporting documentation for 14 (25%) of 56 JJDP Program nonpayroll expenditures.
- (2) FIA did not properly approve 1 (2%) of 56 JJDP Program nonpayroll expenditures.

- (3) FIA did not maintain a semiannual certification for 9 (90%) of 10 employees whose payroll costs were charged 100% to the JJDP Program. Also, payroll costs for 4 of these employees were charged to the JJDP Program, although the employees worked 100% on the JAIBG Program. Further, FIA did not maintain personnel activity reports or equivalent documentation for 2 (100%) of 2 employees who were charged 50% to the JJDP Program.

- (4) FIA incorrectly coded 134 Title V: Delinquency Prevention Program expenditures totaling \$935,493 to the JJDP Program. FIA also incorrectly coded 13 JAIBG Program expenditures totaling \$559,678 to the JJDP Program. FIA later discovered these errors and properly reported the costs on the SEFA and in federal reimbursement requests but did not correct the errors in the State's accounting records.

RECOMMENDATION

We recommend that FIA improve its internal control over the JJDP Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles.

FINDING 430313

13. Violence Against Women Formula Grants (VAW), CFDA 16.588

U.S. Department of Justice	CFDA 16.588: Violence Against Women Formula Grants
Award Number: 99-WF-VX-0026 00-WF-VX-0018 01-WF-BX-0041	Award Period: 03/01/1999 - 09/30/2001 08/01/2000 - 07/31/2002 06/01/2001 - 05/31/2003
	Questioned Costs: \$122,877

FIA's internal control over the VAW Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; reporting; and subrecipient monitoring. Our review disclosed material weaknesses in internal control over allowable costs/cost principles and matching, level of effort, and earmarking and material noncompliance with laws and regulations with allowable costs/cost principles. FIA

could not provide sufficient documentation supporting its compliance with matching, level of effort, and earmarking requirements.

Internal control that does not ensure compliance with federal laws and regulations and ensure sufficient documentation could result in sanctions, disallowances, and/or future reductions of VAW awards.

VAW Program federal expenditures totaled approximately \$9.0 million for the two-year period ended September 30, 2002.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

FIA needs to improve its internal control to ensure that VAW Program expenditures are allowable costs. OMB Circular A-87 requires that costs charged to a federal award be adequately supported. We reviewed 62 expenditures totaling \$612,944 and noted that 5 (8%) expenditures did not comply with OMB Circular A-87 requirements. As a result, we questioned costs in the amount of \$122,877:

- (1) FIA overpaid one invoice and duplicated a payment on another invoice. Both payments were made to another State agency. Although FIA identified the overpayments, it did not obtain a refund of the overpayments to return to the federal government. FIA instructed the State agency to lapse the funds to the State General Fund.
- (2) For 2 of 6 payroll expenditures, FIA did not maintain documentation to support the time distribution of employees who worked on multiple activities.
- (3) For 1 of 6 payroll expenditures that was for an employee charged 100% to the VAW Program, FIA did not maintain the required semiannual certification that the employee worked solely on the VAW Program.

b. Matching, Level of Effort, and Earmarking

FIA did not record collected information so that it could document that subrecipients provided the required match and earmarked a minimum of 25% of each year's grant award to prosecution, law enforcement, and victim

services by the end of the grant (see item d.). As a result, we could not determine if FIA complied with the matching, level of effort, and earmarking compliance requirements.

c. Reporting

FIA did not submit accurate financial reports in compliance with federal laws and grant award requirements.

We reviewed 2 quarterly financial reports. On 1 of the reports, FIA incorrectly reported the State match as \$29,755 rather than \$63,944. On the other report, FIA incorrectly reported the State match as \$202,893 rather than \$40,734.

d. Subrecipient Monitoring

FIA did not monitor subrecipients in accordance with OMB Circular A-133. As discussed in item b, FIA collected information from its subrecipients as part of a quarterly billing process on match provided during the quarter. However, FIA did not record this information so that it could monitor matching and earmarking requirements throughout each grant.

RECOMMENDATION

We recommend that FIA improve its internal control over the VAW Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; reporting; and subrecipient monitoring.

FINDING 430314

14. Rehabilitation Services: Vocational Rehabilitation Grants to States (Rehabilitation Services Program), CFDA 84.126

U.S. Department of Education	CFDA 84.126: Rehabilitation Services: Vocational Rehabilitation Grants to States
Award Number: H-126A-01-0031 H-126A-01-0031 H-126A-02-0031	Award Period: 10/01/1999 - 09/30/2001 10/01/2000 - 09/30/2002 10/01/2001 - 09/30/2003
	Questioned Costs: (\$11,120)

FIA's internal control over the Rehabilitation Services Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, reporting, and special tests and provisions.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Rehabilitation Services Program awards.

Rehabilitation Services Program federal expenditures totaled approximately \$21.3 million for the two-year period ended September 30, 2002.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

FIA did not ensure that Rehabilitation Services Program expenditures met the allowable cost principles of OMB Circular A-87. OMB Circular A-87 requires that costs charged to federal awards be consistent, properly approve and adequately supported. We identified questioned costs of \$1,766. We also identified negative questioned costs (additional amounts that could have been claimed for federal reimbursement) in the amount of \$12,886.

We tested 67 Rehabilitation Services Program expenditures, including 17 payroll expenditures and 19 client rehabilitation services expenditures. Our audit tests disclosed:

- (1) FIA did not maintain documentation to support the propriety of 3 (16%) of the 19 client rehabilitation services expenditures.
- (2) FIA did not maintain documentation that it developed an individualized plan for employment (IPE) for 1 (5%) of the 19 and conducted an annual IPE review for 3 (16%) of 19 client rehabilitation services expenditures. This is the result of noncompliance with federal laws and regulations over special tests and provisions.
- (3) FIA did not approve the services for payment for 1 (5%) of the 19 client rehabilitation services expenditures.

- (4) FIA did not obtain the appropriate supervisor approval of the Rehabilitation Services Program employee's time sheet for 1 (6%) of the 17 payroll expenditures tested.
- (5) FIA did not ensure that rental costs allowed under the Rehabilitation Services Program were charged to the federal award. FIA did not include rent attributable to the Michigan Works! service centers. As a result, FIA could have claimed additional federal reimbursement for the field office rental costs of \$12,886.

b. Eligibility

FIA did not document the eligibility of 2 (33%) of 6 clients for vocational rehabilitation services within the required time frame per federal regulation 34 *CFR* 361.41(b) because the clients' applications for vocational rehabilitation services were not dated.

c. Reporting

FIA did not ensure that federal reports were complete, accurate, and adequately supported in compliance with federal Rehabilitation Services Administration policy directive RSA-PD-00-09. We noted:

- (1) FIA made adjustments to report information based on the knowledge and expectations of the Rehabilitation Services Program personnel but did not maintain supporting documentation of the adjustments or the method used to determine the adjustments.
- (2) FIA did not report \$337,003 of program income expended or carried forward as required because of a lack of a formal reporting methodology.

d. Special Tests and Provisions

FIA did not maintain documentation that it developed an IPE for 1 (5%) of the 19 and conducted an annual IPE review for 3 (16%) of the 19 client rehabilitation services expenditures. Such documentation is required by federal regulation 34 *CFR* 361.45(d). Without documentation, we could not determine whether clients received services necessary to meet their employment goals. We questioned the costs in the Allowable Costs/Cost Principles section of this finding.

RECOMMENDATION

We recommend that FIA improve its internal control over the Rehabilitation Services Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, reporting, and special tests and provisions.

FINDING 430315

15. Temporary Assistance for Needy Families (TANF), CFDA 93.558

U.S. Department of Health and Human Services	CFDA 93.558: Temporary Assistance for Needy Families
Award Number: G0001MITANF G0101MITANF G0201MITANF	Award Period: 10/01/1999 - 09/30/2001 10/01/2000 - 09/30/2002 10/01/2001 - 09/30/2003
	Questioned Costs: \$1,353,952

FIA's internal control over the TANF Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and special tests and provisions. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, and special tests and provisions.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of TANF awards. Also, the Social Security Act permits the Secretary of the U.S. Department of Health and Human Services (HHS) to penalize a state up to 5% of its TANF grant for failing to reduce assistance for recipients refusing to work without good cause.

Federal expenditures for the TANF Program were approximately \$1,596.0 million for the two-year period ended September 30, 2002. We reviewed 64 Family Independence Program (FIP) cases, 74 Child Care Cluster cases primarily funded by TANF, and 40 other TANF-funded expenditures.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

FIA's internal control did not properly exclude persons convicted of specified felonies from receiving State payments for providing TANF-funded Child Care Cluster benefits. FIA improperly charged TANF for \$1,250,461 of unallowable Child Care Cluster expenditures for payments made to 212 ineligible day care aides* and relative care providers*. As a result, we questioned costs in the amount of \$1,250,461. The specific exceptions related to these questioned costs are discussed in Finding 19 under the Activities Allowed or Unallowed section.

b. Allowable Costs/Cost Principles

FIA needs to improve its internal control to ensure that it documents that TANF-funded expenditures are allowable costs. OMB Circular A-87 requires costs charged to federal programs to be adequately documented. We noted that required case file documentation was not maintained in compliance with federal requirements for 25 (39%) of the 64 cases reviewed. We also noted that 3 (8%) of 40 other TANF-funded transactions were not documented in accordance with federal requirements. As a result, we questioned costs in the amount of \$6,162:

- (1) FIA did not document eligibility using the FIA Application for Cash Assistance Form (FIA-1171) and/or the FIA Eligibility Determination and Certification Form (FIA-1171-C) in 13 (20%) of 64 cases. Also, the FIA-1171 and/or the FIA-1171-C were incomplete in another 9 cases and the FIA 1171-C was absent from 4 other cases. FIA procedures require these forms to document eligibility.
- (2) FIA did not document customer requests for vrending on a Vendor Payment Request Form (FIA-560) in 3 (5%) of 64 cases. Federal regulation 45 *CFR* 234.60(a)(14)(ii) requires that the vrending request be in writing and FIA procedures require customers to complete an FIA-560 to document their decision to have FIA make vendor payments for shelter, heat, and/or electric expense.

* See glossary at end of report for definition.

- (3) FIA did not document eligibility using the FIA-1171 or the FIA-1171-C for 7 customers with vendoring that received \$108 of TANF-funded Low-Income Home Energy Assistance (LIHEAP) Program benefits. Also, FIA did not document 4 of these customers' requests for vendoring on the FIA-560.
- (4) FIA did not document whether children 16 and 17 years old were attending school full time or participating in employment-related activities as required in 3 (5%) of 64 cases.
- (5) FIA did not document that it verified the assets identified by recipients on the FIA-1171 in 2 (3%) of 64 cases. FIA procedures require assets to be considered in determining eligibility, including the verification of the value of the assets.
- (6) FIA did not document compliance with Work First Program requirements in 4 (6%) of the 64 cases. FIA procedures require all customers who are not deferred or participating in an activity that meets participation requirements to be referred to the Michigan Works! agencies for participation in the Work First Program. All customers referred to the Work First Program are expected to participate up to 40 hours per week on average, unless it is determined that limited participation is allowed.
- (7) FIA did not document the calculation of financial eligibility for 2 (3%) of 64 cases as required by FIA procedures.
- (8) FIA did not maintain documentation for 2 (5%) of the 40 other TANF-funded transactions. As a result, we could not determine compliance with TANF compliance requirements for these transactions or the appropriateness of the related expenditures. In addition, FIA did not maintain the invoice for 1 of the 40 other TANF-funded transactions to document a payment to a contractor.
- (9) FIA allocated approximately \$428.9 million of administrative costs to TANF through FIA's cost allocation plan. The allocation was based on the number of clients eligible for TANF. Because of the rate of ineligibility noted in the Eligibility section of this finding, a significant portion of these administrative costs may not be allowable costs.

c. Eligibility

FIA needs to improve its internal control over eligibility determination. In addition to the 64 TANF cases reviewed, we also reviewed 74 Child Care Cluster benefit cases that were partially funded by TANF funds. As a result of our tests, we questioned costs in the amount of \$884:

- (1) FIA did not properly determine grant amounts in 4 (6%) of the 64 cases when determining eligibility for FIP recipients. In 2 cases, FIA did not include all appropriate income in the group budget calculation. In the third case, FIA did not include an eligible group member in the budget calculation.
- (2) FIA did not ensure that 7 (9%) of 74 TANF-funded Child Care Cluster benefits were issued only to clients eligible for services according to federal laws and regulations (see Finding 19, Eligibility section, item c (3)).

d. Special Tests and Provisions

FIA needs to improve its internal control over compliance with special tests and provisions. As a result, we questioned costs in the amount of \$96,445:

- (1) FIA did not consistently sanction public assistance recipients who did not cooperate in establishing paternity and child support orders. In 2 (3%) of 64 TANF cases, recipients were not cooperating in the establishment of paternity and child support orders; however, FIA did not interrupt the recipients' TANF benefits as required by Title 42, Section 608(a)(2) of the *Code of Laws of the United States (USC)* and FIA procedures. Also, in our concurrent Statewide Child Support Program performance audit, we determined that FIA issued TANF benefits to noncooperating recipients in 10 (13%) of 75 cases reviewed.
- (2) FIA did not always initiate client disqualification or, ultimately, case closure when mandatory participants in an eligible FIP group were not meeting employment-related activity requirements as required by FIA procedures.

Our review disclosed 1 case in which a client was fired from a job, and 2 cases in which recipients were not working. FIA did not document good cause and there was no interruption in FIP benefits for these cases.

We reported findings in prior audits similar to those reported in the Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions sections of this finding. FIA responded that it agreed and would comply with the related recommendations. FIA has informed us in the past that a key element in its internal control is supervisory review of case files to monitor staff activities. Because case file internal control noncompliance rates have remained high, we conclude that FIA's internal control and its corrective actions have not been effective.

RECOMMENDATIONS

We recommend that FIA improve its internal control over the TANF Program to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and special tests and provisions.

WE AGAIN RECOMMEND THAT FIA REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT FIA STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING TANF ELIGIBILITY AND THE PROPRIETY OF TANF EXPENDITURES.

WE ALSO AGAIN RECOMMEND THAT FIA LOCAL OFFICES COMPLY WITH ESTABLISHED INTERNAL CONTROL TO SANCTION PUBLIC ASSISTANCE RECIPIENTS WHO DO NOT COOPERATE IN ESTABLISHING PATERNITY AND CHILD SUPPORT ORDERS OR WHO DO NOT MEET EMPLOYMENT-RELATED ACTIVITY REQUIREMENTS.

FINDING 430316

16. Child Support Enforcement (CSE), CFDA 93.563

U.S. Department of Health and Human Services	CFDA 93.563: Child Support Enforcement (CSE)
Award Number: G 01 04 MI 4004 G 02 04 MI 4004	Award Period: 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002
	Questioned Costs: None

FIA's internal control over the CSE Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, equipment and real property management, and special tests and provisions. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding special tests and provisions.

Internal control that does not ensure compliance with federal regulations could adversely affect the CSE Program and result in additional sanctions and/or reductions in federal awards or incentive funds.

Child support is distributed to custodial parents and is also retained by FIA and the federal government to offset some of the costs of providing public assistance to the custodial parents, such as TANF and child care assistance. We tested 87 CSE Program expenditures. Also, during our concurrent performance audit of the Statewide Child Support Program, we tested 206 child support cases and reviewed the status of the automated Child Support Enforcement System (CSES) implementation. This review also included the office operations of county prosecuting attorneys (PAs) and county Friends of the Court (FOCs).

CSE Program federal expenditures totaled approximately \$429.1 million for the two-year period ended September 30, 2002.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

FIA needs to improve its internal control to ensure that CSE-funded expenditures are allowable costs. OMB Circular A-87 requires that costs charged to a federal program be adequately documented. FIA needs to

improve its internal control to help ensure that payroll costs for CSE Program vendors are properly documented.

During our audit period, FIA had a contract with DMB for assistance with CSES. FIA was responsible for the day-to-day management and control of CSES, while DMB was responsible for administering the CSES data center and technical support activities. Effective September 2002, FIA signed an agreement with the Department of Information Technology (DIT) to provide similar technical support previously provided by DMB.

The contracts did not require DMB or DIT to provide documentation of payroll costs, such as copies of semiannual certifications that employees were working solely on CSES. As a result, FIA needs to improve its internal control to ensure that payroll costs are properly charged to the CSE Program. DMB payroll costs for working on CSES were \$1.2 million for fiscal years 2001-02 and 2000-01.

b. Equipment and Real Property Management

FIA did not properly account for \$5.4 million of equipment acquired with CSE Program funds for FIA's State Disbursement Unit (SDU) in fiscal year 1998-99 in accordance with State policy and federal regulations and our prior audit recommendation.

As a result, fixed assets were understated in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* for fiscal years 2001-02 and 2000-01 and the State is not complying with the federal requirement that it obtain title to these fixed assets.

Federal regulation 45 *CFR* 74.34 requires 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. State procedures require individual pieces of equipment with an acquisition cost of \$5,000 or more to be capitalized and recorded in a department's accounting records for inclusion in the *SOMCAFR*. Also, federal regulation 45 *CFR* 74.34 states that title to equipment acquired by a recipient with federal funds shall vest in the recipient and the recipient shall maintain appropriate accounting records.

FIA did not record \$5.4 million of CSES computer equipment purchased by its contractor for operation of the SDU in its fixed asset accounting system or maintain appropriate property records. Also, the contractor maintained title to the equipment. We reported this condition in our prior audit. FIA's subsequent research of the SDU contract language disclosed that title to the equipment was required to pass to the State, and FIA informed us that it had initiated discussions with the contractor to pass title. Since our prior audit, the contractor sold its SDU operations and title of this equipment passed to the new SDU contractor. As of May 12, 2003, title had still not passed to the State.

c. Special Tests and Provisions

FIA needs to improve its internal control and its compliance with federal laws and regulations over special tests and provisions requirements:

- (1) FIA frequently did not perform necessary actions to establish child support orders. Also, when FIA did establish child support orders, it frequently did not perform required actions on a timely basis. We noted instances of similar problems in our prior audit. Federal regulations and FIA procedures establish requirements to be followed when attempting to locate parents and establish paternity and support orders. FIA local office support specialists and county PA offices perform these functions, except in 8 counties where FIA contracts with the county FOC to perform services normally performed by the PA.

In our review of 206 cases tested, we identified 75 cases in which child support orders were not established. Also, in the remaining 131 cases, we identified numerous instances in which the support orders were not established on a timely basis:

- (a) In our review of the 75 cases in which the support orders were not established, we noted that FIA was unable to establish child support orders for 19 (25%) of the 75 cases for reasons including the incarceration of the noncustodial parent and noncooperation by the custodial parent. For the remaining 56 (75%) of these 75 cases, FIA either did not initiate or did not complete appropriate required

actions. As a result, child support orders were not established and child support was not collected. We noted:

- 1) FIA local office staff did not promptly send the referral to the support specialist in 14 (20%) of 71 applicable cases.

The delays ranged from 3 to 42 months after the effective date of a child being added to a public assistance grant. Such delays impair the support specialists' ability to establish a timely support order.

- 2) Support specialists did not contact the appropriate locate resources or make appropriate evaluations of responses for 12 (19%) of 62 cases that required locating the absent parent.

Federal regulation 45 *CFR* 303.3(b)(3) requires the support specialist to contact all appropriate locate resources and evaluate the responses after determining that location is necessary. In 11 of the cases, the support specialist did not initiate any actions. In 1 case, the support specialist obtained the name of the absent parent but took no further action for 22 months and the case was closed. Children in each of these cases were receiving public assistance, but because the support specialist failed to initiate appropriate locate actions, child support was never ordered and, in some instances, the State continued to support the children. As of December 2002, the State paid approximately \$14,000 of TANF funds and \$33,000 of child care benefits for children included in 7 of the 12 cases.

- 3) Support specialists did not make subsequent location attempts in 16 (70%) of 23 cases in which the absent parent was not located during the initial attempt.

Federal regulation 45 *CFR* 303.3(b)(5) requires the support specialist to initiate quarterly attempts using, at a minimum, automated State resources if initial location efforts fail. Also, federal regulation 45 *CFR* 303.3(b)(3) requires the support

specialist to use the Federal Parent Locator Service (FPLS) if initial locate efforts fail. There was no evidence that the support specialist used automated State resources or FPLS in the 16 cases.

- 4) Support specialists did not search the Michigan Central Paternity Registry (CPR) database in 14 (32%) of 44 cases in which paternity had not been established.

Federal regulation 45 *CFR* 303.5 requires the support specialist to search this Statewide database for a voluntary acknowledgment if paternity establishment is necessary. Subsequent to our inquiry, the FIA Office of Child Support determined that the legal father was on the Michigan CPR for 1 case. However, the support specialist did not forward this case to the PA to establish the child support order.

- 5) One FOC county office did not have a record of receiving 11 (17%) of 63 child support referrals that we reviewed. Because child support orders were not established in these 11 cases, FIA and the federal government could not recover the cost of public assistance paid to these families. FIA paid approximately \$15,000 of TANF funds and approximately \$50,000 for child care for these children. Establishing paternity and child support orders for these cases may have resulted in the State and federal government recovering some or all of the \$65,000 from the noncustodial parents.

FOC county office staff informed us that the lost cases occurred because there was a problem with referred cases that were placed in a hold file for additional research upon receipt. County office staff also informed us that there are a substantial number of lost cases. Further, CSES support staff informed us that the problem had been identified, but it had not been corrected. We also determined that the FIA support specialists did not follow up on 9 of the 11 cases noted in the previous paragraph as being referred to the county office as required by

FIA procedures. Therefore, there was no effort to establish either paternity or child support orders for these cases.

(b) In our review of the 131 cases in which support orders were established, we identified the following actions that FIA did not complete on a timely basis:

- 1) Family independence specialists did not promptly send the referral to the support specialist in 21 (17%) of 127 applicable cases. The delays ranged from 2 to 55 months after the effective date of a child being added to a public assistance grant.
- 2) Support specialists did not contact the appropriate locate resources within the required time frames for 11 (16%) of 68 cases that required locating the absent parent.

Federal regulation 45 *CFR* 303.3(b)(3) requires the support specialist to contact all appropriate locate resources within 75 days of determining that location of the absent parent is necessary.

- 3) Support specialists did not make subsequent location attempts in 4 (27%) of 15 cases in which the absent parent was not located during the initial attempt.

Federal regulation 45 *CFR* 303.3(b)(5) requires the support specialist to initiate quarterly attempts using, at a minimum, automated State resources if initial location efforts fail. Also, federal regulation 45 *CFR* 303.3(b)(3) requires the support specialist to use the FPLS if initial locate efforts fail. There was no evidence that the support specialists used automated State resources or FPLS in the 4 cases.

- 4) Support specialists did not search the Michigan CPR database in 23 (19%) of 123 cases in which paternity had not been established.

Federal regulation 45 *CFR* 303.5 requires the support specialist to search this Statewide database for a voluntary acknowledgment if paternity establishment is necessary.

- 5) Support specialists did not monitor the child support referral sent to the PA within the required time frames in 79 (81%) of 97 applicable cases.

FIA procedures require support specialists to follow up on cases referred to the PA at least quarterly until action on the referral has been completed and reported back from the PA. For these 79 cases, support specialists did not follow up and the PA did not notify the support specialists until an average of 258 days after the initial referral.

- 6) FIA did not ensure that county PA staff promptly served the noncustodial parent with documents necessary to establish child support or did not document unsuccessful attempts in 19 (15%) of 128 applicable cases.

Federal regulation 45 *CFR* 303.4 requires the completion of service of process necessary to commence proceedings to establish a support order and/or establish paternity (or the documentation of unsuccessful attempts) within 90 calendar days of locating the absent parent.

- (2) FIA did not fully implement a statewide automated child support enforcement system (i.e., CSES) on a timely basis as required by federal statute. As a result, FIA paid a penalty of approximately \$38.6 million for fiscal year 2000-01 for not meeting the deadline. Also, child support is considered one of the nation's safety net programs designed to help provide critically needed financial support to needy families with children. Without a fully operational CSES, FIA cannot effectively gather information necessary to locate parents, enforce child support orders, and cooperate in providing other state child support programs information to facilitate interstate location and enforcement efforts.

Federal law 42 *USC* 654.24 required each state to implement a statewide automated child support enforcement system by October 1, 1997. Federal law 42 *USC* 655(a)(4)(B) and federal Action Transmittal OCSE-AT-98-22 require that an incremental penalty be imposed on states that failed to implement a child support enforcement system on a timely basis. The child support enforcement system is required to control, account for, and monitor all the factors in the child support collection and paternity determination processes under the State Plan. As of September 2001, the CSE Program reported that all 83 counties in Michigan had been converted to CSES but were not fully operational and requested federal certification contingent on full implementation prior to October 2003.

The U.S. Department of Health and Human Services (HHS) suspended the assessment of additional penalties pending completion of its certification review requested by FIA in September 2001. HHS subsequently certified the Michigan Child Support Enforcement System (MiCSES) on November 24, 2003 and refunded \$34.8 million of the penalty assessed in fiscal year 2000-01.

- (3) FIA's internal control over the processing of interstate child support cases did not ensure compliance with federal regulations. FIA did not know if it complied with federal time frame requirements for responding to, or initiating, interstate cases, because the portion of the Statewide automated CSES that was implemented did not track those cases.

Section 454(15)(A) of the Social Security Act requires each state to conduct an annual self-assessment review of the performance of its CSE Program. Federal regulations 45 *CFR* 308.2 and 45 *CFR* 303.7 require interstate services to be reviewed as part of the annual self-assessment.

As noted in item d (2), FIA did not fully implement CSES on a timely basis as required by federal statute. As a result, for fiscal years 2001-02 and 2000-01, information needed by FIA to review interstate cases during its annual self-assessment was not available, including which cases were interstate cases. Consequently, we could not review interstate cases to determine whether FIA was in compliance with federal time frame requirements.

RECOMMENDATIONS

We recommend that FIA improve its internal control over the CSE Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, equipment and real property management, and special tests and provisions.

WE ALSO RECOMMEND THAT FIA PROPERLY ACCOUNT FOR EQUIPMENT PURCHASES IN ACCORDANCE WITH STATE POLICY AND FEDERAL REGULATIONS.

FINDING 430317

17. Refugee and Entrant Assistance: State Administered Programs (REAP), CFDA 93.566

U.S. Department of Health and Human Services	CFDA 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 99 AA MI 5100 G 00 AA MI 5100 G 01 AA MI 5100 G 99 AA MI 5110 G 00 AA MI 5110 G 01 AA MI 5110 G 02 AA MI 5100	Award Period: 10/01/1998 - 09/30/2001 10/01/1999 - 09/30/2000 10/01/2000 - 09/30/2002 10/01/1998 - 09/30/2001 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2003
	Questioned Costs: \$415,967

FIA's internal control over REAP did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, reporting, and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, and subrecipient monitoring. As a result, we issued an adverse opinion on compliance with federal laws and regulations for REAP.

Internal control that does not ensure compliance with State and federal laws and regulations could result in sanctions, disallowances, and/or future reductions in REAP awards.

REAP federal expenditures totaled approximately \$18.5 million for the two-year period ended September 30, 2002. We tested 102 REAP expenditure transactions, including 21 REAP cash assistance and medical aid refugee payments, 18 Unaccompanied Minors Program (UMP) payments, and 4 REAP payroll expenditures.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

FIA did not ensure that expenditures incurred were for activities allowed according to REAP federal laws and regulations. As a result, we questioned costs in the amount of \$39,222:

- (1) For 2 (2%) of 102 expenditures, FIA paid for the health screenings of refugees who had resided in the United States longer than 90 days and were not REAP medical aid recipients. Federal regulation 45 *CFR* 400.107 states that medical screenings provided after the refugee's initial 90 days in the United States can be provided only if the client is determined eligible for refugee medical aid.
- (2) For 4 (4%) of 102 UMP expenditures, FIA paid for nonscheduled services and a holiday allowance that were not allowed per federal regulation 45 *CFR* 400.112 and FIA policies.
- (3) As discussed in the Allowable Costs/Cost Principles section of this finding, FIA did not maintain documentation of the services and assistance provided, including the identification of the refugees receiving the services, in 3 (3%) of 102 expenditures as required by federal regulation 45 *CFR* 400.28. As a result, FIA could not support that the expenditures were for allowable activities. We questioned the costs in the Allowable Costs/Cost Principles section of this finding.

b. Allowable Costs/Cost Principles

FIA did not ensure that REAP expenditures met the allowable cost principles of OMB Circular A-87. OMB Circular A-87 requires that costs charged to federal awards be adequately supported. As a result, we questioned costs in

the amount of \$361,212 and the eligibility of the refugees receiving these REAP benefits:

- (1) FIA did not maintain supporting documentation for 3 (3%) of 102 expenditures.
- (2) FIA did not maintain documentation of the court orders for 7 (39%) of 18 UMP expenditures for the benefit payment date tested. Without a copy of the court order, FIA did not have a legal responsibility to provide services to the unaccompanied minors and should not have charged benefit payments to REAP.
- (3) FIA did not maintain a case file for 1 (5%) of 21 REAP cash assistance and medical aid refugee expenditures. Without a case file, we could not determine if the refugee was eligible to receive benefits.
- (4) FIA did not document eligibility information for 2 (10%) of 21 REAP cash assistance and medical aid refugee expenditures. Also, FIA did not document Medicaid ineligibility for 3 (14%) of 21 REAP cash assistance and medical aid refugee expenditures.
- (5) FIA did not maintain required semiannual certifications for 3 (75%) of 4 payroll expenditures for employees charged 100% to REAP.

We reported similar conditions in our prior audit. FIA responded that it planned to correct the conditions by issuing case packeting instructions in May 2002.

c. Eligibility

FIA did not ensure that REAP benefits were issued only to refugees eligible for services according to federal laws and regulations. As a result, we questioned costs in the amount of \$15,533.

In addition to testing 102 REAP expenditures, we reviewed refugee entrance and benefit information for 42 refugees. Our tests disclosed:

- (1) FIA issued benefits to 27 refugees outside the eight-month eligibility period. Federal regulations 45 *CFR* 400.53 and 45 *CFR* 400.211 and FIA

policies state that refugees are eligible for assistance within the first eight months of residing in the United States.

- (2) As discussed in the Allowable Costs/Cost Principles section of this finding, FIA did not maintain documentation of the court orders for 7 (39%) of 18 UMP expenditures for the benefit payment date tested. Without a copy of the court order, FIA did not have a legal responsibility as required by federal regulation 45 *CFR* 400.115 to provide services to the unaccompanied minors and should not have charged benefit payments to REAP. We questioned the costs in the Allowable Costs/Cost Principles section of this finding (see item b (2)).
- (3) As discussed in the Allowable Costs/Cost Principles section of this finding, FIA did not document eligibility information for 6 (29%) of 21 REAP cash assistance and medical aid refugee expenditures. As a result, FIA could not support that the expenditures were paid to refugees eligible for REAP services and assistance according to federal laws and regulations over eligibility. We questioned the costs in the Allowable Costs/Cost Principles section of this finding (see items b (3) and b (4)).

d. Procurement and Suspension and Debarment

FIA did not enter into contracts with 5 REAP subrecipients for the provision of services as required by State and federal laws and regulations. As a result, FIA's ability to effectively monitor these subrecipients to ensure their compliance with REAP requirements was reduced.

Federal regulation 45 *CFR* 92.36 requires that FIA follow state policies and procedures when procuring goods or services for the administration of a federal award. FIA's Contracts Manual (item 100) requires a contract for the procurement of any service for \$10,000 or more within a 12-month period. We

identified the following 5 subrecipients with which FIA did not have a contract that received over \$10,000 in REAP funds in a 12-month period:

Entity	Amount Paid in Fiscal Year	
	2001-02	2000-01
Non-profit organization A	\$ 2,215,772	\$ 1,546,710
Non-profit organization B	1,513,044	1,127,567
Local health department A	88,715	243,500
Local health department B	95,470	183,500
Local health department C	127,225	144,000
	<u>\$ 4,040,226</u>	<u>\$ 3,245,277</u>

We reported this same condition in our prior audit. FIA established formal contracts with the 3 local health departments in January 2002 to provide refugee health screenings. However, FIA did not establish contracts with the 2 non-profit organizations as of the end of our audit period. FIA informed us that it would correct the condition by rewriting existing contracts that it had with the non-profit organizations for foster care services to include the REAP services that they were providing.

e. Reporting

FIA did not ensure that quarterly performance reports were complete, accurate, and adequately supported in accordance with federal regulation 45 *CFR* 400.28 and the terms and conditions of FIA's REAP awards.

Our review of the fiscal year 2001-02 fourth quarter and fiscal year 2000-01 second quarter reports noted:

- (1) For the second quarter report, FIA did not report the correct number of REAP cash assistance recipients as indicated on the REAP payroll summary report. As a result, FIA understated REAP cash assistance recipients by 100.
- (2) For both quarterly reports, FIA did not maintain supporting documentation or consistently apply the methodology used to determine the number of refugees receiving REAP medical aid assistance.

- (3) For the fourth quarter report, FIA did not report the correct number and cost of the preventive health screenings provided to REAP medical aid recipients. As a result, FIA overstated the number of health screenings by 76 and the total health screening costs by \$32,300.
- (4) For both quarterly reports, FIA did not maintain supporting documentation for the unaccompanied minors data reported. FIA informed us that it verbally obtained the data from the subrecipients who administered UMP.
- (5) For both quarterly reports, FIA did not maintain supporting documentation of the number of refugees who received a reduction or termination in their assistance grant after entering employment.
- (6) For the fourth quarter report, FIA did not report the correct amount of employment service expenditures. FIA used subrecipient billings rather than information in the State's accounting system to determine the amount. We performed a query of REAP expenditures recorded in the accounting system and determined that FIA understated the total employment service expenditures for the quarter by \$12,130.
- (7) For the fourth quarter report, FIA did not report the number of refugees and cost of refugee participation in employment services for job placement. FIA could not document the number of refugees who participated in employment services for job placement. We determined from FIA's REAP expenditure report that FIA incurred costs totaling \$116,369 for these types of services.
- (8) For the second quarter report, FIA did not maintain supporting documentation of the number of refugees reported who participated in employment services for job placement.

f. Subrecipient Monitoring

As discussed in the Procurement and Suspension and Debarment section of this finding, FIA did not establish contracts with 5 REAP subrecipients. FIA did not ensure that these subrecipients' expenditures of REAP federal awards were subject to an annual Single Audit as required by the Circular because the subrecipients' expenditures were not included in FIA's methodology for identifying potential subrecipients that would be subject to an annual Single

Audit. Also, there is a risk that FIA did not inform the subrecipients of necessary award information and federal regulation requirements as required by OMB Circular A-133.

We obtained the SEFAs for the fiscal year ended December 31, 2001 of the 2 non-profit organizations. We found that 1 organization did not include expenditures of REAP federal awards on its SEFA. We found that the other organization did not include the amount of UMP expenditures on its SEFA.

RECOMMENDATIONS

We recommend that FIA improve its internal control over REAP to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, reporting, and subrecipient monitoring.

WE AGAIN RECOMMEND THAT FIA REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT FIA STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING REFUGEE ELIGIBILITY AND THE PROPRIETY OF REAP EXPENDITURES.

WE ALSO AGAIN RECOMMEND THAT FIA COMPLY WITH ITS PRESCRIBED INTERNAL CONTROL FOR ISSUING CONTRACTS TO OBTAIN SERVICES RENDERED UNDER REAP.

FINDING 430318

18. Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568

U.S. Department of Health and Human Services	CFDA 93.568: Low-Income Home Energy Assistance
Award Number: G 98 01 MI LIE5 G 99 01 MI LIE5 G 00 B1 MI LIEA G 01 01 MI LIE3 G 01 B1 MI LIEA G 01 B2 MI LIEA G 02 01 MI LIE2 G 02 B1 MI LIEA	Award Period: 10/01/1998 - 09/30/2001 09/30/1999 - 09/30/2002 10/01/1999 - 09/30/2001 10/01/2000 - 09/30/2002 10/01/2000 - 09/30/2002 10/01/2000 - 09/30/2002 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003
	Questioned Costs: \$3,112

FIA's internal control over LIHEAP did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, and reporting. Our review disclosed material weaknesses and material noncompliance regarding allowable costs/cost principles and eligibility.

Internal control that does not ensure compliance with State and federal laws and regulations could result in sanctions, disallowances, and/or future reductions in LIHEAP awards.

LIHEAP federal expenditures totaled approximately \$211.3 million for the two-year period ended September 30, 2002.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

We tested 80 LIHEAP expenditures, including 18 home heating credit (HHC) expenditures and returns, 36 State Emergency Relief (SER) expenditures and case files, and 17 energy vendoring expenditures and case files. Our audit tests disclosed:

- (1) FIA did not ensure that LIHEAP expenditures met the requirements of federal regulation 45 *CFR* 96.30. As a result, we questioned costs in the amount of \$3,112.

Federal regulation 45 *CFR* 96.30 requires that FIA's fiscal control and accounting procedures must be sufficient to permit the tracing of LIHEAP funds to a level of expenditure adequate to establish that such funds were not used in violation of the restrictions and prohibitions of LIHEAP laws and federal regulations. Our review disclosed:

- (a) FIA did not maintain supporting documentation in client case files of a request for the energy vendoring program for 8 (47%) of 17 energy vendoring expenditures.
- (b) FIA did not maintain documentation, properly authorize, or correctly calculate the client's emergency energy assistance to support 11 (31%) of 36 SER expenditures.

- (c) FIA did not document eligibility information for 9 (25%) of 36 SER energy expenditures.

In our prior audit, we reported similar conditions that FIA local office staff frequently did not comply with established case file internal control procedures for documenting LIHEAP eligibility and the propriety of LIHEAP federal awards expended. We disclosed instances of case files that did not contain key documents required to support payments to or on behalf of LIHEAP recipients and case files that did not include complete documentation relating to initial eligibility determinations. In response to our finding, FIA responded that it planned to correct the condition by issuing case packeting instructions in May 2002.

- (2) FIA did not ensure compliance for vendor transactions in accordance with OMB Circular A-133 (Section 210(f)).

OMB Circular A-133 requires FIA to be responsible for ensuring compliance for vendor transactions that are structured such that the vendor is responsible for program compliance or for reviewing vendor records to determine program compliance. FIA established an interagency agreement that specified that the Department of Treasury was an FIA vendor and contracted with the Department to process HHC claims, determine claimant eligibility, and issue HHC and special energy allowance (SEA) payments to eligible claimants in accordance with Section 206.527a of the *Michigan Compiled Laws*. FIA paid approximately \$141.8 million in HHC and SEA claims during fiscal years 2001-02 and 2000-01.

Our review of 18 HHC claims (MI-1040CR-7s) disclosed 2 (11%) paid at 50% of the standard claim amount specified by the LIHEAP State Plan. Department of Treasury administrators explained that the reduced payment was appropriate if the claimant shared housing with another claimant. However, the Department could not document that the claimant shared housing with another claimant because claimants were not required to report such information on the MI-1040CR-7.

By establishing effective monitoring of the Department of Treasury's processing of HHC and SEA payments, FIA could ensure that the

Department obtains the necessary information to verify claimants' HHC and SEA claims and pay claimants the correct amount. We requested that FIA provide us with documentation of its monitoring of the Department's processes used to ensure the eligibility of persons receiving HHC or SEA payments and to determine the HHC or SEA amount. FIA did not provide us with documentation of its monitoring of the Department's processes and informed us that it relied on the Department of Treasury's monitoring of its own HHC and SEA processes.

At the end of our audit fieldwork, FIA informed us that it monitored HHC summary reports that it received biweekly from the Department of Treasury and provided us with copies of the reports and other monitoring documentation. However, LIHEAP staff could not provide an explanation as to how they used the reports for monitoring program compliance. Also, FIA could not document that it followed up with the Department regarding processing errors identified in the reports.

b. Eligibility

As discussed in the Allowable Costs/Cost Principles section of this finding, FIA did not document the client's eligibility for 9 (25%) of 36 SER energy expenditures. As a result, FIA could not support that the expenditures were paid to clients eligible for SER energy assistance according to federal laws and FIA's LIHEAP State Plan and policies. We questioned the costs in the Allowable Costs/Cost Principles section of this finding.

c. Reporting

FIA did not ensure that the Annual Report on Households Assisted by LIHEAP (ARHA) was accurate and complete.

Federal regulation 45 *CFR* 96.82 requires FIA to submit an ARHA as part of its annual LIHEAP grant application. Our review of the fiscal year 2001-02 and 2000-01 ARHA reports noted:

- (1) For the fiscal year 2001-02 report, FIA did not report the correct total number of households receiving heating assistance. FIA did not include households assisted with gross incomes over the 150% poverty level and households that were categorically eligible, such as households receiving TANF, Supplemental Security Income, and Food Stamps. As a result,

FIA understated the number of households receiving heating assistance by 5,430.

- (2) For the fiscal year 2001-02 report, FIA did not report the correct number of households assisted by poverty level. FIA did not include 3,137 categorically eligible households that received heating assistance in the over 150% poverty level. Also, FIA did not include 40 households that received weatherization assistance in the 126% - 150% poverty level.
- (3) For the fiscal year 2000-01 report, FIA did not report the correct number of households assisted by target groups. FIA could not support its report that 848 age 60 years or older households and 957 disabled households received weatherization assistance. We determined that FIA overstated the age 60 years or older target groups by 602 households and the disabled target groups by 732 households.
- (4) For both fiscal year reports, FIA did not maintain documentation to support the number of applicant households by income level reported. FIA reported that 317,831 unduplicated households applied for heating assistance in fiscal year 2001-02. However, we determined that FIA did not include categorically eligible households, resulting in a fiscal year 2001-02 understatement in total households that applied for heating assistance by 3,137. Also, FIA did not report the number of households by income level that applied for heating assistance in the fiscal year 2000-01 report. Further, FIA did not obtain documentation to support the number of households that applied for heating assistance that did not have income information as reported in the fiscal year 2000-01 report.

RECOMMENDATIONS

We recommend that FIA improve its internal control over LIHEAP and its compliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, and reporting.

WE AGAIN RECOMMEND THAT FIA REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT FIA STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING LIHEAP ELIGIBILITY AND THE PROPRIETY OF LIHEAP EXPENDITURES.

FINDING 430319

19. Child Care Cluster, *CFDA* 93.575 and 93.596

U.S. Department of Health and Human Services	Child Care Cluster: <i>CFDA</i> 93.575 Child Care and Development Block Grant; <i>CFDA</i> 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 99 01 MI CCD2 G 00 01 MI CCD2 G 00 01 MI CCDF G 01 01 MI CCD2 G 01 01 MI CCD3 G 01 01 MI CCD4 G 02 01 MI CCDF	Award Period: 10/01/1998 - 09/30/2001 10/01/1999 - 09/30/2002 10/01/1999 - 09/30/2000 10/01/2000 - 09/30/2003 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2004
	Questioned Costs: \$514,616

FIA's internal control over the Child Care Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and reporting. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

Internal control that does not ensure compliance with State and federal laws and regulations could result in sanctions, disallowances, and/or future reductions in Child Care Cluster awards.

Child Care Cluster federal expenditures totaled approximately \$281.2 million for the two-year period ended September 30, 2002.

We tested 164 Child Care Cluster expenditures, including 74 child care client case files and 75 child support noncooperation case files.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

FIA did not ensure that expenditures incurred were for activities allowed per Child Care Cluster federal laws and regulations. As a result, we questioned costs in the amount of \$493,355.

Federal law 42 USC 9858c(c)(2)(A) states that Child Care Cluster funds may be used for child care services provided by an eligible provider that has a grant or contract for the provision of such services on behalf of an eligible child. FIA's Child Day Care State Plan and FIA policies define eligible providers as day care centers, group day care homes, family day care homes, day care aides, and relative care providers. FIA is responsible for determining and monitoring day care aide and relative care provider eligibility. Clients who are eligible for child care benefits are allowed to select any of these types of eligible providers.

Our tests disclosed:

- (1) FIA paid child care benefits to 212 child care providers that should not have received payments because they had been convicted of specified felony crimes.

FIA's May 2001 process used to identify providers who had been convicted of specified felonies disclosed that FIA improperly formatted the electronic file provided to the Michigan Department of State Police, which prevented the Department from identifying provider/felon names. FIA policy requires that persons convicted of specified felony crimes are to be excluded from being enrolled as authorized day care aides or relative care providers.

In addition, we determined that FIA did not disenroll one provider after identifying the provider as a felon in April 2001. FIA disenrolled the provider in January 2002 after local office staff identified the provider's felony conviction.

- (2) As discussed in the Allowable Costs/Cost Principles section of this finding, FIA did not maintain required day care aide and relative care provider enrollment documentation for 5 (11%) of the 45 child care clients who selected a day care aide or relative care provider. As a result, FIA could not support that the expenditures were for allowable activities. We questioned the costs in the Eligibility section of this finding (see item c (3)).

b. Allowable Costs/Cost Principles

FIA did not ensure that Child Care Cluster expenditures met the allowable cost principles of OMB Circular A-87. OMB Circular A-87 requires that costs charged to federal awards be adequately supported. As a result, we questioned costs in the amount of \$168 and the allowability of the activities for item (1) and the eligibility of the clients receiving these child care benefits for items (2) and (3). We questioned the costs for items (2) and (3) in the Eligibility section of this finding (see item c (3)). Our tests disclosed:

- (1) FIA did not maintain required day care aide and relative care provider enrollment documentation for 5 (11%) of the 45 child care clients who selected a day care aide or relative care provider.
- (2) FIA did not maintain supporting documentation of the client's eligibility for child care benefits for 4 (5%) of the 74 case files. FIA's Program Eligibility Manual requires that local office staff document the client's need for child care and the client's income verification in the case file. FIA did not document the client's need for child care, income, or income verification.
- (3) FIA did not obtain documentation of all income sources to the program group* in 4 (7%) of 58 case files for clients who were income eligible. As a result, FIA did not ensure that all income of the group was considered during the eligibility determination process.
- (4) FIA could not provide documentation to support 2 Child Care Cluster expenditures incurred and recorded in the State's accounting system.

We reported similar conditions in our prior audit. FIA responded that it planned to correct the conditions by issuing case packeting instructions in May 2002.

c. Eligibility

FIA did not ensure that Child Care Cluster benefits were issued only to clients eligible for services according to federal laws and regulations. As a result, we questioned costs in the amount of \$21,093.

* See glossary at end of report for definition.

Federal regulation 45 *CFR* 98.20 requires FIA to establish child care eligibility requirements that require children to be under age 13, to reside with a family whose income does not exceed 85% of the State's median income for a family of the same size, and to reside with a parent who is working or attending a job-training or education program in order to be eligible for Child Care Cluster benefits. The regulation also allows FIA to establish additional eligibility conditions.

Our tests disclosed:

- (1) FIA local office staff did not sanction the child care benefits of 6 (8%) of 75 child support noncooperation cases as required. FIA continued to issue child care payments to these clients after child support specialists reported that the clients did not cooperate with FIA local office staff.

FIA's Program Eligibility Manual requires FIA local office staff to terminate child care benefits immediately after a client is deemed uncooperative in establishing paternity, establishing a support order, and locating the noncustodial parent as a condition of eligibility.

- (2) FIA did not determine the correct program group size in 1 (2%) of 58 case files for clients who were income eligible.

FIA's Program Eligibility Manual states that income eligibility for child care benefits is determined by the program group size and the income of all program group members. In this instance, FIA included 2 ineligible individuals in the program group. If FIA had used the correct program group size, the program group income would have exceeded the monthly gross income limit and the client would have been ineligible for child care benefits.

- (3) As discussed in the Allowable Costs/Cost Principles section of this finding, FIA did not document eligibility information in 7 (9%) of 74 child care case files as required by FIA eligibility policies. As a result, FIA could not support that the expenditures were paid to clients eligible for child care benefits according to federal laws and regulations regarding eligibility.

- (4) FIA allocated approximately \$63.6 million of administrative costs to the Child Care Cluster through FIA's cost allocation plan. The allocation was based on the number of clients eligible for Child Care Cluster benefits. Because of the rate of ineligibility, a significant portion of these administrative costs may not be allowable costs.

d. Reporting

FIA did not ensure that the Child Care and Development Fund financial reports (ACF-696s) were accurate and complete.

The ACF-696, submitted quarterly, is used to report actual FIA obligations and expenditures and to determine FIA's Child Care Cluster funding needs in future periods. Our review of the fiscal years 2001-02 and 2000-01 fourth quarter ACF-696 reports noted:

- (1) For the fiscal year 2001-02 fourth quarter report, FIA did not maintain documentation to support the \$45.9 million federal share of matching funds unliquidated obligations reported.
- (2) For the fiscal year 2000-01 fourth quarter report, FIA understated by \$1,451,763 the cumulative amount of obligated federal discretionary funds that were not liquidated in the fiscal year. As a result, the unobligated balance was overstated by the same amount.

RECOMMENDATIONS

We recommend that FIA improve its internal control over the Child Care Cluster to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and reporting.

WE AGAIN RECOMMEND THAT FIA REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT FIA STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING CHILD CARE CLUSTER ELIGIBILITY AND THE PROPRIETY OF CHILD CARE CLUSTER EXPENDITURES.

FINDING 430320

20. Child Welfare Services: State Grants (CWSS), CFDA 93.645

U.S. Department of Health and Human Services	CFDA 93.645: Child Welfare Services: State Grants
Award Number: G 99 01 MI 1400 G 00 01 MI 1400 G 01 01 MI 1400 G 02 01 MI 1400	Award Period: 10/01/1998 - 09/30/2000 10/01/1999 - 09/30/2001 10/01/2000 - 09/30/2002 10/01/2001 - 09/30/2003
	Questioned Costs: \$36,094

FIA's internal control over the CWSS Program did not ensure its compliance with State and federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with State and federal laws and regulations could result in sanctions, disallowances, and/or future reductions of CWSS awards.

CWSS federal expenditures totaled approximately \$19.2 million for the two-year period ended September 30, 2002.

Our exceptions, by compliance area, are as follows:

Allowable Costs/Cost Principles

FIA needs to improve its internal control to ensure that CWSS Program expenditures are allowable costs. OMB Circular A-87 requires costs charged to a federal program to be adequately supported. We tested 40 CWSS expenditures with an absolute value* of \$18.4 million from an absolute value of \$188.8 million of program expenditures. FIA was unable to provide us with adequate support for 3 (8%) of 40 sampled transactions. As a result, we questioned costs in the amount of \$36,094.

RECOMMENDATION

We recommend that FIA improve its internal control over the CWSS Program to ensure its compliance with State and federal laws and regulations regarding allowable costs/cost principles.

* See glossary at end of report for definition.

FINDING 430321

21. Foster Care: Title IV-E, CFDA 93.658

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care: Title IV-E
Award Number: 01 01 MI 1401 02 01 MI 1401	Award Period: 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002
	Questioned Costs: \$149,216

FIA's internal control over the Foster Care Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations over activities allowed or unallowed, allowable costs/cost principles, and eligibility. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Foster Care Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Foster Care Program awards.

Foster Care Program federal expenditures totaled approximately \$298.4 million for the two-year period ended September 30, 2002. We tested 68 Foster Care Program expenditures, including 42 associated Foster Care Program case files.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

FIA needs to improve its controls over activities allowed for the Foster Care Program. As a result, we identified likely noncompliance in excess of \$10,000:

- (1) FIA did not maintain a case plan for 2 (5%) of 42 cases. Also, the FIA supervisor did not sign the case plan for 7 (17%) of 42 cases. Federal regulation 45 *CFR* 1356.21(g) and FIA procedures require the preparation of a case plan. FIA procedures require that the local office supervisor sign all case plans, indicating approval with the plan. Without the required information in the case plan, FIA could not document that expenditures were for activities allowed.

- (2) FIA was not in compliance with activities allowed in 24 of 42 cases tested because FIA paid Foster Care benefits without appropriate documentation and paid benefits to individuals who were not eligible for benefits. We questioned these costs in the Allowable Costs/Cost Principles and Eligibility sections of this finding.
- (3) FIA allocated approximately \$126.4 million of administrative costs to the Foster Care Program through FIA's cost allocation plan. The allocation was based on the number of clients eligible for the Foster Care Program. Because of the high rate of ineligibility noted in the Eligibility section of this finding, a significant portion of these administrative costs may not be for activities allowed.

b. Allowable Costs/Cost Principles

FIA needs to improve its internal control to ensure that Foster Care funded expenditures are allowable costs. OMB Circular A-87 requires that costs charged to a federal program be adequately documented, properly authorized, necessary, and reasonable. As a result, we questioned costs in the amount of \$6,000:

- (1) For 1 (4%) of 26 expenditures, FIA did not document that the cost was necessary for the program. The expenditure was for the monthly rental of a car that was not driven during the month.
- (2) For 1 (4%) of 26 expenditures, FIA did not record the expenditure at the appropriate amount. OMB Circular A-87 requires a cost to be recorded at the appropriate amount.
- (3) For 1 (4%) of 26 expenditures that were for employees charged 100% to the Foster Care Program, FIA did not maintain the required semiannual certification that the employee worked solely on the Foster Care Program.
- (4) In 5 (18%) of 28 cases, FIA did not complete the Difficulty of Care (DOC) Supplement Form (FIA-470). Also, in 1 (4%) of 27 cases, the FIA-470 was not properly authorized. This form is required to justify a supplemental payment to the foster parent for providing more intensive care to the child to meet the child's needs. Also, FIA's procedures required the FIA-470 to be signed by the caseworker completing the form,

the foster care parent, the caseworker supervisor for DOC levels I and II, the director or designee for DOC level III, and the zone office manager for levels above DOC level III.

- (5) In 1 (2%) of 42 cases, FIA did not document that Foster Care Program funding was appropriate with the required Redetermination of Appropriate Foster Care Funding Source (FIA-350). The FIA-350 was needed to document continued eligibility for Foster Care Program funding for the period of the sample payment.
- (6) In 1 of 1 case, FIA paid retroactive DOC supplemental payments on behalf of a child that were not allowed per FIA procedures. These payments were for periods before the original date of the DOC request, although the initial FIA-470 was received more than 30 days after the initial placement.
- (7) In 1 of 1 case, FIA paid an initial clothing allowance on behalf of a child without the required documentation. FIA procedures allow for a child to receive an initial clothing allowance upon entry into the Foster Care Program only if the child's need is documented on the Clothing Inventory Checklist Form (FIA-3377). Although this form was in the case file, it was not completed.
- (8) FIA was not in compliance with allowable costs in 22 of 42 cases tested because FIA paid Foster Care benefits without appropriate documentation and paid Foster Care benefits to individuals who were not eligible for the benefits. We questioned these costs in the Activities Allowed or Unallowed and Eligibility sections of this finding.
- (9) FIA allocated approximately \$126.4 million of administrative costs to the Foster Care Program through FIA's cost allocation plan. The allocation was based on the number of clients eligible for the Foster Care Program. Because of the high rate of ineligibility noted in the Eligibility section of this finding, a significant portion of these administrative costs may not be allowable costs.

c. Eligibility

FIA needs to improve its internal control to ensure that Foster Care Program expenditures are for eligible recipients of Foster Care funds. A recipient's eligibility for Foster Care funding is dependent on the timely development of a Foster Care case plan, eligibility for the former Aid to Families with Dependent Children (AFDC) Program, and the inclusion of required language and judicial determinations in court orders. As a result, we questioned costs in the amount of \$143,189:

- (1) In 5 (13%) of 39 cases, FIA improperly paid Foster Care maintenance payments when the caseworker did not complete the initial service plan within the 60 days from the child's removal from the home as required by federal regulation 45 *CFR* 1356.21(g)(2). If this form is not completed within 60 days, the Foster Care parent is not eligible to receive Foster Care maintenance payments on behalf of the child.
- (2) In 2 (5%) of 42 case files, FIA claimed Foster Care funding for children who were ineligible because they were not eligible for the former AFDC Program. Federal law 42 *USC* 672 requires children to be eligible for the former AFDC Program in order to be eligible for Foster Care funding, unless the child is living with an acceptable relative within six months of when the court petition was filed. Also, FIA procedures provide that if a child is initially determined ineligible for the former AFDC Program, based on the ineligibility of the family, the child is never eligible for Foster Care funding under the petition and court order removing the child from the home.
- (3) FIA improperly claimed Foster Care funding for children who were ineligible at the time the service was rendered because court orders did not contain language required by federal regulations. FIA is responsible for reviewing the court orders issued for a child in Foster Care. Also, FIA procedures require the FIA local office to initiate resolution with the court for court orders that conflict with Foster Care requirements no later than the day after the FIA local office receives the court order. Our review of court orders disclosed:
 - (a) In 4 (10%) of 40 cases, FIA improperly claimed Foster Care funding for children who were ineligible because the court order did not

include the determination required by federal regulation 45 *CFR* 1356.21(c) that removal from the home was in the child's best interest. If the judicial determination is not made in the first court order removing the child from the home, the child is ineligible for Foster Care funding for the duration of the stay in foster care.

- (b) In 3 (8%) of 37 cases, FIA improperly claimed Foster Care funding for children who were ineligible because the court order did not make, in both a timely and explicit manner, the judicial determination required by federal regulations 45 *CFR* 1356.21(b)(1), 45 *CFR* 1356.21(b)(3), and 45 *CFR* 1356.21(d) of the reasonableness of the efforts to prevent removal from the home or that efforts to prevent removal from the home were not required. If the judicial determination is not made in both a timely and an explicit manner, the child is not eligible for Foster Care funding for the duration of the current stay in foster care.
 - (c) In 9 (21%) of 42 cases, FIA improperly claimed Foster Care funding for children who were ineligible at the time of payment because of the court order not making, in both a timely and explicit manner, the judicial determination required by federal regulations 45 *CFR* 1356.21(b)(2) and 45 *CFR* 1356.21(d) of the reasonableness of the efforts to finalize the permanency plan within 12 months of entering foster care and every 12 months thereafter. After 12 months, the child is ineligible for Foster Care funding until the child is determined eligible.
- (4) FIA needs to improve internal control over eligibility by ensuring that FIA's Children's Foster Care Manual correctly reflects requirements in federal regulations 45 *CFR* 1356.21(b)(1), 45 *CFR* 1356.21(b)(3), and 45 *CFR* 1356.21(c) for judicial determinations for children removed from their homes before October 1, 2000. The incorrect portions of the manual relate to the "contrary to welfare determination" and the "60-day judicial determination of the reasonableness of the efforts to prevent removal."
 - (5) FIA was not in compliance with activities allowed in 7 of 42 cases tested because FIA paid Foster Care benefits without appropriate

documentation. We questioned these costs in the Activities Allowed or Unallowed and Allowable Costs/Cost Principles sections of this finding.

We reported similar conditions in our prior audit. FIA reported that it planned to correct the conditions by issuing case packeting instructions in May 2002.

RECOMMENDATIONS

We recommend FIA improve its internal control over the Foster Care Program to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

WE AGAIN RECOMMEND THAT FIA REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT FIA STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING FOSTER CARE PROGRAM ELIGIBILITY AND THE PROPRIETY OF FOSTER CARE PROGRAM EXPENDITURES.

FINDING 430322

22. Adoption Assistance, CFDA 93.659

U.S. Department of Health and Human Services	CFDA 93.659: Adoption Assistance
Award Number: G 01 01 MI 1407 G 02 01 MI 1407	Award Period: 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002
	Questioned Costs: \$134,880

FIA's internal control over the Adoption Assistance Program did not ensure its compliance with federal laws and regulations regarding eligibility. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding eligibility. Also, the rate of ineligibility noted in this finding indicates that a portion of the approximately \$10.7 million of administrative costs allocated to the Adoption Assistance Program through FIA's cost allocation plan may not be allowable.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Adoption Assistance Program awards.

Adoption Assistance Program federal expenditures totaled approximately \$172.7 million for the two-year period ended September 30, 2002.

Our exceptions, by compliance area, are as follows:

Eligibility

We tested 58 adoption subsidy payments, including the associated case files. Also, we conducted additional tests as discussed in items (1) through (4).

Our audit tests disclosed:

- (1) FIA did not ensure that it performed criminal background checks on prospective adoptive parents as required by federal regulation 45 *CFR* 1356.30. We conducted a criminal background check on 3,460 prospective adoptive parents whose adoption subsidy payments began during the period October 2000 through September 2002. We determined that FIA provided adoption subsidy payments to 6 adoptive parents who had been convicted of specified crimes rendering them ineligible to receive adoption subsidy payments. As a result, we questioned costs in the amount of \$57,805.

Also, we tested the effectiveness of FIA's internal control over documenting criminal background checks on prospective adoptive parents. We determined that in 8 (23%) of 35 cases for which the adoption was finalized after October 1, 2000, FIA did not document that criminal background checks were conducted on the prospective adoptive parents.

- (2) FIA did not ensure that it made adoption subsidy payments only to adoptive parents as required by federal regulation 45 *CFR* 1356.40, State law, and FIA policy. FIA issued monthly adoption subsidy payments for 5 children to a payee with legal guardian status, but who was not an adoptive parent. Upon the adoptive parent's death and legal change of guardianship, FIA adoption workers did not properly change the funding source of the adoption subsidy payment from Adoption Assistance Program-funded to State-funded. As a result, we questioned costs in the amount of \$31,250.

- (3) FIA did not discontinue adoption subsidy payments and close the case for 8 (14%) of 58 cases in which the adoptive parent failed to submit an annual report as required by State law. As a result, we questioned costs in the amount of \$31,019.

Also, we reviewed the case files for all 17 children placed outside of the United States for the receipt of an annual report. Our review disclosed that FIA did not discontinue adoption subsidy payments and close the case for 3 (18%) of these 17 cases in which FIA did not have an annual report within the calendar year. As a result, we questioned costs in the amount of \$13,296. We reported similar conditions in our prior audit.

- (4) FIA did not enter into an agreement with the adoptive parents for adoption subsidy payments prior to the final order of adoption in 1 (2%) of 58 case files as required by federal regulation 45 *CFR* 1356.40. FIA did not obtain final orders of adoption to ensure compliance with this regulation. As a result, we questioned costs in the amount of \$1,510.

We reported similar conditions in our two prior audits. In response, FIA stated that it submitted a service request in May 2000 to improve the system functionalities to allow for out-of-country adoption subsidy payments from the adoption subsidy payroll database system. FIA informed us that subject to available resources, it anticipated that a new database would be operational by October 2004. FIA's Office of Adoption Services informed us that, while it was waiting for the new system development, it worked with DIT and DMB to make the processing of the annual reports more efficient. Also, the Office of Adoption Services informed us that it worked with FIA's Office of Payment Services to develop a listing of adoption subsidy payments made to children placed outside of the United States and hired temporary employees to log the receipt of the annual reports.

RECOMMENDATIONS

We recommend that FIA improve its internal control over the Adoption Assistance Program to ensure its compliance with federal laws and regulations regarding eligibility.

WE AGAIN RECOMMEND THAT FIA DISCONTINUE ADOPTION SUBSIDY PAYMENTS AND CLOSE THOSE CASES IN WHICH THE ADOPTIVE PARENTS FAIL TO SUBMIT A REQUIRED ANNUAL REPORT.

FINDING 430323

23. Chafee Foster Care Independent Living (CFCIP), CFDA 93.674

U.S. Department of Health and Human Services	CFDA 93.674: Chafee Foster Care Independent Living
Award Number: G 00 01 MI 1420 G 01 01 MI 1420 G 02 01 MI 1420	Award Period: 10/01/1999 - 09/30/2001 10/01/2000 - 09/30/2002 10/01/2001 - 09/30/2003
	Questioned Costs: \$336,758

FIA's internal control over CFCIP did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. As a result, we issued an adverse opinion for CFCIP.

Also, FIA could not provide sufficient documentation supporting its compliance with matching, level of effort, and earmarking requirements.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of CFCIP awards.

Federal expenditures for CFCIP were approximately \$9.7 million for the two-year period ended September 30, 2002.

Our review disclosed exceptions in 40 (85%) of 47 CFCIP expenditures tested, with total questioned costs of \$336,758 or 71% of the dollar value of the expenditures tested.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

FIA did not ensure that CFCIP expenditures were for activities allowed. Allowable activities, as described in federal law 42 USC 677(1), include providing services, such as career exploration, job placement, and money management, to youth. FIA paid 15 (32%) of the 47 CFCIP expenditures to child placing agencies for the administration of State ward board and care payments for foster care youth, which was not an allowable CFCIP activity. As a result, we questioned costs in the amount of \$78,321.

b. Allowable Costs/Cost Principles

FIA did not ensure that CFCIP expenditures met the allowable cost principles of OMB Circular A-87. OMB Circular A-87 requires that costs charged to federal awards be properly approved and adequately supported. As a result, we questioned costs in the amount of \$75,077.

Our audit tests disclosed:

- (1) FIA central office did not properly approve 3 (14%) of 22 expenditures that required an authorized statement of expenditures for payment.
- (2) FIA did not provide the federally required semiannual certifications for 1 (25%) of 4 employee payroll expenditures in our sample that were charged to CFCIP.
- (3) None of the 25 payments for Youth-in-Transition expenditures and administrative expenditures for State ward board and care in our sample properly identified the youth who received services and the services provided.

c. Eligibility

FIA did not document the eligibility of youth receiving CFCIP services. As a result, we questioned costs in the amount of \$183,360.

Our audit tests disclosed:

- (1) FIA did not document with the Service Youth Profile Report (FIA-4713) that any of the 11 Homeless Youth expenditures included in our sample were for youths who met the eligibility requirements of the program or were for services allowed by federal or FIA program requirements.
- (2) FIA had no assurance that 3 (30%) of the 10 Youth-in-Transition expenditures included in our sample were for youths who met the eligibility requirements of the program or were for services allowed by federal or FIA program requirements, as documented by an FIA-4713.

d. Matching, Level of Effort, and Earmarking

FIA did not ensure compliance with CFCIP earmarking requirements.

CFCIP staff were not able to identify expenditures related to room and board for children who were 18 years of age but who were less than 21 years of age. As a result, FIA could not document compliance with CFCIP earmarking requirements. Federal law 42 *USC* 677 provides that FIA must certify that a maximum of 30% of each year's grant award will be expended for room or board for children who have left foster care because they had attained 18 years of age but had not attained 21 years of age.

e. Subrecipient Monitoring

FIA did not monitor subrecipients in accordance with OMB Circular A-133. OMB Circular A-133 requires FIA to provide its subrecipients with information related to match requirements, *CFDA* title and number, and the requirement to obtain a Single Audit and to monitor the activities of subrecipients as necessary to ensure their compliance with federal laws and regulations. Our review disclosed:

- (1) FIA did not include information related to the match requirement, *CFDA* title and number, and the requirement to obtain a Single Audit for any of the 15 subrecipients included in our sample.
- (2) For all of the 15 subrecipients included in our sample, the subrecipients' reimbursement requests did not document that the services provided

were for clients eligible for CFCIP or allowed by CFCIP compliance requirements.

RECOMMENDATION

We recommend that FIA improve its internal control over CFCIP to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort and earmarking; and subrecipient monitoring.

FINDING 430324

24. Cost Allocation Plan

U.S. Department of Justice	CFDA 16.588: Violence Against Women Formula Grants
Award Number: 99-WF-VX-0026 00-WF-VX-0018 01-WF-BX-0041	Award Period: 03/01/1999 - 09/30/2001 08/01/2000 - 07/31/2002 06/01/2001 - 05/31/2003
	Questioned Costs: (\$15,524)

U.S. Department of Health and Human Services	CFDA 93.558: Temporary Assistance for Needy Families (TANF)
Award Number: G 00 01 MI TANF G 01 01 MI TANF G 02 01 MI TANF	Award Period: 10/01/1999 - 09/30/2001 10/01/2000 - 09/30/2002 10/01/2001 - 09/30/2003
	Questioned Costs: (\$28,158)

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care: Title IV-E
Award Number: 01 01 MI 1401 02 01 MI 1401	Award Period: 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002
	Questioned Costs: (\$10,135)

U.S. Department of Health and Human Services	CFDA 93.667: Social Services Block Grant (SSBG)
Award Number: G 00 01 MI SOSR G 01 01 MI SOSR G 02 01 MI SOSR	Award Period: 10/01/1999 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002
	Questioned Costs: \$81,048

U.S. Department of Health and Human Services	CFDA 93.991: Preventive Health and Health Services Block Grant
Award Number: VF1/CCV519922-01	Award Period: 10/01/2001 - 09/30/2002
Pass-Through Agency: Michigan Department of Community Health	Questioned Costs: (\$12,403)

FIA's internal control over its cost allocation plan did not ensure the use of correct allocation percentages.

Our review of the cost allocation plan disclosed that FIA inadvertently used incorrect amounts to compute the percentages to allocate costs to various federal programs. FIA's review process for the cost allocation plan was not sufficient to prevent or to correct these errors:

- a. FIA used incorrect percentages for cost pool 38 to allocate costs between Foster Care: Title IV-E and Social Services Block Grant (SSBG) for the fourth quarter of fiscal year 2001-02. FIA overcharged the SSBG Program by \$20,270 and undercharged Foster Care: Title IV-E by \$10,135.
- b. FIA used incorrect percentages for cost pool 52 to allocate costs between various programs in the fourth quarter of fiscal year 2000-01 and the first quarter of fiscal year 2001-02. TANF was undercharged \$28,158, SSBG was overcharged \$60,778, Violence Against Women Formula Grants was undercharged \$15,524, and Preventive Health and Health Services Block Grant was undercharged by \$12,403.

RECOMMENDATION

We recommend that FIA improve internal control over its cost allocation plan.

FINDING 430325

25. Suspension and Debarment

U.S. Department of Agriculture	<i>CFDA</i> 10.551 and 10.561: Food Stamp Cluster
U.S. Department of Justice	<i>CFDA</i> 16.523: Juvenile Accountability Incentive Block Grants <i>CFDA</i> 16.540: Juvenile Justice and Delinquency Prevention: Allocation to States <i>CFDA</i> 16.588: Violence Against Women Formula Grants
U.S. Department of Education	<i>CFDA</i> 84.126: Rehabilitation Services: Vocational Rehabilitation Grants to States

U.S. Department of Health and Human Services	<i>CFDA</i> 93.556: Promoting Safe and Stable Families <i>CFDA</i> 93.558: Temporary Assistance for Needy Families (TANF) <i>CFDA</i> 93.563: Child Support Enforcement (CSE) <i>CFDA</i> 93.566: Refugee and Entrant Assistance: State Administered Programs <i>CFDA</i> 93.568: Low-Income Home Energy Assistance (LIHEAP) <i>CFDA</i> 93.569: Community Services Block Grant (CSBG) <i>CFDA</i> 93.575 and 93.596: Child Care Cluster <i>CFDA</i> 93.645: Child Welfare Services: State Grants <i>CFDA</i> 93.658: Foster Care: Title IV-E <i>CFDA</i> 93.659: Adoption Assistance <i>CFDA</i> 93.667: Social Services Block Grant (SSBG) <i>CFDA</i> 93.674: Chafee Foster Care Independent Living <i>CFDA</i> 93.778: Medicaid Cluster
	Questioned Costs: \$0

FIA had not established internal control to ensure that it did not contract with or make grant awards to parties that had been suspended or debarred.

The federal Common Rule Part 35 states that "Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended. . . ." FIA did not reference the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs*, issued by U.S. General Services Administration or obtain a certification from perspective contractors or subrecipients that their organization and its principals are not suspended or debarred prior to contracting or making an award.

In the event that FIA contracted with or awarded a grant to suspended or debarred parties, FIA would not be eligible for federal reimbursement for any payments made to those parties.

RECOMMENDATION

We recommend that FIA establish internal control to ensure that it does not contract with or make grant awards to parties that have been suspended or debarred.

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

OTHER SCHEDULES

FAMILY INDEPENDENCE AGENCY
Summary Schedule of Prior Audit Findings
As of September 30, 2002

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND
FINANCIAL STATEMENTS**

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430102

Finding Title: Expenditure Recognition

Finding: The Family Independence Agency (FIA) sometimes did not record program expenditures in the proper fiscal year as required.

Comments: A memorandum was issued on October 1, 2001 to contract payment staff. The memorandum provided instructions for bills received after the payment processing deadlines and the establishment of payables.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430101

Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: FIA should enhance its internal control to help ensure the accurate preparation of the SEFA in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 reporting standards.

Comments: The SEFA for the fiscal years ended September 30, 2002 and September 30, 2001 were prepared using a new format. FIA's other financial schedules were also prepared using the Office of the Auditor General's suggested format.

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430103
Finding Title: Personnel and Payroll Transactions

Finding: FIA often did not comply with prescribed Michigan Administrative Information Network (MAIN) Human Resource System* internal control procedures for preparing time and attendance records. Also, FIA did not maintain effective internal control over the processing of personnel and payroll transactions.

Comments: A memorandum was issued to all timekeepers and staff on October 19, 2001 to remind staff of appropriate procedures for preparing time and attendance reports. This included Data Collection and Distribution System (DCDS) procedures and password instructions. FIA's Office of Human Resources now randomly reviews the certifiers' signatures to ensure compliance.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430104
Finding Title: MAIN Coding of Federally Funded Programs

Finding: FIA's internal control did not provide for proper program identification and coding of federal Refugee and Entrant Assistance: State Administered Programs (REAP) expenditures (CFDA 93.566).

Comments: 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

* See glossary at end of report for definition.

ended March 31, 2001. The report is dated April 26, 2001. 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.

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430106
Finding Title: Identifying, Monitoring, and Reporting Payments to Subrecipients

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

Comments:

- 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. A new interagency agreement process was initiated for agreements effective October 1, 2001. The process ensures that appropriate subrecipient or vendor language is included in the agreement. A log is maintained of all interagency agreements to ensure that subrecipients can be identified.
- c. The process within the Office of Contracts and Rate Setting no longer allows a contract to be executed if the subrecipient or vendor status field is blank.

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430110
Finding Title: Documentation and Allowability of Federally Funded Expenditures

Finding: FIA did not maintain required supporting documentation for certain federally funded reimbursed expenditures and charged unallowable costs to the Child Support Enforcement Program.

Comments: An additional level of review has been added to ensure that invoices are in line with the contract language. Any discrepancies will be clarified with the contractor prior to payment of the invoice.

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430111

Finding Title: Noncooperation Penalties

Finding: FIA has not revised its child support noncooperation penalties to comply with federal welfare reform requirements.

Comments: Act 280, P.A. 1939 (Social Welfare Act), has been amended. FIA policy was changed effective April 1, 2002 (see Program Policy Bulletin 2002-003).

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430115

Finding Title: Payments at Prevailing Minimum Wage

Finding: 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 were changed.

Comments: FIA's Administrative Handbook has been revised to provide for payments at the prevailing minimum wage.

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430116

Finding Title: Administrative Cost Limitation

Finding: 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 93.566).

* See glossary at end of report for definition.

Comments: L-Letter 01/089 was issued on June 1, 2001. The planning instructions in the L-Letter detailed administrative cost requirements and limitations.

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430117

Finding Title: Allowable Funding Sources for Federal Matching Requirements

Finding: 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).

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

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430105

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 public assistance expenditures.

Comments: Case packeting instructions were issued in Program Administrative Manual item 300 in the May 2002 issuance.

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430107

Finding Title: Contracts With Entities Receiving Federal Funds

Finding: FIA did not comply with its prescribed internal control for issuing and limiting the duration of contracts to obtain services rendered under the federal REAP.

Comments: The contracts for refugee health screenings were effective January 1, 2002 through September 30, 2002.

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430108

Finding Title: Child Support Enforcement Efforts

Finding: 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 the Friend of the Court and securing medical support obligations.

Comments: FIA implemented system changes in April 2002 in regard to system enhancements for parent locate and automated alerts in the legal module for prosecuting attorneys for follow-up.

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430109

Finding Title: Interstate Central Registry

Finding: FIA's internal control over the Interstate Central Registry and the processing of interstate child support cases did not ensure compliance with federal regulations.

Comments:

- a. There is a link with Data Warehouse between the Interstate Central Registry and the Child Support Enforcement System (CSES).
- b. All mail is now date stamped when opened in the mailroom.
- c. Monitoring systems have been built into CSES and the Michigan Child Support Enforcement System (MiCSES) and are being utilized.

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430112
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 or when mandatory participants in an eligible Family Independence Program group refused suitable employment.

Comments: The Dynamic Data Exchange System, currently referred to as the Case Management Tool, became Statewide in October 2001. Worker reports are available through the Dynamic Data Exchange System to identify and monitor required activities.

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430113
Finding Title: Discontinuance of Adoption Subsidy Payments

Finding: FIA often did not discontinue adoption subsidy payments to parents who failed to submit a required annual report to the Office of Adoption Services.

Comments: A fully automated system has not yet been developed. However, improvements have been made that will allow a mail merge between the subsidy payroll and the forms. The result will be that some critical data elements, such as parent name and address, will be prefilled. This should make the processing of the reports more efficient. Annual reports are being logged manually by temporary workers. Contracting for logging receipt of the annual reports is being explored.

A service request was submitted in May 2000; however, it was determined that new functionalities could not be added to the current database. A new service request was submitted to Information Technology Management Services in April 2002 to provide for a new database for the Adoption Assistance Program.

It is anticipated that the ability to track the receipt of annual reports will be written into the service requirements for the new system. Subject to resources available from the Department of Information Technology, it is anticipated that the new database will be operational by October 2004.

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430114
Finding Title: Vendor Verification of Client Eligibility

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

Comments: The finding cited two health screenings that 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. Monitoring staff are in place.

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430118
Finding Title: Financial Penalties for Noncompliance With Federal Guidelines and Regulations

Finding: FIA often did not comply with federal guidelines and regulations, resulting in federal sanctions for the Food Stamps, Child Support Enforcement, and Foster Care: Title IV-E Programs.

Comments:

- a. For fiscal year 2001-02, the payment inaccuracy rate was 13.36% for all errors and 9.52% for overissuances. FIA has hired a consultant to provide services to evaluate and recommend major strategies and or program/organization adjustments for food assistance payment accuracy performance. FIA has implemented a targeted case sweep in large counties and districts whose error rate is 8% or higher. Various short-term and long-term strategies and

corrective action initiatives are in place to address this payment accuracy challenge. In addition, FIA has initiated the Food Assistance Policy and the Information Technology Support Workgroup, which is working to identify areas of food stamp policy that may be simplified as well as additional information technology support to assist in payment accuracy.

- b. Effective October 1, 2001, implementation of a Statewide child support system was completed. The federal Office of Child Support Enforcement expects to certify the system sometime during 2003.
- c. FIA submitted Adoption and Foster Care Analysis and Reporting System (AFCARS) reports for the period October 1, 2001 through March 31, 2002. FIA's systems are now capable of accommodating the AFCARS federal reporting requirements.

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430119
Finding Title: Fixed Assets

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

Comments: FIA 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. FIA is awaiting written confirmation from the contractor.

Audit Period: October 1, 1998 through September 30, 2000
Finding Number: 430120
Finding Title: Federal Payroll Certifications

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

Comments: FIA will continue to use the PV-010 payroll certification to document and maintain payroll certifications for staff who are 100% federally funded. A change in the submission of the PV-010 was presented during year-end training sessions in September. Certifying personnel were instructed to send all PV-010 reports to the Federal Reporting/Cost Allocation Unit, Bureau of Accounting. These reports will then be filed at central office. The Bureau of Accounting sent a memorandum dated May 30, 2002 to all administrative directors with the request that they meet federal payroll certification standards. The Bureau of Accounting will also update the Administrative Handbook to include procedures on documenting and maintaining payroll certifications for employees charged to federal programs.

FIA implemented a process for interagency agreements with other State departments for those contracts effective October 1, 2001 or after. The process includes language in the agreement specific to payroll documentation as required by OMB Circular A-87 and responsibility for that documentation.

Audit Period: October 1, 1998 through September 30, 2000

Finding Number: 430121

Finding Title: Deceased Recipients

Finding: FIA did not periodically match its Client Information System recipient records with Department of Community Health (DCH) death records to prevent the issuance of benefits to deceased recipients.

Comments: An interagency agreement has been negotiated between FIA and DCH which gave permission to conduct the match. FIA staff need to work with the systems staff to implement the match and reports.

FAMILY INDEPENDENCE AGENCY

Corrective Action Plan

As of June 30, 2004

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES
AND FINANCIAL STATEMENTS**

Finding Number: 430301

Finding Title: Recording of Revenue

Management Views: The Family Independence Agency (FIA) agrees with the recommendation with regard to items a. and c. through g. and will comply. FIA disagrees with the recommendation with regard to item b.

Corrective Action: The Bureau of Accounting (BOA) will ensure that revenue is recorded in accordance with generally accepted accounting principles (GAAP). FIA disagrees with the recommendation with regard to item b. The Office of Financial Management, Department of Management and Budget (DMB), policy requires that current year operation remain separate from prior year operation. FIA's appropriation legislation contains boilerplate language in Section 212 that states, "In addition to funds appropriated in part 1 for all programs and services, there is appropriated for write-offs of accounts receivable, deferrals, and for prior year obligations in excess of applicable prior year appropriations, an amount equal to total write-offs and prior year obligations, but not to exceed amounts available in prior year revenues or current year revenues that are in excess of the authorized amount." FIA's journal voucher entries in connection with prior year decreasing federal claims ensure that federal revenues are in line with federal claims.

Anticipated Completion Date: October 1, 2004
Responsible Individual: Russ Hecko, Jean Ramsey, and Dave Putman

Finding Number: 430302
Finding Title: Local Accounting System Replacement (LASR)

Management Views: FIA disagrees. Early retirements, since October 2002, may have left a temporary void in knowledge base; however, newly hired management staff are quickly familiarizing themselves with the system functionality. FIA's BOA/Local Office of Liaison (LOL) staff maintain on-line manuals, including accounting, administrative handbook, and reporting, on a current basis. Currently, desk references are available, and training manuals are in progress for the newly implemented Local Accounting System Replacement (LASR) 11i.

Note: FIA-BOA/State Disbursement Unit (SDU) staff and this Unit's use of the LASR software system functionality is mutually exclusive from that of FIA-BOA/LOL.

Corrective Action: Regarding item b., LASR allows the same individual to initiate, process, and issue payments. However, complete separation of duties is not feasible without the appropriate staffing levels at the local offices. We are in the process of modifying the LR-854 report, AP Invoice Exceptions Transactions Audit Report, to include a field that identifies "Issued By" information, which has been made possible by LASR 11i new functionality. This will allow for monitoring and appropriate follow-up. Currently, FIA-BOA/LOL staff are working on development of a system for appropriate oversight that will include off-line or manual approvals.

Regarding item c., we will commence regularly scheduled fiscal reviews as staffing and travel funding are made available. In addition, we will explore teleconferencing among other options in light of further travel funding reductions.

Regarding item d., FIA-BOA/LOL staff instituted the New/Modified Supplier/Vendor Report to monitor new vendors created in LASR and that report is periodically run by a member of the FIA-BOA/LOL staff.

Regarding item e., we cannot reconcile all LASR payments to the State's accounting system because many of those payments are locally funded. The local office reimbursement process facilitates verification that all State reimbursable transactions are recorded on the State's accounting books. FIA-BOA/LOL staff will explore reconciliation options with management.

Anticipated Completion Date: October 1, 2004
Responsible Individual: Russ Hecko, Jean Ramsey, and Greg Wekwert

Finding Number: 430303
Finding Title: Cash Management

Management Views: FIA concurs with items a., b., and c. FIA has corrected its draw-down methodology. FIA disagrees with item d. in connection with drawing federal dollars on advance payments. Title 45, Part 92, Section 21 of the *Code of Federal Regulations* allows grantees a 3- to 5-day advance period to receive the federal funds before expending them. FIA cash advances do not fit the criteria.

Corrective Action: FIA has tightened its internal control processes for federal draws.

Anticipated Completion Date: November 2003
Responsible Individual: Lilia Denney and Deborah Christopherson

Finding Number: 430304
Finding Title: Payroll Expenditures

Management Views: FIA agrees with the recommendation.

Corrective Action: The Office of Human Resources will begin requiring certifiers to perform their function on-line. Because this function requires a password, it will ensure that nonauthorized personnel will not be able to certify records and there will be no need to have the postcertification function.

Anticipated Completion Date: March 2005. Security will have to be set up for over 300 certifiers and back-ups. It will be a phased roll-out due to staffing limitations in the Office of Human Resources and none will be done between mid-November and the first of the year due to holiday-shortened pay periods.

Responsible Individual: Michael Downer, Personnel Manager

Finding Number: 430305
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

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 Office of the Auditor General (OAG).

Corrective Action: BOA will ensure the complete and accurate presentation of its SEFA in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 and State financial management policies.

Anticipated Completion Date: October 1, 2004
Responsible Individual: Russ Hecko, Jean Ramsey, and Dave Putman

Finding Number: 430306
Finding Title: Child Support Accrual

Management Views: FIA agrees in part. The child support accrual has an impact on the State of Michigan's reported financial results. However, there is no impact on federal reporting because child support revenue is reported to the federal government on a cash basis.

We disagree that this finding should be in the Single Audit because it has no federal funds' impact. We agree that it may have a financial statement impact. We disagree that the appropriate child support subsidiary records are not maintained. We agree that documentation should be provided to support this accrual.

Corrective Action: As one alternative to solve the lack of documentation and to compensate for the fact that the Office of Child Support cannot provide access to federal tax information, the Office did the following for fiscal year 2002-03. The Office of Child Support and the Office of Internal Audit tested the query calculations to actual detailed case level receipts and disbursements to determine if the queries actually produced the correct results for an individual case. The results of the testing and queries to produce the child support accrual were available to the OAG for its review. Also, the federal auditors tested the certified Michigan Child Support Enforcement System (MiCSES) to ensure that it is properly distributing the receipts (including the offset). The test deck used by the federal auditors was provided to the OAG.

Anticipated Completion Date: The preceding action will be completed again for the fiscal year 2003-04 year-end accrual process.
Responsible Individual: Duane Noworyta and Russ Hecko

Finding Number: 430307
Finding Title: Expenditure Documentation

Management Views: BOA agrees and will comply.

Corrective Action: BOA plans on working with the OAG and the Office of Internal Audit to assist the OAG in reducing the time required to locate FIA expenditure documentation.

Anticipated Completion Date: October 1, 2004
Responsible Individual: Russ Hecko, Jean Ramsey, and Paul Onan

Finding Number: 430308
Finding Title: Cash Receipting at Central Office

Management Views: FIA agrees in part with items a. and b. FIA has two employees sitting side by side when concurrently logging and opening mail. This provides an alternative control with the employees sitting side by side being able to observe each other as well as log and open mail. Independent calculations occur with receipts to catch any discrepancies. Cash receipts in locked bank bags are always stored in the locked safe. The practice of placing empty bank bags on a counter for reuse has stopped. All bank bags are placed in a locked safe.

Corrective Action: FIA has improved internal control by having employees initial tapes created from proofing both tape processes and the daily printout cash receipt programs. FIA also has installed a lock box for over-

the-counter checks to be received (slotted entry for customers).

FIA concedes that one employee does not open mail while the other employee only observes. The arrangement of work surfaces and proximity of staff to one another provides ample opportunity for staff to open mail, log cash receipts, and observe one another.

Anticipated Completion Date: May 2004
Responsible Individual: Bob Drake

Finding Number: 430309
Finding Title: Encumbrances

Management Views: FIA agrees and will comply.

Corrective Action: BOA will ensure that encumbrances are recorded in accordance with GAAP.

Anticipated Completion Date: October 1, 2004
Responsible Individual: Russ Hecko, Jean Ramsey, and Dave Putman

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 430310
Finding Title: Food Stamp Cluster, *CFDA* 10.551 and 10.561

Management Views: FIA agrees with the recommendations and is in compliance. A thorough analysis has been completed to determine the primary reasons for Food Assistance Program inaccuracy and the barriers to improvement. The result was the development and implementation of a comprehensive corrective action plan.

Corrective Action: Initiatives include the following: implementation of a second and third party case reading process, policy simplification, and automated support for income budgeting and eligibility determination.

Anticipated Completion Date: September 30, 2004. Corrective action initiatives will be ongoing in order to achieve an inaccuracy rate that will not result in additional sanctions or penalty.

Responsible Individual: Ann Marie Sims, Director, Office of Project Management.

Finding Number: 430311

Finding Title: Juvenile Accountability Incentive Block Grants (JAIBG), *CFDA* 16.523

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

Corrective Action: Training for staff has been requested of the Office of Juvenile Justice and Delinquency Prevention staff from the U.S. Department of Justice, and internal controls will be strengthened. Quarterly audits of all program expenditures will be done.

Anticipated Completion Date: September 30, 2004

Responsible Individual: Kurt Warner, Division Manager

Finding Number: 430312

Finding Title: Juvenile Justice and Delinquency Prevention: Allocation to States (JJDP), *CFDA* 16.540

Management Views: FIA's/Bureau of Juvenile Justice agrees with the recommendation and will comply.

Corrective Action: Training for staff has been requested of the Office of Juvenile Justice and Delinquency Prevention staff from

the U.S. Department of Justice, and internal controls will be strengthened. Quarterly audits of all program expenditures will be done.

Anticipated Completion Date: September 30, 2004
Responsible Individual: Kurt Warner, Division Manager

Finding Number: 430313
Finding Title: Violence Against Women Formula Grants (VAW),
CFDA 16.588

Management Views: We agree in part. We do not agree with the payroll issues and the expenditure issues. We also do not agree with the match issues.

Corrective Action: We will work with BOA to remedy all accounting related issues.

Anticipated Completion Date: May 2004
Responsible Individual: Debi Cain

Finding Number: 430314
Finding Title: Rehabilitation Services: Vocational Rehabilitation Grants to States (Rehabilitation Services Program),
CFDA 84.126

Management Views: This program was transferred to the Department of Labor and Economic Growth (DLEG) on December 7, 2003. DLEG agrees with the recommendation and will comply.

Corrective Action: The Rehabilitation Services Program has met with both internal staff and DLEG Finance and Administrative Services to discuss the accounting deficiencies and will continue to work with them to

ensure consistency and compliance with federal reporting requirements of program costs, reimbursements and carry-forward obligations and expenditures. The Rehabilitation Services Program staff have also met with DMB and DLEG to identify all allowable rental costs that can be used for federal reimbursement and will review these on an annual basis with DMB and DLEG.

In addition, the Statewide computerized Vocational Rehabilitation tracking system has been enhanced to ensure that rehabilitation services are processed according to federal regulations. The Rehabilitation Services Program will also increase case reviews and has implemented a new case file packet system to assist in monitoring required signatures and other manual case file information.

The payroll signature issue will be addressed with the new on-line payroll system. The Rehabilitation Services Program will implement the system as soon as it is accessible for the visually impaired. Once implemented, payroll cannot be processed without a valid electronic signature.

Anticipated Completion Date: January 1, 2005
Responsible Individual: Allen Williams, Director
Internal Audit and Monitoring Division
Michigan Department of Labor and Economic Growth

Finding Number: 430315
Finding Title: Temporary Assistance for Needy Families (TANF),
CFDA 93.558

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

Corrective Action: A workgroup has been established to complete a thorough review of the FIA Application for Cash Assistance Form (FIA-1171). Systems changes have been made to ensure accurate and routine criminal history checks for day care aides. Systems changes and training requests for an automated/integrated Work First referral system are in the planning stage.

Anticipated Completion Date: Some corrective action steps have been completed. Estimated date of total completion is December 2006.

Responsible Individual: Jeni Ottney, Audit Liaison

Finding Number: 430316

Finding Title: Child Support Enforcement (CSE), *CFDA* 93.563

Management Views: The finding contains three items and one of those items contains three subsections. FIA agrees with some parts of the finding and disagrees with others. We agree with items a. and b. and subsections c(1)(a), c(2), and c(3). We agree in part and disagree in part with subsection c(1)(d) (subitems 1), 2), 4), and 6) meet the 75% federal compliance requirement). We believe that a level of performance cannot be an internal control weakness if we have met federal performance requirements. The remainder of the finding has been corrected through the implementation of the Statewide MiCSES 2.4 on September 30, 2003 or other specific action and, therefore, FIA has complied.

Corrective Action: FIA has implemented MiCSES 2.4 and its automated processes, the Program Leadership Group has been established to help make practices and procedures consistent across the State, DMB has implemented an indirect cost method to charge time, and an asset listing has been provided to the Office of Purchasing.

Anticipated Completion Date: Completed.
Responsible Individual: Marilyn Stephen

Finding Number: 430317
Finding Title: Refugee and Entrant Assistance: State Administered Programs (REAP), *CFDA* 93.566

Management Views: Agree.

Corrective Action: We plan to meet with the Department of Information Technology to determine a strategy for pulling data from the data warehouse to flag supervisory review in the field. We also plan to hire a full-time foster care specialist to oversee billings and nonscheduled payment approvals. We further plan to meet with the field operations director to strengthen protocols in the county FIA offices.

Anticipated Completion Date: Discussions with the Department of Information Technology to begin in June and anticipated completion date March 31, 2005.

Responsible Individual: Al Horn

Finding Number: 430318
Finding Title: Low-Income Home Energy Assistance (LIHEAP), *CFDA* 93.568

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

Corrective Action: Improved training mechanism, new case packet instructions, targeted case reads, improved tracking of policy memorandums in on-line manuals, and automated budget are being implemented. Closer contact with the Department of Treasury is occurring.

Anticipated Completion Date: Some corrective action steps have been completed. Others are pending system and on-line manual changes.

Responsible Individual: Jeni Ottney, Audit Liaison

Finding Number: 430319

Finding Title: Child Care Cluster, *CFDA* 93.575 and 93.596

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

Corrective Action: Systems changes have been made and policy has been clarified. Staff have been notified of changes and reminded of the importance of accurate case documentation. A case reading form is being piloted.

Anticipated Completion Date: Most corrective action steps have been completed. Clarification of case packeting policy will be released in October 2004, completing corrective action for this item.

Responsible Individual: Jeni Ottney, Audit Liaison

Finding Number: 430320

Finding Title: Child Welfare Services: State Grants (CWSS), *CFDA* 93.645

Management Views: FIA agrees with the findings.

Corrective Action: Children's Services will work with Field Services and BOA to ensure proper reporting and documentation processes.

Anticipated Completion Date: October 2004

Responsible Individual: Longino Gonzales, Acting Director, Children's Services

Finding Number: 430321
Finding Title: Foster Care: Title IV-E, *CFDA* 93.658

Management Views: FIA agrees with the findings.

Corrective Action: The time period for which cases were reviewed was during the initial roll-out of the Services Worker Support System (SWSS). Many of the individual findings relating to information in the case record will be corrected with the continued implementation of components of SWSS. Multiple findings reflected foster care maintenance payments made to Title IV-E ineligible children. As part of the Title IV-E Review Program Improvement Plan, additional staff training on determining Title IV-E eligibility will be developed and implemented.

Anticipated Completion Date: Most of this is already completed. The Title IV-E Program Improvement Plan is currently being drafted for review and approval by the U.S. Department of Health and Human Services; Corrections should be made by fall 2005.

Responsible Individual: Mary Mehren, Children's Protective Services/Fostercare Manager

Finding Number: 430322
Finding Title: Adoption Assistance, *CFDA* 93.659

Management Views: FIA believes that documentation of a background check currently resides only in the consent packet, not in the subsidy application.

Corrective Action: FIA will develop a paper process that will require that verification of a background check is completed before adoption subsidy is approved.

Anticipated Completion Date: Fall 2005
Responsible Individual: Kate Young, Manager, Adoption Subsidy Unit

Finding Number: 430323
Finding Title: Chafee Foster Care Independent Living (CFCIP),
CFDA 93.674

Management Views: FIA agrees with this finding.

Corrective Action: Management will develop uniform procedures for tracking and approving expenditures for administration of this grant.

Anticipated Completion Date: January 2005
Responsible Individual: Mary Chaliman, Foster Care Manager

Finding Number: 430324
Finding Title: Cost Allocation Plan

Management Views: FIA agrees.

Corrective Action: FIA made improvements to internal control processes over its cost allocation plan.

Anticipated Completion Date: December 31, 2003
Responsible Individual: Larry Matecki

Finding Number: 430325
Finding Title: Suspension and Debarment

Management Views: FIA agrees with the finding.

Corrective Action: Contract language has been changed and policy/procedures were developed to check the status of each contractor.

Anticipated Completion Date: Completed April, 2004
Responsible Individual: H. Weber

GLOSSARY

Glossary of Acronyms and Terms

absolute value	The numerical value of a number without regard to whether it is positive or negative.
adverse opinion	An auditor's opinion in which the auditor states that the audited agency did not comply, in all material respects, with the cited requirements that are applicable to each major federal program.
AFCARS	Adoption and Foster Care Analysis and Reporting System.
AFDC	Aid to Families with Dependent Children.
ARHA	Annual Report on Households Assisted by LIHEAP.
ARS	Automated Recoupment System.
BOA	Bureau of Accounting.
CFCIP	Chafee Foster Care Independent Living.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
CIMS	Client Information System.
CMIA	federal Cash Management Improvement Act of 1990.
CPR	Central Paternity Registry.
CSCF	Child Support Collection Fund.
CSE	Child Support Enforcement.

CSES	Child Support Enforcement System.
CTF	Children's Trust Fund.
CWSS	Child Welfare Services: State Grants.
Data Collection and Distribution System (DCDS)	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system for MAIN HRS.
day care aide	A child care provider who is 16 years of age or older (including a relative) who provides care in the home where the child lives per FIA's Program Eligibility Manual item 704.
DCH	Department of Community Health.
disclaimer of opinion	A statement that the auditor does not express an opinion on the financial schedules and/or financial statements or a statement that the auditor does not express an opinion on the audited agency's compliance with the cited requirements that are applicable to each major federal program.
DIT	Department of Information Technology.
DLEG	Department of Labor and Economic Growth.
DMB	Department of Management and Budget.
DOC	Difficulty of Care.
FIA	Family Independence Agency.
FIP	Family Independence Program.
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.

FNS	Food and Nutrition Service.
FOC	Friend of the Court.
FPLS	Federal Parent Locator Service.
FRAM	Financial Reporting and Accounting Manual.
GAAP	generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
HHC	home heating credit.
HHS	U.S. Department of Health and Human Services.
Human Resources Management Network (HRMN)	The State's integrated human resources system that processes personnel, payroll, and employee benefits data for MAIN HRS.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
IPE	individualized plan for employment.
IRS	Internal Revenue Service.
JAIBG	Juvenile Accountability Incentive Block Grants.
JJDP	Juvenile Justice and Delinquency Prevention: Allocation to States.
LASR	Local Accounting System Replacement.

LIHEAP	Low-Income Home Energy Assistance.
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.
MAIN Human Resource System (HRS)	The component of MAIN that contains both the Human Resources Management Network (HRMN) and the Data Collection and Distribution System (DCDS).
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 financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that 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 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)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
MiCSES	Michigan Child Support Enforcement System.
non-State employee	A person who does not work for the State of Michigan.
OAG	Office of the Auditor General.
OIA	Office of Internal Audit.
OMB	U.S. Office of Management and Budget.
OQA	Office of Quality Assurance.
PA	prosecuting attorney.
program group	The persons of the child care family who live together, except for temporary absences, whose income must be counted in determining eligibility for child day care categories that require an income determination per FIA's Program Eligibility Manual item 205.
qualified opinion	An auditor's opinion in which the auditor: <ul style="list-style-type: none"> a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules presenting

supplemental financial information in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

- b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves.

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. Questioned costs may result in federal sanctions or reductions of federal awards.

REAP

Refugee and Entrant Assistance: State Administered Programs.

Rehabilitation Services Program	Rehabilitation Services: Vocational Rehabilitation Grants to States.
relative care provider	A child care provider who is 18 years of age or older who provides child care services to children who is, by marriage, blood relationship, or adoption, a grandparent/step-grandparent, great grandparent/step-great grandparent, aunt/step-aunt, uncle/step-uncle, sibling/step-sibling and provides care in the relative's home and must not live in the same home as the child per FIA's Program Eligibility Manual item 704.
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.
SEA	special energy allowance.
SEFA	schedule of expenditures of federal awards.
SER	State Emergency Relief.
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

Government Auditing Standards 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	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SSBG	Social Services Block Grant.
SSI	Supplemental Security Income.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
SWSS	Services Worker Support System.
TANF	Temporary Assistance for Needy Families.
UMP	Unaccompanied Minors Program.
USC	<i>Code of Laws of the United States.</i>
USDA	U.S. Department of Agriculture.
unqualified opinion	An auditor's opinion in which the auditor states that: <ul style="list-style-type: none">a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; orb. The financial schedules and/or financial statements presenting supplemental financial information are fairly

stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

VAW

Violence Against Women Formula Grants.