

PERFORMANCE AUDIT
OF THE

MICHIGAN YOUTH CHALLENGE PROGRAM

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

April 2004

“...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

Performance Audit

Report Number:
 51-300-03

Michigan Youth Challenge Program

Department of Military and Veterans Affairs

Released:
 April 2004

The national youth challenge program is a youth intervention program that provides military-based training, education, and supervised working experience through community service to produce program graduates with the values, skills, education, and self-discipline to succeed as adults. Under Michigan's agreement with the National Guard Bureau, the Department of Military and Veterans Affairs establishes, organizes, and administers the Michigan Youth Challenge Program.

Audit Objective:

To assess the effectiveness and efficiency of the Michigan Youth Challenge Program.

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Audit Conclusion:

We concluded that the Program was generally effective and efficient. However, our audit disclosed reportable conditions related to Michigan Youth Challenge Program effectiveness and Michigan Youth Challenge, Inc., internal control (Findings 1 and 2).

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Noteworthy Accomplishments:

The Michigan Youth Challenge Academy, the Program's school, achieved accreditation from the North Central Association Commission on Accreditation and School Improvement (NCA CASI) during academic year 2001-02. The NCA CASI standard is a single overriding commitment to excellence that maximizes the proportion of promoted or graduated students who are self-directed learners and are prepared to make successful school-to-

school or school-to-career transitions. The five major criteria that must be present to meet the NCA CASI standard are school improvement plan; information system; process of schooling; vision, leadership-governance, and school community; and resources and allocation.

Also, during academic year 1999-2000, the Program was recognized by the National Guard Bureau for having the best educational program nationally among challenge programs.

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Agency Response:

The Department responded that it agrees with both audit findings and that it is taking the necessary steps to comply.

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



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

April 6, 2004

Major General Thomas G. Cutler, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Cutler:

This is our report on the performance audit of the Michigan Youth Challenge Program, Department of Military and Veterans Affairs.

This report contains our report summary; description of agency; audit objective, scope, and methodology and agency responses; comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. 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 the audit.

AUDITOR GENERAL

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Description of Agency

The Department of Military and Veterans Affairs is responsible for administering State-regulated veterans services and training the Michigan National Guard to ensure military preparedness to assist both federal and State authorities.

Title 32, Section 509 of the *Code of Laws of the United States* provides the authority for the Secretary of Defense to use the National Guard to conduct a youth challenge program. This national program is a youth intervention program that provides military-based training, education, and supervised working experience through community service to produce program graduates* with the values, skills, education, and self-discipline to succeed as adults. A cooperative agreement is entered into between the National Guard Bureau and the Governor of the State. Under Michigan's agreement with the National Guard Bureau, the Governor, through the Adjutant General* of the Department of Military and Veterans Affairs, establishes, organizes, and administers the Michigan Youth Challenge Program.

The Program is designed as a 17-month two-phase process: the Program begins with the 5-month residential phase* in Battle Creek, Michigan, followed by the 12-month post-residential phase* during which Program participants return to their communities. Program participants must volunteer for the Program and upon admission be between the ages of 16 and 18, not in trouble with the law, drug-free, unemployed, a United States citizen or legal resident, and a high school dropout. According to the National Guard Bureau's 2001 annual report on challenge programs, the typical Program participant is a 16-year-old white male who has dropped out of high school after two years, used illegal drugs, and held a variety of minimum wage jobs. Additionally, two-thirds (67%) of Program participants report some prior involvement with the juvenile justice system.

The Program's residential phase is conducted in a quasi-military environment*. The framework used during the residential phase of the Program consists of eight core components: academic excellence, responsible citizenship, physical fitness, community service, job skills, leadership/followership, life coping skills, and health and hygiene. During the residential phase, each graduate is matched with a mentor* from his/her

* See glossary at end of report for definition.

local community. The mentor provides support, guidance, and direction for the graduate during the yearlong post-residential phase of the Program.

The post-residential phase of the Program begins immediately upon the participant's graduation from the residential phase. During this 12-month period, the graduate, with support from his/her mentor, transitions from the structured and disciplined environment of the residential phase back into the community to execute his/her Post-Residential Action Plan* (P-RAP). P-RAPs are developed as a part of the residential phase of the Program and often include plans for obtaining employment in the local community, joining the military or National Guard, enrolling in college, returning to high school, or obtaining vocational training.

An important element of the post-residential phase is the weekly contact and regular meetings between graduates and Program mentors. These contacts provide the Program mentors with an opportunity to provide support, guidance, and direction to the graduates and to assess the graduates' progress with their P-RAPs. On a monthly basis during the post-residential phase, Program mentors report back to the Program on the graduates' current status and progress with their P-RAPs. These monthly reports from mentors help the Program to ensure that graduates are continuing with their development into productive members of society.

As of March 2003, the Program had graduated 533 Program participants at a cost of approximately \$17,800 per graduate. The Program is funded 60% by federal funds and 40% by the State's General Fund.

For the fiscal year ended September 30, 2002, Program expenditures were \$2.9 million. As of June 21, 2003, the Program had 42 full-time equated employees.

* See glossary at end of report for definition.

Audit Objective, Scope, and Methodology and Agency Responses

Audit Objective

The objective of our performance audit* of the Michigan Youth Challenge Program, Department of Military and Veterans Affairs, was to assess the effectiveness* and efficiency* of the Program.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan Youth Challenge Program. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, performed during the period March through July 2003, included examination of Program records and activities primarily for the period July 1999 through March 2003.

To gain an understanding of Program activities and to establish our audit objectives and methodology, we conducted a preliminary review of Program operations. This included interviews with Program management and staff regarding their functions and responsibilities; an examination of Program processes and records; on-site observation of residential facilities and activities; and a review of applicable laws, appropriations acts, policies and procedures, and the Program's cooperative agreement with the National Guard Bureau.

To assess the effectiveness of the Program, we analyzed Program outcomes* for the residential and post-residential phases of the Program and compared the results to readily available indicators for similarly situated or aged youths.

To assess the efficiency of the Program, we compared the cost per Program graduate to the per-person cost at other institutions serving like youth.

* See glossary at end of report for definition.

Agency Responses

Our audit report includes 2 findings and 2 corresponding recommendations. The Department responded that it agrees with both findings and that it is taking the necessary steps to comply.

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

COMMENT, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS AND EFFICIENCY OF THE MICHIGAN YOUTH CHALLENGE PROGRAM

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Michigan Youth Challenge Program.

Conclusion: We concluded that the Program was generally effective and efficient. However, our audit disclosed reportable conditions* related to Michigan Youth Challenge Program effectiveness and Michigan Youth Challenge, Inc., internal control*.

Noteworthy Accomplishments: The Michigan Youth Challenge Academy, the Program's school, achieved accreditation from the North Central Association Commission on Accreditation and School Improvement (NCA CASI) during academic year 2001-02. The NCA CASI standard is a single overriding commitment to excellence that maximizes the proportion of promoted or graduated students who are self-directed learners and are prepared to make successful school-to-school or school-to-career transitions. The five major criteria that must be present to meet the NCA CASI standard are school improvement plan; information system; process of schooling; vision, leadership-governance, and school community; and resources and allocation.

Also, during academic year 1999-2000, the Program was recognized by the National Guard Bureau for having the best educational program nationally among challenge programs.

FINDING

1. Michigan Youth Challenge Program Effectiveness

The Michigan Youth Challenge Program had not developed a process to assess overall Program effectiveness. Consequently, the Program was unable to determine the overall success of the Program in producing graduates with values, skills, education, and self-discipline to succeed as adults.

Program participants typically include those individuals who have dropped out of high school, have used illegal drugs, have previously been involved with the juvenile justice system but have not committed a felony prior to entering the

* See glossary at end of report for definition.

Program, and were living with their parent(s) immediately prior to enrollment in the Program. Program objectives* include intervening in the lives of at-risk youth between the ages of 16 and 18 and producing graduates with the values, skills, education, and self-discipline to succeed as adults.

The Program did measure educational outcomes, such as student success on the general educational development (GED) test and improvements in reading and mathematics skills achieved during the 5-month residential phase of the Program. However, it had not developed outcome measures with which to evaluate overall Program effectiveness.

Through discussions with Program staff, we identified employment, unemployment compensation, the need for State financial assistance, and criminal conviction activity as possible valid indicators of program success. We compared data for all of the 533 Program graduates for the period January 2000 through March 2003 obtained from the Challenge Monitoring and Evaluation Information System with the data obtained from State of Michigan data systems in these areas. The comparisons disclosed:

a. Employment

Approximately 15% of Program graduates enlisted in active military service and 15% enlisted in the Michigan National Guard. Of the graduates who did not enlist, approximately 70% reported State earnings for the period January 1, 2002 through March 31, 2003.

The State-reported total wage range for Program graduates with earnings for the 5-quarter period was from \$63 to \$33,874. For Program graduates reported as having obtained jobs at graduation, the State-reported earnings equated to an average gross weekly wage of approximately \$94. According to the Bureau of Labor Statistics, U.S. Department of Labor, the median weekly earnings of part-time workers aged 16 to 24 years old was approximately \$140 for 2001 and 2002.

b. Unemployment Compensation

Approximately 15% of Program graduates beyond the post-residential phase of the Program received State-reported unemployment compensation.

* See glossary at end of report for definition.

According to the Bureau of Labor Statistics, U.S. Department of Labor, the national unemployment rate for 16- to 19-year-olds averaged 15% for 2000 through 2002.

c. Need for State Financial Assistance

Approximately 14% of Program graduates out of the Program one year or more had received or were receiving State financial aid, primarily Medicaid and food stamps. In 2002, approximately 13% of the State's general population under 21 years of age was receiving Medicaid benefits.

d. Criminal Conviction Activity

Approximately 22% of Program graduates who had criminal convictions prior to entering the Program had been convicted again since their graduations that began in January 2000. A 1999 study for selected states by the Bureau of Data and Research of the Florida Department of Juvenile Justice reported that the recidivism rate for juvenile offenders in Michigan was approximately 35%.

Based on our selected comparisons, the Program demonstrated results for some measures that were favorable to the comparison group and other results that were unfavorable. We recognize that other factors may affect the success of Program graduates in achieving the Program's goals. Therefore, to more fully evaluate program effectiveness, the Program should determine the performance indicators* that are most useful and appropriate; determine the desired outcome attainment for the individuals it serves; gather data on the performance indicators chosen; and then compare actual results to established quantifiable goals and objectives, historical trends, and populations of youth with like characteristics.

RECOMMENDATION

We recommend that the Program develop a process to assess overall Program effectiveness.

AGENCY PRELIMINARY RESPONSE

The Department of Military and Veterans Affairs agrees with the finding that a method to measure Program effectiveness should be developed. However, the Department stated that the Michigan Youth Challenge Academy has never had the funding or staff to allow for the regular follow-up of Program graduates. The

* See glossary at end of report for definition.

Michigan Youth Challenge Academy will take steps to seek funding and/or volunteers to collect and analyze follow-up data on Program participants.

FINDING

2. Michigan Youth Challenge, Inc. (MYCI), Internal Control

The Department had not established an internal accounting and administrative control system within MYCI to ensure proper control over and recording of assets, liabilities, revenues, and expenditures.

During the period February 2001 through May 2003, MYCI accepted donations of approximately \$12,800 and incurred expenditures of approximately \$6,800. Our review of the operations of MYCI disclosed:

- a. MYCI made purchases of \$5,145 related to fundraising activities that were ineligible for tax exemption. Fundraising was not a purpose for which MYCI was established according to its articles of incorporation. State sales tax on these purchases would have amounted to \$309.
- b. Inadequate separation of duties existed for accounting functions. The same person responsible for account reconciliation was also authorized to withdraw and deposit funds. Additionally, dual signatures were not required for disbursements from the organization.
- c. Written policies and procedures did not exist to help ensure compliance with all State rules and regulations, including proper processing of donations, proper processing and authorization of expenditures, and proper recordkeeping.

MYCI is a nonprofit tax-exempt charitable organization as defined by Section 501(c)(3) of the Internal Revenue Code. The Department established MYCI as a legally separate organization to accept donations for the Michigan Youth Challenge Program from private sources to fund those needs of the Program not supported by federal or State funds. MYCI's articles of incorporation state that its purpose is to support education programs which help at-risk youth ages 16 to 18 to learn life, leadership, and goal-setting skills and to assist them in obtaining a GED diploma. Section 205.54q of the *Michigan Compiled Laws* states that purchases made by these types of organizations are exempt from State sales tax if the purchases are

used or consumed primarily in carrying out the purposes of the organization as stated in their bylaws or articles of incorporation. Also, this Section states that purchases of property used in fundraising activities are taxable.

Although MYCI is a legally separate organization, Department personnel comprise a voting majority of MYCI's governing body and the Department has the ability to impose its will on the organization. Therefore, according to Governmental Accounting Standards Board Statement No. 14, MYCI is considered a component unit of the Department, making the Department financially accountable for the organization.

Section 18.1485 of the *Michigan Compiled Laws* requires departments to establish and maintain an internal accounting and administrative control system, including a plan of organization that provides separation of duties and responsibilities among employees; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; and a system of practices to be followed in the performance of duties and functions in each department.

Establishing an internal accounting and administrative control system within MYCI would assist the Department in ensuring that MYCI financial transactions are properly controlled and that MYCI complies with State rules and regulations.

RECOMMENDATION

We recommend that the Department establish an internal accounting and administrative control system within MYCI to ensure proper control over and recording of assets, liabilities, revenues, and expenditures.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the audit finding to establish proper control over and recording of assets, liabilities, revenues, and expenditures.

The Department has begun the process to close out the 501(c)(3) account and to transfer all assets to approved State accounts.

GLOSSARY

Glossary of Acronyms and Terms

Adjutant General	The senior officer of the Michigan National Guard.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
GED	general educational development.
graduate	A Program participant who successfully completes the 5-month residential phase.
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.
mentor	A volunteer who has passed a background screening and has completed the mentor-training program approved by the National Guard Bureau.
MYCI	Michigan Youth Challenge, Inc.
NCA CASI	North Central Association Commission on Accreditation and School Improvement.
objectives	Specific outcomes that a program seeks to achieve its goals.
outcomes	The actual impacts of the program.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or

function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

performance indicators

Information of a quantitative or qualitative nature used to assess achievement of goals and/or objectives.

Post-Residential Action Plan (P-RAP)

A plan formulated during the residential phase of the Program to assist Program participants in developing career goals and short-term and long-term objectives.

post-residential phase

The 12-month period immediately following graduation from the residential phase.

quasi-military environment

The military-based structure, education, training, and discipline that characterize activities of the Program.

reportable condition

A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

residential phase

The 5-month period during which Program participants are residents. This phase is conducted in a quasi-military structured and disciplined environment.