



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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*

Report Number:
431-0100-09

Department of Human Services

October 1, 2006 through September 30, 2008

Released:
September 2009

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 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 the Department of Human Services' (DHS's) financial schedules and on the financial statements of the Children's Trust Fund.

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Internal Control Over Financial Reporting

We identified significant deficiencies in internal control over financial reporting (Findings 1 through 4). We do not consider these significant deficiencies to be material weaknesses.

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Noncompliance and Other Matters Material to the Financial Schedules and/or Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial schedules and/or financial statements that are required to be reported under *Government Auditing Standards*. However, we did identify other instances of noncompliance (Findings 1, 3, 4, and 5).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 14 programs as major programs and identified known questioned costs of \$163.8 million and known and likely questioned costs totaling \$671.0 million. DHS expended a total of \$6.5 billion in federal awards during the two-year period ended September 30, 2008. We issued 9 unqualified opinions, 3 qualified opinions, and 2 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 significant deficiencies in internal control over federal program compliance (Findings 5 through 21). We consider Findings 5, 9, 12, 14, 16, 17, and 19 to contain material weaknesses. In addition, we identified 27 recommendations repeated from our prior report for the two-year period ended September 30, 2006, many of which were also reported in earlier DHS Single Audits (Findings 5, 6, and 8 through 19).

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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 6 through 21).

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Systems of Accounting and Internal Control:
We determined that DHS 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 or Cluster Title</u>	<u>Compliance Opinion</u>
10.551 and 10.561	Food Stamp Cluster	Unqualified
81.042	Weatherization Assistance for Low-Income Persons	Unqualified
93.556	Promoting Safe and Stable Families	Unqualified
93.558	Temporary Assistance for Needy Families	Adverse
93.563	Child Support Enforcement	Unqualified
93.568	Low-Income Home Energy Assistance	Qualified
93.569	Community Services Block Grant	Unqualified
93.575 and 93.596	Child Care and Development Fund (CCDF) Cluster	Adverse
93.645	Child Welfare Services: State Grants	Unqualified
93.658	Foster Care: Title IV-E	Qualified
93.659	Adoption Assistance	Qualified
93.667	Social Services Block Grant	Unqualified
93.778	Medicaid Cluster	Unqualified
96.001	Disability Insurance/Supplemental Security Income (SSI) Cluster	Unqualified

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

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



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

September 24, 2009

Mr. Ismael Ahmed, Director
Department of Human Services
and
Ms. Nancy Moody, Chair
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Ahmed and Ms. Moody:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Human Services (DHS) for the period October 1, 2006 through September 30, 2008.

This report contains our report summary; our independent auditor's reports on the financial schedules and financial statements; and the DHS financial schedules, the Children's Trust Fund financial statements, and the schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report 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 DHS'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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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

Mr. Ismael Ahmed, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mr. Ahmed:

We have audited the accompanying financial schedules of the Department of Human Services for the fiscal years ended September 30, 2008 and September 30, 2007, as identified in the table of contents. These financial schedules are the responsibility of the Department'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 1, the financial schedules present only the revenues and the sources and disposition of authorizations for the Department of Human Services' 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 Department or the State's General Fund in conformity 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 the sources and disposition of authorizations of the Department of Human Services for the fiscal years ended September 30, 2008 and September 30, 2007 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2009 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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*, is presented for purposes of additional analysis and is not a required part of the Department'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

August 17, 2009



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

Independent Auditor's Report on the Financial Statements

Ms. Nancy Moody, Chair
State Child Abuse and Neglect Prevention Board
and
Mr. Ismael Ahmed, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Ms. Moody and Mr. Ahmed:

We have audited the accompanying financial statements of the Children's Trust Fund, Department of Human Services, as of and for the fiscal years ended September 30, 2008 and September 30, 2007, 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 Department'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 1, 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 special revenue funds as of September 30, 2008 and September 30, 2007 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, 2008 and September 30, 2007 and the changes in financial position and the budgetary comparison 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 our report dated August 17, 2009 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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*, is presented for purposes of additional analysis and is not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL

August 17, 2009

DEPARTMENT OF HUMAN SERVICES
Schedule of General Fund Revenues
Fiscal Years Ended September 30
(In Thousands)

	2008	2007
REVENUES		
From federal agencies	\$ 3,165,343	\$ 3,113,553
From local agencies	57,867	59,244
From services	7	9
From licenses and permits	89	26
Miscellaneous:		
Child support recovery of grants	42,415	39,661
Other sources	33,291	32,924
Total revenues	\$ 3,299,012	\$ 3,245,417

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

Amounts may not foot due to rounding.

DEPARTMENT OF HUMAN SERVICES
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	2008	2007
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 1,408,332	\$ 1,269,341
Balances carried forward	5,433	1,811
Restricted financing sources	3,291,390	3,238,128
Less: Intrafund expenditure reimbursements	(1,652)	(1,576)
Total	\$ 4,703,503	\$ 4,507,704
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 4,602,875	\$ 4,461,126
Less: Intrafund expenditure reimbursements	(1,652)	(1,576)
Net expenditures and transfers out	\$ 4,601,223	\$ 4,459,550
Balances carried forward:		
Encumbrances	\$ 19,240	\$ 1,244
Multi-year projects	7,944	3,796
Restricted revenues - not authorized or used	3,584	393
Total balances carried forward	\$ 30,768	\$ 5,433
Balances lapsed	\$ 71,512	\$ 43,957
Overexpended		(1,235)
Total	\$ 4,703,503	\$ 4,507,704

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

Amounts may not foot due to rounding.

CHILDREN'S TRUST FUND
Department of Human Services
Balance Sheet
As of September 30
(In Thousands)

	2008	2007
ASSETS		
Current assets:		
Equity in common cash (Notes 4a and 4b)	\$ 3,881	\$ 6,547
Securities lending collateral (Note 4d)		11,239
Other current assets	253	394
Total current assets	\$ 4,134	\$ 18,179
Investments (Notes 4a and 4c)	17,710	16,237
Total assets	\$ 21,844	\$ 34,416
LIABILITIES AND FUND BALANCE		
Liabilities:		
Warrants outstanding	\$ 7	\$ 30
Security lending obligations (Note 4d)		11,239
Accounts payable and other liabilities	323	491
Amounts due to other funds	5	3
Deferred revenue - current	6	4
Total liabilities	\$ 341	\$ 11,767
Fund balance:		
Reserved for funds held as permanent investments (Note 4e)	\$ 19,775	\$ 20,853
Encumbrances		9
Unreserved	1,728	1,787
Total fund balance	\$ 21,503	\$ 22,649
Total liabilities and fund balance	\$ 21,844	\$ 34,416

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

Amounts may not foot due to rounding.

CHILDREN'S TRUST FUND
Department of Human Services
Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ended September 30
(In Thousands)

	2008	2007
REVENUES		
Investment income (Notes 4c and 4f)	\$ 50	\$ 2,188
From federal agencies	1,039	1,050
Income tax checkoff	340	338
Other donations	592	918
Total revenues	\$ 2,021	\$ 4,494
EXPENDITURES		
Grants	\$ 1,770	\$ 2,021
Administration	1,394	1,908
Total expenditures	\$ 3,164	\$ 3,929
Excess of revenues over (under) expenditures	\$ (1,143)	\$ 565
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	\$	\$
Transfers to other funds	(3)	
Total other financing sources (uses)	\$ (3)	\$ 0
Excess of revenues and other sources over (under) expenditures and other uses	\$ (1,146)	\$ 565
Fund balance - Beginning of fiscal year	22,649	22,084
Fund balance - End of fiscal year	\$ 21,503	\$ 22,649

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

Amounts may not foot due to rounding.

CHILDREN'S TRUST FUND
 Department of Human Services
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Fiscal Years Ended September 30
 (In Thousands)

	Fiscal Year 2007-08		
	Budget	Actual	Variance
REVENUES AND OTHER SOURCES:			
From federal agencies	\$ 1,039	\$ 1,039	\$
Miscellaneous	982	982	
Total revenues and other sources	\$ 2,021	\$ 2,021	\$ 0
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES:			
Grants	\$	\$ 1,770	\$
Administration		1,394	
Transfers out		3	
Encumbrances			
Total expenditures, transfers out, and encumbrances	\$ 5,186	\$ 3,168	\$ 2,018
Revenues and other sources over (under) expenditures, encumbrances, and other uses (statutory/budgetary basis)	\$ (3,165)	\$ (1,146)	\$ 2,018
Reconciling items:			
Encumbrances at September 30		\$	
Funds not annually budgeted			
Net reconciling items		\$ 0	
Excess of revenues and other sources over (under) expenditures and other uses (GAAP basis)		\$ (1,146)	
FUND BALANCE (GAAP BASIS)			
Beginning balance		22,649	
Ending balance		\$ 21,503	

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

Amounts may not foot due to rounding.

Fiscal Year 2006-07

Budget	Actual	Variance
\$ 1,050	\$ 1,050	\$
3,444	3,444	
<u>\$ 4,494</u>	<u>\$ 4,494</u>	<u>\$ 0</u>

\$	\$ 2,021	\$
	1,908	
	9	
<u>\$ 5,102</u>	<u>\$ 3,938</u>	<u>\$ 1,164</u>

<u>\$ (608)</u>	<u>\$ 556</u>	<u>\$ 1,164</u>
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\$ 9

\$ 9

\$ 565

22,084

\$ 22,649

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 Department of Human Services (DHS) for the fiscal years ended September 30, 2008 and September 30, 2007. The financial transactions of DHS 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 report the financial position and the changes in financial position and the budgetary comparison of DHS's Children's Trust Fund (CTF) as of and for the fiscal years ended September 30, 2008 and September 30, 2007. The CTF is a part of the State of Michigan's reporting entity and is reported as a special revenue fund in the *SOMCAFR*.

The notes accompanying these financial schedules and financial statements relate directly to DHS and the CTF. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; deposits and investments; pension benefits; other postemployment benefits; and contingencies and commitments.

b. Measurement Focus, Basis of Accounting, and Presentation

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

In addition, the accompanying financial statements present only the CTF. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position and budgetary comparison of the State of Michigan or its special revenue funds in conformity with GAAP.

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. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized or used. Significant balances carried forward consisted of \$3.8 million of Food Stamps reinvestment appropriations for fiscal year 2007-08 and \$1.4 million of State Disability Assistance payments appropriations for fiscal year 2006-07.
- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements used 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 or used.

- d. 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. The expenditure reimbursements were related to disability examinations performed for the Department of Management and Budget and Medicaid Title XIX Administration expenditures incurred on behalf of the Department of Community Health.
- e. Expenditures: Charges incurred for work performed, supplies and materials delivered, services rendered, and grants, regardless of whether payment has been made.
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations. Significant encumbrances consisted of \$17.3 million in appropriations for information technology services and projects for fiscal year 2007-08. There were no significant encumbrances in fiscal year 2006-07.
- 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 \$7.9 million in appropriations for Food Stamps reinvestment, information technology services and projects, and child support automation for fiscal year 2007-08 and \$3.8 million in appropriations for Food Stamps reinvestment for fiscal year 2006-07.
- h. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant carry-forwards of this type were \$1.9 million in

appropriations for State Disability Assistance payments and \$1.2 million in appropriations for donated funds positions for fiscal year 2007-08. There were no significant carry-forwards of this type for fiscal year 2006-07.

- i. 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.
- j. Overexpended: The total overexpenditure of line-item authorizations. DHS is required to seek a supplemental appropriation to authorize the expenditure. There were no overexpenditures in fiscal year 2007-08. Overexpenditures occurring in fiscal year 2006-07 totaled \$1.2 million in appropriations for Rape and Prevention Services. DHS incurred the overexpenditures in anticipation of statutory amendments that would have allowed DHS to finance certain specific DHS activities with revenue from the Crime Victim's Rights Fund. The anticipated statutory amendments were not enacted prior to closing the fiscal year 2006-07 accounting records. DHS submitted a request for a budget adjustment at the end of fiscal year 2006-07, which was denied.

Note 3 Contingencies and Commitments

a. Federal Penalties and Settlement Agreements

(1) Settlement Agreements With the U.S. Department of Agriculture (USDA)

Because DHS's Food Stamps Program error rates were above the national average through fiscal year 2002-03, the USDA imposed sanctions on DHS. The USDA imposed a total of \$89.3 million of sanctions through fiscal year 2001-02. The USDA's Food and Nutrition Service (FNS) changed the way it computes the Food Stamps Program error rate and fiscal year 2002-03 was held harmless. In addition, no sanctions were imposed for fiscal years 2005-06, 2004-05, and 2003-04 because DHS's error rates were below the federal tolerance level. However, an additional \$4.6 million of sanctions were imposed in fiscal year 2006-07 because the 2005-06 error rate exceeded the federal tolerance level. DHS entered into settlement agreements with the USDA to resolve the

sanctions through fiscal year 2006-07. The settlement agreements often allow for DHS's reinvestment in initiatives to reduce the misplayment rate, rather than repayment to the USDA. Amounts to be reinvested by DHS are recorded as expenditures when incurred. FNS has deferred payment on \$1.7 million of the sanctioned amount. FNS has waived \$10.3 million of previous sanctions and will waive deferred amounts if DHS achieves specified targets for reduction in the misplayment rates. As of September 30, 2008, federal Food Stamps Program sanctions that may result in a loss to DHS totaled \$12.6 million (remaining reinvestment of \$10.9 million and deferred payment at risk of \$1.7 million). A summary of the sanctions and settlement agreements follows (in thousands):

Food Stamp Program
Sanctions and Settlement Agreements
As of September 30, 2008
(In Thousands)

Fiscal Year	Initial Sanction	Reinvestment Plan	Reinvestment Plan Amount	Reinvestment Expenditures	Remaining Reinvestment	FNS Waiver of Sanction	Deferred Payment at Risk	Penalty Payments Expended
1995-96	\$ 3,388	Plan I	\$ 254	\$ 254	\$	\$ 1,694	\$	\$
		Plan IA	720	720				
		Plan IB	720	720				
1996-97	2,771	Plan I	208	208		1,385		
		Plan IA	589	589				
		Plan IB	589	589				
1997-98	15,756	Plan II	7,878	7,878		2,626		1,707
		Plan IIA	919	919				
		Plan IIB	2,626	2,626				
1998-99	19,773	Plan III	9,887	9,887				
		Plan IIA	1,030	1,030				1,810
		Plan IIIA	4,000	4,000				103
		Plan IIB	2,943	2,943				
1999-2000	8,954	Plan IV	5,820	5,820				
		Plan IIIA	3,134	3,134				
2000-01	13,921	Plan V	3,480	3,480		2,320		4,641
		Plan VC*	1,160	0		2,320		
2001-02	24,735	Plan V	12,367	12,367				
		Plan VA	6,184	2,190	3,994			
		Plan VB	6,184		6,184			
2006-07	1,160	Plan VC	1,160	473	687			
	3,419	Plan VI	1,710				1,709	
	<u>\$ 93,877</u>		<u>\$ 73,562</u>	<u>\$ 59,827</u>	<u>\$ 10,865</u>	<u>\$ 10,345</u>	<u>\$ 1,709</u>	<u>\$ 8,261</u>

* FNS national office has to approve yet.

(2) Title IV-A Noncooperation Penalty

DHS received a Temporary Assistance for Needy Families (TANF) Title IV-A penalty letter from the U.S. Department of Health and Human Services (HHS) on May 19, 2005, assessing a potential \$7.5 million penalty for failing to apply sanctions to clients receiving TANF assistance for noncooperation with child support and/or paternity establishment during fiscal years 2001-02 and 2000-01. DHS submitted a corrective action plan to HHS outlining how sanction application errors would be reduced. HHS approved the plan on September 15, 2005. If DHS implements the plan and successfully reduces its sanction application errors to an acceptable level by December 31, 2008, HHS will forgive the penalty. If DHS is not successful in reducing the errors to an acceptable level, it is very likely that HHS will assess the penalty. DHS would be required to replace the \$7.5 million with State funds that may not be included in its maintenance of effort obligation.

(3) TANF Payments

HHS conducted a review of TANF basic assistance payments for the periods July 1, 2005 through December 31, 2005 and April 1, 2006 through March 31, 2007. HHS notified DHS on November 9, 2007 and September 3, 2008 that it identified total improper payments of \$60.2 million. DHS has not received a penalty letter from HHS indicating the amount of the total identified improper payments that are required to be returned to the federal grantor agency.

b. *Dwayne B v Granholm*

A New York group, Children's Rights, Inc., sued the State of Michigan and DHS in August 2006. The case was settled prior to going to trial in July 2008. The 71-page consent decree contains numerous changes to the child foster care system of the State, addressing child needs, safety, placement, and other related issues. Implementation of the multi-year settlement will cost in excess of \$50 million. In addition, the State will be required to pay the plaintiff reasonable costs and expenses incurred in the prosecution of the case. It is expected that these costs will be in excess of \$5 million.

c. Chande Crawley, et al v DHS and DCH

This is a class action lawsuit against the directors of both DHS and the Department of Community Health (DCH), acting in their official capacities. The plaintiffs seek preliminary injunction enjoining the directors from (i) terminating Medicaid benefits for Family Independence Program (FIP) recipients when they are no longer FIP-eligible without first conducting a re-determination of eligibility under all possible Medicaid categories, and (ii) failing to include in the recipients' notice of termination that they have been found ineligible under all possible Medicaid categories without a meaningful opportunity for a hearing on their ineligibility under all such categories. While the State's chances are remote before this federal judge, the chances for success increase to "reasonably possible" on appeal. Assuming the issuance of an untailed preliminary injunction, the directors estimate the costs for 6 months could be approximately \$8.4 million to \$10.2 million and for 12 months to be approximately \$16.8 million to \$20.4 million.

d. Rodney Duskin, et al v Department of Human Services

This is a class action lawsuit filed by 16 named minority plaintiffs under the Elliott-Larsen Civil Rights Act alleging race and gender discrimination in promotional opportunities, leadership academy and training considerations, hiring in new positions, or hiring for a limited term assignment. On May 3, 2007, plaintiff's motion to certify the class was granted. A stay is in effect pending the Court of Appeals decision. This could involve claims of \$5 million or more against the State. The Court of Appeals has granted the application for leave to appeal* filed by the defendant.

e. Prior DHS Single Audit Questioned Costs

The DHS Single Audit* for the two fiscal years ended September 30, 2006 identified questioned costs* of \$96.0 million. DHS has not yet received a management decision from the federal grantor agency (HHS) as to the amount of questioned costs that will or will not be required to be returned.

* See glossary at end of report for definition.

Note 4 Children's Trust Fund (CTF)

a. Deposits and Investments

The State Treasurer has the same authority to invest the assets of the CTF 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*. All of the CTF's deposits and investments are managed by the State Treasurer. "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. The CTF's deposits are included in the State of Michigan's equity in common cash.

b. Deposits

	As of September 30	
	2008	2007
Equity in common cash	\$ 3,880,853	\$ 6,546,600

The Governmental Accounting Standards Board (GASB) requires certain disclosures related to custodial credit risk and foreign currency risk for deposits. Custodial credit risk for deposits is the risk that, in the event of a bank failure, the CTF's deposits will not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the CTF's name. Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the fair value of deposits.

The State Treasurer's policy requires the following criteria to lessen the custodial credit risk: all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits to secure the State's funds; a bank, savings and loan association, or credit union holding State funds must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the State of Michigan; and no deposit in any financial organization may be in excess of 50% of the net worth of the organization. Section 487.714 of the *Michigan Compiled Laws* requires

State deposits to be held in a financial institution which maintains a principal office or branch office located in the State of Michigan.

c. Investments

Governmental accounting standards require disclosures for investments for interest rate risk, custodial credit risk, credit risk, foreign currency risk, and concentration of credit risk:

- (1) Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Mutual funds have no fixed income or duration and, therefore, are not segmented for time. The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments.

As of September 30, 2008, the average maturities of investments were as follows:

<u>Investment Type</u>	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Mutual funds	\$ 5,706,163	\$	\$	\$	\$
Corporate bonds	4,111,413			4,111,413	
Government securities	7,892,385		1,993,304	5,899,081	
Total investments	\$ 17,709,961	\$ 0	\$1,993,304	\$10,010,494	\$ 0

As of September 30, 2007 the average maturities of investments were as follows:

<u>Investment Type</u>	Investment Maturities				
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Mutual funds	\$	\$	\$	\$	\$
Corporate bonds	1,386,546			1,386,546	
Government securities	14,850,255	1,991,140		9,891,096	2,968,019
Total investments	\$ 16,236,801	\$ 1,991,140	\$ 0	\$ 11,277,642	\$ 2,968,019

- (2) Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the CTF will not be able to recover the value of its investment securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the State on behalf of the CTF, and are held either by the counterparty or the counterparty's trust department or agent but not in the State's name. All of the investments of the CTF were insured or registered, or held by the State or its agent in the State's name. The State Treasurer does not have a policy for limiting custodial credit risk.
- (3) Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services: Standard & Poor's (A-1) and Moody's Investors Service (P-1). Borrowers must have at least \$400.0 million in commercial paper outstanding and the State Treasurer may not invest in more than 10% of a borrower's outstanding debt. The investments are further limited to \$200.0 million in any borrower, unless the borrower has an A-1+ rating, in which case the investment is not to exceed \$300.0 million.

As of September 30, 2008, the credit quality ratings of debt securities were as follows:

Investment Type	Fair Value	Standard & Poor's	Fair Value	Moody's Investors Service
Corporate bonds	\$ 2,623,267	AAA	2,623,267	Aaa
Corporate bonds	493,910	AA-	1,488,146	Aa2
Corporate bonds	994,236	A+		
Governmental securities - U.S. agencies	7,892,385	AAA	7,892,385	Aaa
Total investments	\$ 12,003,798		\$ 12,003,798	

As of September 30, 2007, the credit quality ratings of debt securities were as follows:

Investment Type	Fair Value	Standard & Poor's	Fair Value	Moody's Investors Service
Corporate bonds	1,386,546	AAA	1,386,546	Aaa
Governmental securities - U.S. agencies	14,850,255	AAA	14,850,255	Aaa
Total investments	\$ 16,236,801		\$ 16,236,801	

- (4) Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. As of September 30, 2008 and September 30, 2007, the CTF did not have any investments in foreign securities.
- (5) Concentration of Credit Risk: Concentration of credit risk is the risk of the loss attributed to the magnitude of the CTF's investments with a single user. At September 30, 2008 and September 30, 2007, the CTF held more than 45% and 91%, respectively, of investments in U.S. government agency or government-sponsored enterprise securities with the remaining investments in corporate bonds and equities in the name of the State. All investments were reported at

fair value. As of September 30, 2008, the CTF had the following investments that represent 5% or more of total investments:

Name of Issuer	Amount	Percent of Investments
Federal Farm Credit Bank	\$ 2,974,373	17%
Federal Home Loan Bank	\$ 2,944,398	17%
General Electric Capital	\$ 2,623,267	15%
Federal Home Loan Mortgage Corporation	\$ 1,973,614	11%
Pepsico	\$ 994,236	6%

As of September 30, 2007, the CTF had the following investments that represent 5% or more of total investments:

Name of Issuer	Amount	Percent of Investments
Federal Home Loan Bank	\$ 9,925,423	61%
Federal Farm Credit Bank	\$ 1,984,915	12%
Federal Home Loan Mortgage Corporation	\$ 1,943,298	12%
Federal National Mortgage Association	\$ 996,619	6%
General Electric Capital	\$ 920,150	6%

d. Securities Lending Transactions

The CTF participated in a security lending program. Under the authority of Section 38.1133 of the *Michigan Compiled Laws*, the State lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The custodian is not liable for any losses unless there is negligence or willful misconduct on its part. State statutes allow the State to participate in securities lending transactions and the State has, by way of an agreement, authorized Credit Suisse, the agent bank, to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement.

During both fiscal years, the agent bank lent, at the direction of the State Treasurer, the CTF's securities and received cash (United States) as collateral. Borrowers were required to deliver collateral for each loan equal to: 1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market

value of the loaned securities; or 2) in the case of loan securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The State Treasurer did not impose any restrictions during either fiscal year on the amount of the loans that the agent bank made on its behalf. The agent bank indemnified the State by agreeing to purchase replacement securities, or return cash collateral in the event that the borrower failed to return the loaned securities or pay distributions thereon, due to the borrower's insolvency. There was one such failure by a borrower during fiscal year 2007-08: Lehman Brothers, Inc. (September 2008). However, there were no losses during fiscal year 2007-08 resulting from the default of the borrower. As the agent bank, Credit Suisse has indemnified the State and has actively been replacing all outstanding loans with Lehman Brothers, Inc. There were no failures by any borrower during fiscal year 2006-07.

Under Master Securities Lending Agreements between the State and each borrower, the State Treasurer and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account. As of September 30, 2007, the investments had an average duration of 25 days and an average expected maturity of 710 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The collateral held and the market value of securities on loan for the CTF as of September 30, 2007 were \$11,000,000 and \$11,238,750, respectively, and as of September 30, 2008 were \$0 and \$0, respectively. At the end of fiscal year 2007-08, the State Treasurer, as the sole fiduciary, determined that the CTF would no longer participate in securities lending. Therefore, the CTF had no securities on loan at the end of fiscal year 2007-08.

e. Expenditure Limitation

Under Section 21.171 of the *Michigan Compiled Laws*, the amount available for disbursement by the CTF is limited to up to half of the CTF income tax contributions each year; interest and earnings, excluding unrealized gains and losses, credited to the CTF in the previous fiscal

year; and all money granted or received as gifts or donations. The funds that are not available for appropriation are reserved as funds held for permanent investments.

f. Unrealized Investment Gain/(Loss)

DHS recorded an unrealized loss of \$1.2 million in fiscal year 2007-08 and an unrealized gain of \$0.2 million in fiscal year 2006-07 to investment income to reflect the change in the fair value of investments.

Note 5 Pension Plans

CTF employees are State classified employees who are covered by the State Employees' Retirement System Defined Benefit or Defined Contribution Plans. Detail and data regarding the Plans' descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the Plans' detailed financial reports. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The cost of retiree health care and other benefits is allocated by the Office of Retirement Services and funded on a pay-as-you-go basis.

The CTF was billed and paid an average 29.1% and 21.0% of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2007-08 and 2006-07, respectively. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Management and Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.

SUPPLEMENTAL
FINANCIAL SCHEDULE

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2006 through September 30, 2008
(In Thousands)

For the Fiscal Year Ended September 30, 2007

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		\$ 1,368,486	\$	\$ 1,368,486
State Administrative Matching Grants for Food Stamp Program	10.561		86,554	7,154	93,708
Total Food Stamp Cluster			<u>\$ 1,455,040</u>	<u>\$ 7,154</u>	<u>\$ 1,462,194</u>
Child Nutrition Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
School Breakfast Program	10.553	197 BREAKFAST	\$ 178	\$	\$ 178
National School Lunch Program	10.555	USDA 195 SECT 4, USDA 196 SECT 11, USDA 198 SNACKS			
			281		281
Total Child Nutrition Cluster			<u>\$ 459</u>	<u>\$ 0</u>	<u>\$ 459</u>
Total U.S. Department of Agriculture			<u>\$ 1,455,499</u>	<u>\$ 7,154</u>	<u>\$ 1,462,653</u>
<u>U.S. Department of Housing and Urban Development</u>					
Direct Program:					
Supportive Housing Program	14.235		\$ 384	\$ 1,458	\$ 1,842
Total U.S. Department of Housing and Urban Development			<u>\$ 384</u>	<u>\$ 1,458</u>	<u>\$ 1,842</u>
<u>U.S. Department of Justice</u>					
Direct Programs:					
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		\$ 28	\$ 41	\$ 69
Juvenile Accountability Block Grants	16.523		131	1,322	1,453
Supervised Visitation, Safe Havens for Children	16.527		79	308	387
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		756	833	1,589
Title V - Delinquency Prevention Program	16.548			283	283
Part E - State Challenge Activities	16.549		150	57	207
Violence Against Women Formula Grants	16.588		256	3,459	3,715
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589		24	373	397
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		307	18	325
Total U.S. Department of Justice			<u>\$ 1,731</u>	<u>\$ 6,694</u>	<u>\$ 8,425</u>
<u>U.S. Department of Labor</u>					
Direct Program:					
WIA Pilots, Demonstrations, and Research Projects	17.261		\$ 360	\$	\$ 360
Total U.S. Department of Labor			<u>\$ 360</u>	<u>\$ 0</u>	<u>\$ 360</u>
<u>U.S. Department of Energy</u>					
Direct Program:					
Weatherization Assistance for Low-Income Persons	81.042		\$ 334	\$ 14,020	\$ 14,354
Total U.S. Department of Energy			<u>\$ 334</u>	<u>\$ 14,020</u>	<u>\$ 14,354</u>
<u>U.S. Department of Education</u>					
Special Education Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
Special Education - Grants to States	84.027	060450/0506; 070450/0607; 070480/EOSD	\$ 99	\$ 8	\$ 107
Wayne County Regional Educational Service Agency					
Special Education - Grants to States	84.027		22		22
Total Special Education Cluster			<u>\$ 121</u>	<u>\$ 8</u>	<u>\$ 129</u>
Pass-Through Programs:					
Michigan Department of Energy, Labor & Economic Growth					
Adult Education - Basic Grants to States	84.002	071190/711037	\$ 8	\$	\$ 8
Career and Technical Education - Basic Grants to States	84.048	073320/70101	94		94
Total Michigan Department of Energy, Labor & Economic Growth			<u>\$ 102</u>	<u>\$ 0</u>	<u>\$ 102</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2008

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 1,504,171	\$ 11,944	\$ 1,504,171	\$ 2,872,657
	105,651		117,595	211,303
	<u>\$ 1,609,822</u>	<u>\$ 11,944</u>	<u>\$ 1,621,766</u>	<u>\$ 3,083,960</u>
197 BREAKFAST	\$ 243	\$	\$ 243	\$ 421
USDA 195 SECT 4,				
USDA 196 SECT 11,	380		380	661
USDA 198 SNACKS	<u>\$ 623</u>	<u>\$ 0</u>	<u>\$ 623</u>	<u>\$ 1,082</u>
	<u>\$ 1,610,445</u>	<u>\$ 11,944</u>	<u>\$ 1,622,389</u>	<u>\$ 3,085,042</u>
	\$ 360	\$ 1,701	\$ 2,061	\$ 3,903
	<u>\$ 360</u>	<u>\$ 1,701</u>	<u>\$ 2,061</u>	<u>\$ 3,903</u>
	\$ 36	\$ 10	\$ 46	\$ 115
	71	1,054	1,125	2,578
	13	385	398	785
	1,368	427	1,795	3,384
	698	71	769	1,052
			0	207
	245	2,876	3,121	6,836
		63	63	460
	577	140	717	1,042
	<u>\$ 3,008</u>	<u>\$ 5,026</u>	<u>\$ 8,034</u>	<u>\$ 16,459</u>
	\$	\$	\$ 0	\$ 360
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 360</u>
	\$ 1,295	\$ 12,880	\$ 14,175	\$ 28,529
	<u>\$ 1,295</u>	<u>\$ 12,880</u>	<u>\$ 14,175</u>	<u>\$ 28,529</u>
070450/0607; 080450/0708; 080480/EOSD	\$ 164	\$ 6	\$ 170	\$ 277
	31		31	53
	<u>\$ 195</u>	<u>\$ 6</u>	<u>\$ 201</u>	<u>\$ 330</u>
081190/711037	\$ 34	\$	\$ 34	\$ 42
				94
	<u>\$ 34</u>	<u>\$ 0</u>	<u>\$ 34</u>	<u>\$ 136</u>

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2006 through September 30, 2008
(In Thousands)
Continued

For the Fiscal Year Ended September 30, 2007

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Michigan Department of Education					
Title I Program for Neglected and Delinquent Children	84.013	061590/0506, 071590/0607	\$ 431		\$ 431
Special Education - Grants for Infants and Families	84.181	071330/IACFIA	98		98
Total Michigan Department of Education			<u>\$ 529</u>	<u>\$ 0</u>	<u>\$ 529</u>
Total Pass-Through Programs			<u>\$ 631</u>	<u>\$ 0</u>	<u>\$ 631</u>
Total U.S. Department of Education			<u>\$ 752</u>	<u>\$ 8</u>	<u>\$ 760</u>
<u>U.S. Department of Health and Human Services</u>					
CCDF Cluster:					
Direct Programs:					
Child Care and Development Block Grant	93.575		\$ 158,703	\$ 14,876	\$ 173,579
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		87,168	1,432	88,600
Total CCDF Cluster			<u>\$ 245,871</u>	<u>\$ 16,308</u>	<u>\$ 262,179</u>
Medicaid Cluster:					
Pass-Through Programs:					
Michigan Department of Community Health					
Medical Assistance Program	93.778	07 05 MI 5048, 07 05 MI 5028	\$ 91,093	\$ 0	\$ 91,093
Total Medicaid Cluster			<u>\$ 91,093</u>	<u>\$ 0</u>	<u>\$ 91,093</u>
Direct Programs:					
Promoting Safe and Stable Families	93.556		\$ 7,995	\$ 5,051	\$ 13,046
Temporary Assistance for Needy Families	93.558		441,121	153,631	594,752
Child Support Enforcement	93.563		54,139	127,374	181,513
Child Support Enforcement Research	93.564		64	59	123
Refugee and Entrant Assistance - State Administered Programs	93.566		4,434	1,725	6,159
Low-Income Home Energy Assistance	93.568		118,616	2,042	120,658
Community Services Block Grant	93.569		413	22,508	22,921
Community Services Block Grant Formula and Discretionary Awards					
Community Food and Nutrition Programs	93.571		(12)	89	77
Refugee and Entrant Assistance - Discretionary Grants	93.576		87	404	491
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584		(52)	812	760
Empowerment Zones Program (Social Services in Empowerment Zones and Enterprise Communities)	93.585			44	44
Community-Based Child Abuse Prevention Grants	93.590		308	742	1,050
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Discretionary Grants	93.592		3	113	116
Grants to States for Access and Visitation Programs	93.597		707	221	221
Chafee Education and Training Vouchers Program (ETV)	93.599		308	1,479	1,787
Head Start	93.600		172	48	220
Children's Justice Grants to States	93.643		707		707
Child Welfare Services: State Grants	93.645		9,746		9,746
Social Services Research and Demonstration	93.647		65		65
Foster Care: Title IV-E	93.658		72,286	1,561	73,847
Adoption Assistance	93.659		108,341		108,341
Social Services Block Grant	93.667		124,005	2,075	126,080
Child Abuse and Neglect State Grants	93.669		710	399	1,109
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		276	2,029	2,305
Chafee Foster Care Independence Program	93.674		4,872	538	5,410
Total Direct Programs			<u>\$ 948,604</u>	<u>\$ 322,944</u>	<u>\$ 1,271,548</u>
Pass-Through Programs:					
Michigan Department of Community Health					
Injury Prevention and Control Research and State and Community Based Programs	93.136	VF1/CCV519922	\$ 0	\$ 605	\$ 605
Preventive Health and Health Services Block Grant	93.991	2B01D9009028-07	0	243	243
Maternal and Child Health Services Block Grant to the States	93.994	B04MC07777-1-06	15		15
Total Pass-Through Programs			<u>\$ 15</u>	<u>\$ 848</u>	<u>\$ 863</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,285,583</u>	<u>\$ 340,100</u>	<u>\$ 1,625,683</u>

For the Fiscal Year Ended September 30, 2008

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
081590/0708	\$ 420	\$	\$ 420	\$ 851
081330/IACFIA	77		77	175
	<u>\$ 497</u>	<u>\$ 0</u>	<u>\$ 497</u>	<u>\$ 1,026</u>
	\$ 531	\$ 0	\$ 531	\$ 1,162
	<u>\$ 726</u>	<u>\$ 6</u>	<u>\$ 732</u>	<u>\$ 1,492</u>
	\$ 148,099	\$ 10,328	\$ 158,427	\$ 332,006
	81,736	5,700	87,436	176,036
	<u>\$ 229,835</u>	<u>\$ 16,028</u>	<u>\$ 245,863</u>	<u>\$ 508,042</u>
08 05 MI 5048, 08 05 MI 5028	\$ 103,410	\$	\$ 103,410	\$ 194,503
	<u>\$ 103,410</u>	<u>\$ 0</u>	<u>\$ 103,410</u>	<u>\$ 194,503</u>
	\$ 4,209	\$ 4,709	\$ 8,918	\$ 21,964
	340,696	262,618	603,314	1,198,066
	45,327	121,157	166,484	347,997
	(6)		(6)	117
	5,774	3,161	8,935	15,094
	128,034	1,487	129,521	250,179
	445	22,701	23,146	46,067
			0	77
	(12)	1,078	1,066	1,557
	(1)	663	662	1,422
		103	103	147
	413	626	1,039	2,089
	48	83	131	247
		250	250	471
	70	1,672	1,742	3,529
	193	4	197	417
	663		663	1,370
	9,222		9,222	18,968
	51		51	116
	79,730	1,671	81,401	155,248
	110,402	83	110,485	218,826
	126,623	2,003	128,626	254,706
	576	445	1,021	2,130
	192	2,062	2,254	4,559
	5,051	746	5,797	11,207
	<u>\$ 857,700</u>	<u>\$ 427,322</u>	<u>\$ 1,285,022</u>	<u>\$ 2,556,570</u>
5VF1/CE001110	\$ (3)	\$ 516	\$ 513	\$ 1,118
2B01D9009028-08		243	243	486
				15
	<u>\$ (3)</u>	<u>\$ 759</u>	<u>\$ 756</u>	<u>\$ 1,619</u>
	<u>\$ 1,190,942</u>	<u>\$ 444,109</u>	<u>\$ 1,635,051</u>	<u>\$ 3,260,734</u>

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2006 through September 30, 2008
(In Thousands)
Continued

For the Fiscal Year Ended September 30, 2007

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Corporation for National and Community Service					
Direct Programs:					
State Commissions	94.003		\$ 302	\$	\$ 302
Learn and Serve America - School and Community Based Programs	94.004		28	201	229
AmeriCorps	94.006		(1)	4,684	4,683
Planning and Program Development Grants	94.007		45	19	64
Training and Technical Assistance	94.009		100		100
Total Direct Programs			<u>\$ 474</u>	<u>\$ 4,904</u>	<u>\$ 5,378</u>
Pass-Through Programs:					
Michigan Department of Education					
Learn and Serve America - School and Community Based Programs	94.004	03KSNMI001; 06KSNMI001	\$ 181	\$ 621	\$ 802
Total Pass-Through Programs			<u>\$ 181</u>	<u>\$ 621</u>	<u>\$ 802</u>
Total Corporation for National and Community Service			<u>\$ 655</u>	<u>\$ 5,525</u>	<u>\$ 6,180</u>
Social Security Administration					
Disability Insurance/SSI Cluster:					
Direct Program:					
Social Security - Disability Insurance	96.001		\$ 70,073	\$	\$ 70,073
Total Social Security Administration			<u>\$ 70,073</u>	<u>\$ 0</u>	<u>\$ 70,073</u>
Total Expenditures of Federal Awards			<u>\$ 2,815,371</u>	<u>\$ 374,959</u>	<u>\$ 3,190,330</u>

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

The accompanying notes are an integral part of this schedule.

For the Fiscal Year Ended September 30, 2008

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 342	\$	\$ 342	\$ 644
	(25)	241	216	445
	80	3,930	4,010	8,693
	37	63	100	164
	142		142	242
	<u>\$ 576</u>	<u>\$ 4,234</u>	<u>\$ 4,810</u>	<u>\$ 10,188</u>
03KSNMI001; 06KSNMI001	\$ 94	\$ 464	\$ 558	\$ 1,360
	\$ 94	\$ 464	\$ 558	\$ 1,360
	<u>\$ 670</u>	<u>\$ 4,698</u>	<u>\$ 5,368</u>	<u>\$ 11,548</u>
	\$ 70,844	\$	\$ 70,844	\$ 140,917
	<u>\$ 70,844</u>	<u>\$ 0</u>	<u>\$ 70,844</u>	<u>\$ 140,917</u>
	<u>\$ 2,878,290</u>	<u>\$ 480,364</u>	<u>\$ 3,358,654</u>	<u>\$ 6,548,984</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule of expenditures of federal awards (SEFA) presents the federal grant activity of the Department of Human Services (DHS) on the modified accrual basis of accounting and 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 program areas shown in the following table and were not reimbursed for the amounts in excess of the grant award. 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 in excess of the grant awards).

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

	Fiscal Year	
	2007-08	2006-07
Low-Income Home Energy Assistance (93.568)	\$ 7,362	\$ 5,482
Community-Based Child Abuse Prevention Grants (93.590) (Children's Trust Fund)	\$ 1,501	\$ 2,162
Child Welfare Services: State Grants (93.645)	\$ 78,629	\$ 81,625

- b. DHS moved grant award money from Temporary Assistance for Needy Families to the following programs as allowed by the Welfare Reform Plan (in thousands):

		Fiscal Year	
		2007-08	2006-07
From:	Temporary Assistance for Needy Families (93.558)	\$ (170,814)	\$ (182,298)
To:	Child Care and Development Block Grant (93.575)	\$ 99,665	\$ 115,094
	Social Services Block Grant (93.667)	\$ 71,149	\$ 67,204

Note 4 Federal Revenue Reconciliation:

- a. Federal revenues as reported on DHS's financial statements and financial schedules will be different from the federal expenditures shown on the SEFA because of the following (in thousands):

		Fiscal Year	
		2007-08	2006-07
(1)	Federal revenue (net) established through write-off of prior year decreasing claims per Section 212, Act 131, P.A. 2007, and Section 212, Act 345, P.A. 2006.	\$ 6,576	\$ 9,852
(2)	Federal share of miscellaneous general purpose revenue recognized as federal revenue to offset prior year decreasing claims.	\$ 2,527	\$ 7,339
(3)	Federal revenue related to federal claims for the purchase of services from other State departments was transferred from DHS to the applicable State agencies.	\$203,354	\$ 96,891
(4)	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 131, P.A. 2007, and Section 213, Act 345, P.A. 2006. Total food stamp overissuance collections are:	\$ 1,106	\$ 1,069

- b. Federal revenue related to prior year federal increasing claims was transferred to general purpose appropriations in the amount of \$1.9 million and \$1.2 million for fiscal years 2007-08 and 2006-07, respectively.

INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



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

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

Mr. Ismael Ahmed, Director
Department of Human Services
and
Ms. Nancy Moody, Chair
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Ahmed and Ms. Moody:

We have audited the financial schedules and financial statements of the Department of Human Services as of and for the fiscal years ended September 30, 2008 and September 30, 2007, as identified in the table of contents, and have issued our reports thereon dated August 17, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules and financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a

misstatement of the entity's financial schedules and financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Findings 1 through 4 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the third paragraph of this section is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other instances of noncompliance as described in the accompanying schedule of findings and questioned costs as Findings 1, 3, 4, and 5.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the Legislature, the State Child Abuse and Neglect Prevention Board, management, others within the Department, 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

August 17, 2009



STATE OF MICHIGAN
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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

Mr. Ismael Ahmed, Director
Department of Human Services
and
Ms. Nancy Moody, Chair
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mr. Ahmed and Ms. Moody:

Compliance

We have audited the compliance of the Department of Human Services 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, 2008. The Department'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 Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the preceding 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 Department'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 Department's compliance with those requirements.

As described in Findings 9, 12, 14, 16, and 17 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; and special tests and provisions that are applicable to its Temporary Assistance for Needy Families, Low-Income Home Energy Assistance, CCDF Cluster, Foster Care: Title IV-E, and Adoption Assistance. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Department of Human Services did not comply in all material respects, with the requirements referred to in the first paragraph that are applicable to Temporary Assistance for Needy Families and the CCDF Cluster. Also, in our opinion, except for the noncompliance described in the preceding paragraph, the Department of Human Services complied, in all material respects, with the requirements referred to in the

first paragraph that are applicable to each of its other major federal programs for the two-year period ended September 30, 2008. 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 6 through 21.

Internal Control Over Compliance

The management of the Department 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 Department'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 5 through 21 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies described in the preceding paragraph, we consider Findings 5, 9, 12, 14, 16, 17, and 19 to contain material weaknesses.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the Legislature, the State Child Abuse and Neglect Prevention Board, management, others within the Department, 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

August 17, 2009

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

Significant deficiencies* identified that are not considered to be material weaknesses? Yes

Noncompliance or other matters material to the financial schedules and/or financial statements? No

Federal Awards

Internal control over major programs:

Material weaknesses* identified? Yes

Significant deficiencies* 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*

Temporary Assistance for Needy Families
Child Care and Development Fund (CCDF) Cluster*

Qualified*

Low-Income Home Energy Assistance
Foster Care: Title IV-E
Adoption Assistance

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

* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.551 and 10.561	Food Stamp Cluster
81.042	Weatherization Assistance for Low-Income Persons
93.556	Promoting Safe and Stable Families
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.575 and 93.596	Child Care and Development Fund (CCDF) 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
93.778	Medicaid Cluster
96.001	Disability Insurance/Supplemental Security Income (SSI) Cluster

Dollar threshold used to distinguish between type A and type B programs: \$19,646,952

Auditee qualified as a low-risk auditee*? No

* See glossary at end of report for definition.

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

FINDING (4310901)

1. Schedule of Expenditures of Federal Awards (SEFA)

The Department of Human Services (DHS) did not correctly classify payments made to the Michigan Higher Education Assistance Authority (MHEAA) on the SEFA. As a result, DHS overstated amounts distributed to subrecipients* and understated amounts directly expended by \$108.2 million for the fiscal year ended September 30, 2008.

OMB Circular A-133 requires each recipient of federal awards to prepare a SEFA for the period covered by the recipient's financial schedules and financial statements and to include the SEFA in the recipient's Single Audit report. Also, OMB Circular A-133 provides 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 and indicates that there may be unusual circumstances in which the substance of the relationship is more important than the form of the agreement.

During fiscal year 2007-08, MHEAA provided State competitive scholarships, tuition grants, and Tuition Incentive Program grants, totaling \$108.2 million, to students attending colleges or universities in Michigan. During the fiscal year, these scholarships and grants were funded by the Michigan Merit Award Trust Fund and General Fund/general purpose appropriations.

Also during fiscal year 2007-08, DHS hired a consultant to identify methods in which to maximize the use of Temporary Assistance for Needy Families (TANF) funds in order to take advantage of TANF contingency funds made available by the U.S. Department of Health and Human Services (HHS). In an effort to obtain the TANF contingency funds, DHS and the consultant identified MHEAA scholarships and grants as potentially being able to be funded with TANF funds. Based on the consultant's advice, DHS worked with the Office of the State Budget to request a supplemental appropriation bill to exchange funding between DHS and MHEAA (see Finding 9.a.(1)). A supplemental appropriation bill was approved on

* See glossary at end of report for definition.

September 29, 2008 that moved TANF federal funds to MHEAA to fund the scholarships and grants and moved the Michigan Merit Award Trust Fund and General Fund/general purpose appropriations to DHS to be spent on other activities which could be used as additional maintenance of effort and matching funds needed to obtain the TANF contingency funds.

In our review of the substance of the transaction between DHS and MHEAA, we noted:

- a. MHEAA provided the scholarship and grant program information to DHS and the consultant in order for DHS to determine if the use of the TANF funds for the MHEAA program was an allowable use of the TANF funding.
- b. MHEAA did and continues to operate the scholarship and grant programs under State statute. MHEAA does not have any federal program requirements that it is required to follow.

Consequently, because the decision to use the TANF funds to finance the scholarship program was made by DHS, it is our opinion that DHS is directly responsible for program compliance. Accordingly, the amount transferred to MHEAA should be reported as directly expended by DHS.

RECOMMENDATION

We recommend that DHS correctly classify payments made to MHEAA on the SEFA.

FINDING (4310902)

2. Backup and Disaster Recovery Plans

DHS, in conjunction with the Michigan Department of Information Technology (MDIT), did not establish and implement comprehensive, up-to-date, and tested backup and disaster recovery plans for several of its critical automated information systems. As a result, DHS could not ensure uninterrupted business services and the preservation of critical financial and client data in the event of a disaster or other disruption.

Executive Order No. 2001-3 transferred the responsibility for all information technology services to MDIT. MDIT assists DHS in maintaining its automated information systems, including disaster recovery and business resumption services. DHS, as the business owner, retains responsibility for data processed through its automated systems, including those developed in conjunction with MDIT.

Our review of the backup and disaster recovery processes of significant DHS automated information systems used to support DHS's financial schedule and/or statement assertions and its compliance with federal laws and regulations disclosed:

- a. DHS and MDIT did not document backup and disaster recovery plans for 6 of 8 systems housed in the client/server environment.
- b. DHS and MDIT did not periodically review and update the backup and disaster recovery plans for 2 systems housed in the client/server environment and 6 systems housed in the mainframe environment that had documented backup and disaster recovery plans.
- c. DHS and MDIT did not periodically test backup and disaster recovery plans for any of the DHS systems we reviewed. Without periodic testing of backup and disaster recovery plans, DHS and MDIT cannot ensure that the plans will work as intended during a disruption and that critical systems and business processes can be resumed in a timely manner.
- d. DHS did not ensure that business resumption plans for its local offices addressed interruptions in services resulting from the unavailability of computer services. For example, DHS did not document the manual delivery of critical client services in cases in which computer and other electronic communication systems were unavailable.

*Secure Michigan Initiative**, a report issued by MDIT, recommends the establishment of documented and tested backup and disaster recovery plans to ensure that a department can recover and continue its operations in the event of a disaster. Also, the report indicates that one of the highest security risks in the

* See glossary at end of report for definition.

State relates to a lack of formal disaster recovery, business resumption, and business continuity planning and implementation.

We reported a similar condition in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that DHS and MDIT would develop disaster recovery plans, design an enterprise-wide strategy for establishing standards and requirements, and participate in the periodic testing of MDIT established disaster recovery plans.

RECOMMENDATION

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS, IN CONJUNCTION WITH MDIT, ESTABLISH AND IMPLEMENT COMPREHENSIVE, UP-TO-DATE, AND TESTED BACKUP AND DISASTER RECOVERY PLANS FOR ITS CRITICAL AUTOMATED INFORMATION SYSTEMS.

FINDING (4310903)

3. Children's Trust Fund (CTF)

DHS needs to improve its internal control over soliciting, collecting, and inventorying the donated items to be sold at the annual CTF auction fundraiser. Strengthened internal control would decrease the risk that donated items could be misappropriated or lost.

The CTF auction generated approximately \$325,618 (16%) and \$369,703 (8%) of CTF revenue in fiscal years 2007-08 and 2006-07, respectively. Approximately \$102,973 and \$130,583 was generated directly from the sale of donated items in fiscal years 2007-08 and 2006-07, respectively. The donated items sold at these auctions included vacation packages, health club memberships, autographed sports memorabilia, and sporting event tickets. DHS employees, Child Abuse and Neglect Prevention Board members, and other volunteers solicited and collected donated items for the 2008 and 2007 CTF auctions.

DHS did not have written policies and procedures for the soliciting, collecting, and inventorying of the donated items. Written policies and procedures would document the duties of key personnel and volunteers and communicate management's commitment to, and support of, strong internal control. Also, written policies and procedures would be valuable in training new employees and

volunteers and would serve as a guide for better administration and control over operations.

In addition to written policies and procedures, Section 18.1485 of the *Michigan Compiled Laws* requires that DHS establish and maintain an internal accounting and administrative control system which includes a plan of organization that provides separation of duties and responsibilities among employees and a system of recordkeeping procedures to control revenues.

Also, Part II, Chapter 12, Section 100 of the State of Michigan Financial Management Guide requires that DHS establish and maintain an inventory control program that includes limited access to inventory storage, use of requisition forms to release inventory, and approval of all adjustments to inventory records.

RECOMMENDATION

We recommend that DHS improve its internal control over soliciting, collecting, and inventorying donated items to be sold at the annual CTF auction fundraiser.

FINDING (4310904)

4. Child Placing Agency (CPA) Unit Rates

DHS's internal control did not ensure that unit rates used to calculate payments made to CPAs were in compliance with State laws and regulations. As a result, DHS made payments to CPAs based on unit rates that were not appropriate.

DHS contracted with 39 CPAs and made payments to the CPAs totaling \$6.4 million for fiscal year 2007-08.

DHS contracts with CPAs for services related to adoption activities, such as placement, supervision, case management, and court related support. The CPA is paid a unit rate, which is dependent on the type of services the CPA performed. DHS adjusts the unit rates in the contract each contract term or when State law authorizes a change, based on the amount the Legislature appropriated for CPA services in a given fiscal year.

In April 2008, the Legislature passed Section 460(1), Act 113, P.A. 2008, effective October 1, 2007, which stated that DHS shall reimburse CPAs at the unit rates specified in the Act based on the child's placement category.

Our review of DHS's contracts with the CPAs disclosed that DHS did not amend the contracts to reflect the unit rate structure specified in Act 113, P.A. 2008. In addition, DHS did not determine the impact of the retroactive rate adjustments and either make retroactive payments to the CPAs or require reimbursements from the CPAs. DHS program staff informed us that they were not aware of the rate structure in Act 113, P.A. 2008, and that the Legislature had previously appropriated amounts for payments to CPAs, generally with a 4% increase, but had not appropriated specific rates based on type of service performed. Because DHS did not determine the impact of the rate adjustments for each vendor, the effect on the \$6.4 million paid to the CPAs in fiscal year 2007-08 was unknown at the time of our review.

RECOMMENDATIONS

We recommend that DHS improve its internal control to ensure that unit rates used to calculate payments made to CPAs are in compliance with State laws and regulations.

We also recommend that DHS determine the impact of the retroactive rate adjustments and make retroactive payments to the CPAs or require reimbursements from the CPAs.

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 (4310905)

5. Internal Control Over Federal Programs

DHS's internal control was not effective in ensuring federal program compliance. As a result, DHS has been subject to federal sanctions and disallowances in the past and is at risk of future significant federal sanctions and disallowances.

As described in the succeeding findings of this report, we identified known questioned costs of \$163.8 million and known and likely questioned costs totaling \$671.0 million. DHS expended a total of \$6.5 billion in federal awards during the two-year period ended September 30, 2008.

Internal control is a process designed to provide reasonable assurance regarding financial reporting, effectiveness* and efficiency* of operations, and compliance with laws and regulations.

Properly designed internal control supports effective methods to achieve federal program goals; increases efficiency by reducing the total resources needed to ensure that assets are safeguarded; and helps to ensure that sanctions, disallowances, and/or reductions of federal awards are avoided.

Our audit of DHS's 14 major federal programs and its SEFA for the two-year period ended September 30, 2008 disclosed:

- a. DHS did not provide the oversight necessary to ensure that its internal control over various organizational units of its major federal programs was properly designed and effective. As a result, DHS operated 5 of its 14 major federal programs in material noncompliance* with federal laws, regulations, contracts, and grant agreements. Our audit resulted in 2 adverse and 3 qualified opinions for the 14 major programs (see Findings 9, 12, 14, 16, and 17).
- b. DHS did not provide the oversight necessary to ensure that internal control weaknesses and resulting noncompliance of its federal programs disclosed in

* See glossary at end of report for definition.

prior Single Audits were corrected effectively and in a timely manner. As a result, this audit report contains 27 (71%) of 38 recommendations repeated from our prior report for the two-year period ended September 30, 2006, many of which were also reported in earlier DHS Single Audits. In addition to this finding, see Findings 6 and 8 through 19.

Sections 18.1483 - 18.1485 of the *Michigan Compiled Laws* and Title 45, Parts 74 and 92 of the *Code of Federal Regulations (CFR)* state that DHS management is responsible for its internal control. These responsibilities include implementing 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; effective and efficient internal control techniques; and a system to ensure compliance with applicable laws and regulations. Also, DHS management is responsible for monitoring the system to ensure that it is functioning as described and is modified as appropriate for changes in the condition of the system.

We reported a similar condition in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that it was continuing to implement corrective action.

RECOMMENDATION

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPLEMENT EFFECTIVE INTERNAL CONTROL TO ENSURE FEDERAL PROGRAM COMPLIANCE.

FINDING (4310906)

6. Food Stamp Cluster, CFDA 10.551 and 10.561

U.S. Department of Agriculture	Food Stamp Cluster: <i>CFDA 10.551 Food Stamps; CFDA 10.561 State Administrative Matching Grants for Food Stamp Program</i>
Award Number: 2MI420122 2MI400100 EBT-06 EBT-07 EBT-08	Award Period: 10/01/2006 - 09/30/2008 10/01/2006 - 09/30/2008 10/01/2005 - 09/30/2006 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: \$0

DHS's internal control over the Food Stamp Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, procurement and suspension and debarment, reporting, and special tests and provisions (issuance document security).

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

Federal expenditures for the Food Stamp Cluster totaled \$3.1 billion for the two-year period ended September 30, 2008.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS did not amend its cost allocation plan and did not submit an amendment to the HHS Division of Cost Allocation (DCA) in accordance with federal requirements. As a result, DCA is not aware of and has not approved allocation methodologies used by the State.

In fiscal year 2007-08, DHS included first-line supervisors' costs in a cost pool along with their staff to be allocated to federal programs based on time studies. DHS's federally approved cost allocation plan methodology indicated that the first-line supervisors' costs would be allocated to federal programs based on a distribution of the relative number of staff they supervised. DHS

did not amend its methodology language for the affected cost pools and did not submit this amendment to DCA.

Federal regulation 45 *CFR* 95 states that DHS shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if the State plan is amended so as to affect the allocation of costs.

b. Procurement and Suspension and Debarment

DHS, in conjunction with the Department of Management and Budget (DMB), did not have internal control to ensure that DHS complied with DMB policies requiring State Administrative Board approval of contracts and contract amendments. Our audit tests disclosed that DHS and DMB did not obtain State Administrative Board approval of a contract amendment that increased the electronic benefits transfer (EBT) vendor contract value by \$149,400 for the Food Stamp Cluster. There were no additional expenditures incurred related to this contract amendment and, as a result, we did not report questioned costs.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award.

DMB Administrative Guide procedure 0620.01 and State Administrative Board Resolution 2003-1 require approval by the State Administrative Board prior to the grant or contract execution (with the exception of emergency contracts involving health and safety and contracts mandated by court order) for all grants and contractual agreements of \$25,000 or more, contract or grant extensions which reach the amount of \$25,000 or more, and grant or contract amendments of \$25,000 or more.

c. Reporting

DHS's internal control did not ensure the reliability and retention of significant information it used in reports for the Food and Nutrition Service (FNS), U.S. Department of Agriculture. Our review of DHS reporting procedures disclosed:

- (1) DHS did not ensure that 5 (83%) of the 6 local fiscal offices that we reviewed reconciled their detailed recoupment activity report (GH-280) to source documents. DHS used the GH-280 to prepare its quarterly status

of claims against households report (FNS-209). As a result, DHS did not verify the accuracy of amounts presented on the FNS-209 and, therefore, was not in compliance with federal program requirements.

Federal regulations 7 *CFR* 273.18(a) and 7 *CFR* 273.18(m) require DHS to create and maintain a system of records for monitoring claims against households that received more benefits than they were entitled to receive and to reconcile summary balances reported to individual supporting records on a quarterly basis. DHS procedure requires local fiscal offices to reconcile the GH-280 on a monthly basis and to maintain the GH-280s and reconciliations for three years or one year subsequent to a federal audit, whichever is later. However, as discussed in the following subsection, DHS did not retain this documentation for the required length of time.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that, upon the implementation of the Bridges Integrated Automated Eligibility Determination System* (Bridges), the report will be distributed electronically with an alert to the person designated to receive the reports. Bridges had not been implemented Statewide during our audit period.

- (2) DHS did not retain underlying reports used to prepare the FNS-209 in accordance with federal regulations. The GH-280 is generated on a monthly basis and provides the detail of the recoupment activity presented on the FNS-209. The DHS State recoupment activity summary report (GH-292) summarizes the activity from the GH-280 into totals for the State as a whole. Information presented on the FNS-209 is obtained directly from the quarterly report of status of claims against households (GH-490), a quarterly summary of the GH-292 report. DHS did not retain the GH-280s and GH-292s for 16 and 13 months of our audit period, respectively.

Federal regulation 7 *CFR* 272.1(f) requires that DHS retain all program records in an orderly fashion, for audit and review purposes, for a period of three years from the origin of each record.

* See glossary at end of report for definition.

- (3) DHS did not reconcile amounts contained in its food stamp summary report (FT-471) to issuance data from the EBT processor system for the first 16 months of our audit period. DHS used the FT-471 to prepare the issuance reconciliation report (FNS-46). As a result, DHS did not verify the accuracy of amounts presented on the FNS-46.

Federal regulation 7 *CFR* 3016.20(b)(6) requires accounting records to be supported by source documentation.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that it would review a transaction control reconciliation as part of local office monitoring. DHS issued a policy letter on December 9, 2008 regarding reconciling a transaction control report.

d. Special Tests and Provisions

DHS's internal control did not ensure that it accounted for all issuances of EBT bridge cards* issued by its local offices through a reconciliation process. Failure to reconcile the local office issuance logs with a report of EBT bridge cards authorized by the EBT contractor increases the risk that DHS would not detect EBT bridge cards issued to someone other than the intended eligible grantee.

DHS indicated that it did not believe that the reports from the EBT contractor showed an accurate number of EBT bridge cards authorized by the EBT contractor for use in reconciling local office EBT bridge card issuance logs. As a result, the local offices were unable to perform reconciliations to identify discrepancies between the number of EBT bridge cards reported as issued on the local office issuance logs and the number authorized by the EBT contractor. DHS informed us that it has attempted to have the EBT contractor redesign the report but has not been successful in getting a reliable report from the EBT contractor.

Federal regulation 7 *CFR* 274.4 requires that DHS account for all issuances through a reconciliation process. Also, federal regulation 7 *CFR* 274.11

* See glossary at end of report for definition.

requires DHS to maintain issuance, inventory, reconciliation, and other accountability records for a period of three years.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that food assistance management evaluators would review the over-the-counter EBT issuance process as part of their monitoring. DHS issued a policy letter on December 9, 2008 regarding various reports sent to the local offices.

RECOMMENDATIONS

We recommend that DHS improve its internal control over the Food Stamp Cluster to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and procurement and suspension and debarment.

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE FOOD STAMP CLUSTER TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING REPORTING AND SPECIAL TESTS AND PROVISIONS.

FINDING (4310907)

7. Weatherization Assistance for Low-Income Persons (Weatherization), CFDA 81.042

U.S. Department of Energy	CFDA 81.042: Weatherization Assistance for Low-Income Persons
Award Number: DE-FG45-04R530681	Award Period: 04/01/2004 - 03/31/2009
	Known Questioned Costs: \$0

DHS's internal control over the Weatherization Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

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

Federal expenditures for the Weatherization Program totaled \$28.5 million for the two-year period ended September 30, 2008.

DHS did not always issue management decisions on audit findings within six months of receipt of subrecipient Single Audit reports. Untimely management decisions hinder DHS's ability to ensure subrecipients' corrective action for audit findings to prevent future sanctions or disallowed costs.

We reviewed 15 subrecipient Single Audit reports. We identified 2 audit reports that contained audit findings related to Weatherization Program federal funds passed through by DHS to the subrecipient. DHS did not issue a management decision within the required time frame for 1 (50%) of the 2 reports for which DHS issued a management decision.

OMB Circular A-133, Section 400(d), requires DHS to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

RECOMMENDATION

We recommend that DHS improve its internal control over the Weatherization Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING (4310908)

8. Promoting Safe and Stable Families (PSSF), CFDA 93.556

U.S. Department of Health and Human Services	CFDA 93.556: Promoting Safe and Stable Families
Award Number: G 06 01 MI 00FP G 07 01 MI 00FP G 08 01 MI FPSS	Award Period: 10/01/2005 - 09/30/2007 10/01/2006 - 09/30/2008 10/01/2007 - 09/30/2009
	Known Questioned Costs: \$29,776

DHS's internal control over the PSSF Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

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

Federal expenditures for the PSSF Program totaled \$22.0 million for the two-year period ended September 30, 2008. We identified known questioned costs of \$29,776 and known and likely questioned costs totaling \$223,662.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS did not ensure that payroll costs were charged to the appropriate federal programs and were properly documented in compliance with federal laws and regulations. As a result, we identified questioned costs of \$29,145. Our review disclosed:

- (1) DHS did not adjust the amount of predetermined payroll cost distributions to reflect actual payroll costs for one employee charged to multiple federal awards. DHS performed a comparison of actual payroll costs to the predetermined payroll cost distributions but did not adjust the amounts charged to the federal programs. As a result, we identified questioned costs of \$104 in the PSSF Program.

Appendix B, section 8 of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (federal regulation 2 CFR 225), requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 CFR 225) also requires DHS to compare, at least quarterly, actual payroll costs to predetermined payroll cost distributions and to revise distributions as necessary.

- (2) DHS did not maintain the required certifications to support payroll costs charged for one employee. Because DHS did not properly document that this employee worked solely on a single federal program, it was not in compliance with federal regulations regarding federal payroll documentation. We questioned costs totaling \$29,041.

For this employee, DHS did not complete a semiannual certification or a pay period specific certification covering the selected payroll period.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are expected to work solely on a single federal award to periodically certify that they did work solely on that program for the period covered by the certification. The certification must be prepared at least semiannually and must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

We reported a similar condition in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it includes instructions for payroll certifications in the year-end closing package each year and that it provided guidance for the completion of personnel activity reports.

b. Subrecipient Monitoring

DHS's internal control did not ensure that PSSF Program subrecipients, including for-profit subrecipients, and vendors with program compliance responsibilities were monitored to ensure that they used federal awards for authorized purposes in compliance with federal laws and regulations. As a result, we questioned costs of \$631. Our review disclosed:

- (1) DHS did not monitor subrecipients and vendors for 17 (52%) of 33 contracts reviewed. DHS had approximately 1,100 contracts with subrecipients and vendors for the PSSF Program in fiscal years 2007-08 and 2006-07 combined. Our review of DHS's program monitoring efforts disclosed that DHS did not obtain performance documentation required by the contracts and did not perform on-site reviews to ensure compliance with the provisions of the contracts. As a result, DHS did not obtain assurance that subrecipients and vendors with program

compliance responsibilities used PSSF Program funds in compliance with federal laws and regulations.

We reported a similar condition in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it would develop a centralized subrecipient monitoring process. DHS did not implement this process during our audit period.

- (2) DHS paid a subrecipient for services that did not appear to be a reasonable use of PSSF Program federal awards for 1 (3%) of 33 subrecipient expenditures reviewed. The contract with the subrecipient indicated that the subrecipient would provide intensive family services, face-to-face mentor and surveillance contacts, and a 24-hour on-call crisis intervention system for State wards and probate court wards under DHS supervision or youth ages 12 to 17 years who had been adjudicated as delinquent. Documentation in the contract file indicated that the subrecipient used PSSF Program funds to purchase camping equipment to provide adventure activities for children participating in the PSSF Program. The subrecipient claimed reimbursement for the equipment under the supplies and specific assistance to individuals categories on its expenditure reimbursement request. DHS did not document how the camping activities related to the services categories in the contract. As a result, we questioned costs of \$631.

OMB Circular A-133, Section 400(d), requires DHS to monitor the activities of its subrecipients to ensure that they used federal awards in compliance with federal laws and regulations. OMB Circular A-133, Section 210(e), also requires DHS to establish requirements, as necessary, to ensure compliance by for-profit subrecipients. In addition, OMB Circular A-133, Section 210(f), requires DHS to ensure compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE PSSF PROGRAM TO ENSURE

COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES AND SUBRECIPIENT MONITORING.

FINDING (4310909)

9. 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: G 06 02 MI TANF G 07 02 MI TANF G 08 02 MI TANF	Award Period: 10/01/2005 - 09/30/2007 10/01/2006 - 09/30/2008 10/01/2007 - 09/30/2009
	Known Questioned Costs: \$155,120,905

DHS's internal control over the TANF Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; reporting; subrecipient monitoring; and special tests and provisions. Our review disclosed material weaknesses in internal control and material noncompliance with compliance requirements related to activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; and special tests and provisions (child support noncooperation, Income Eligibility and Verification System (IEVS), penalty for refusal to work, adult custodial parent of child under six when childcare is not available, and penalty for failure to comply with Work Verification Plan). As a result, we issued an adverse opinion on compliance with federal laws and regulations for the TANF Program.

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

Federal expenditures for the TANF Program totaled \$1.2 billion for the two-year period ended September 30, 2008. We identified known questioned costs of \$155,120,905 and known and likely questioned costs totaling \$376,321,590.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

Our review disclosed:

- (1) DHS could not support that TANF Program expenditures claimed to prevent and reduce the incidence of out-of-wedlock pregnancies met the requirements for the third purpose of TANF. We questioned costs of \$108,240,228.

In an effort to maximize State recovery of TANF Program funds during fiscal year 2007-08, DHS contracted with a private consulting group to analyze the State's expenditures and determine if there were additional sources of expenditures that DHS could use to maximize TANF Program funds. The private consulting group advised DHS that the State's higher education scholarship and grant expenditures were allowable under the third purpose of TANF, which is to prevent and reduce the incidence of out-of-wedlock pregnancies; however, all federal citations provided by the private consulting group supported the allowability of these expenditures under the second purpose of TANF. The second purpose of TANF is to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage. The recipients of funds under the second purpose of TANF must meet financial neediness criteria, such as having income of no more than 200% of the poverty level, and have dependent children, generally under age 18, living with them. Consequently, DHS drew down the TANF Program funds for \$108,240,228 of higher education scholarship and grant expenditures. In addition, DHS counted \$122,502,903 of additional higher education scholarship and grant State expenditures and third-party expenditures to meet the State's maintenance of effort (MOE) requirement. DHS reported to the federal cognizant agency \$108,240,228 of federal and \$122,502,903 of State MOE higher education scholarship and grant expenditures as "Prevention of Out of Wedlock Pregnancies" in the TANF Financial Report (ACF-196) for fiscal year 2007-08.

Federal regulation 45 *CFR* 260.20 states that the third purpose of TANF is to prevent and reduce the incidence of out-of-wedlock pregnancies.

- (2) DHS claimed foster care expenditures in the TANF Program that the State did not incur. We questioned costs of \$46,895,861.

Section 400.117a(4)(a) of the *Michigan Compiled Laws* requires DHS to share equally in the cost of foster care with counties for children not funded under the Foster Care: Title IV-E Program. In an effort to maximize State recovery of TANF Program funds, the Office of the State Budget sought advice from a private attorney regarding the State's ability to draw TANF Program funds based on county foster care program expenditures. The private attorney advised the Office of the State Budget that this would be allowable; consequently, DHS drew down the TANF Program funds based on county foster care program expenditures and retained the funds for other purposes.

We do not consider these county expenditures to be eligible for federal recovery by DHS. Federal regulation 45 *CFR* 260.30 defines an expenditure as any amount of federal TANF or state MOE funds that a state expends, spends, pays out, or disburses consistent with the requirements of parts 260 - 265. Federal regulation 45 *CFR* 92.3 defines a state as any agency of the state exclusive of local governments and further defines a local government to include a county. Consequently, because these are county expenditures, the State is not entitled to recovery of TANF Program funds for these expenditures.

We reported this condition in our prior Single Audit; however, HHS had not issued a management decision on the allowability of these expenditures as of the date of our report.

- (3) As discussed in the Allowable Costs/Cost Principles section (part b.(1)(d)) of this finding, DHS's internal control did not ensure that it maintained documentation to support the recipients' need and eligibility for TANF Program assistance for 25 (37%) of 67 expenditures reviewed. We questioned the costs for 22 of these expenditures in part b.(1)(d) of this finding.

Federal regulation 45 *CFR* 263.11(a)(1) states that funds may be used in any manner reasonably calculated to achieve the purposes of the TANF Program. The first two of these purposes are to provide assistance to

needy families so that children may be cared for in their own homes or the homes of relatives and to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage. Federal regulation 45 *CFR* 263.2(b) states that funds claimed as MOE expenditures must be expended on needy families. DHS procedures required designated forms to be completed to help ensure that assistance was provided only to needy families.

- (4) DHS's internal control did not ensure that it claimed adoption subsidy expenditures in the TANF Program during fiscal year 2006-07 only after the finalization of the adoption.

DHS provides adoption subsidies during trial living arrangements between prospective adoptive parents and a foster care child. HHS determined that these living arrangements do not meet the definition of an eligible family in the TANF federal regulations. DHS could not quantify the amount of adoption subsidies expended prior to the finalization of the adoption during fiscal year 2006-07. As a result, questioned costs for fiscal year 2006-07 were undeterminable. The Adoption Subsidy Database was upgraded in July 2007, providing DHS with the capability to identify TANF-funded adoption subsidies expended prior to the finalization of the adoption. DHS identified \$460,930 in TANF-funded adoption subsidies expended prior to the finalization of the adoption during fiscal year 2007-08. DHS subsequently moved these expenditures out of the TANF Program.

Federal regulation 45 *CFR* 263.2(b)(2) states that an eligible family for TANF-funded assistance must include a child living with a custodial parent or other adult caretaker relative.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program activities allowed or unallowed. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to activities allowed or unallowed.

b. Allowable Costs/Cost Principles

Our review disclosed:

- (1) DHS's internal control did not ensure that TANF Program expenditures met the allowable cost principles of Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225). As a result, we identified questioned costs totaling \$2,593. Our review disclosed:
 - (a) As discussed in the Activities Allowed or Unallowed section (part a.(1)) of this finding, DHS could not support that TANF Program expenditures claimed to prevent and reduce the incidence of out-of-wedlock pregnancies met the requirements for the third purpose of TANF. We questioned the costs in part a.(1) of this finding.
 - (b) As discussed in the Activities Allowed or Unallowed section (part a.(2)) of this finding, DHS claimed foster care expenditures in the TANF Program that the State did not incur. We questioned the costs in part a.(2) of this finding.
 - (c) As discussed in the Activities Allowed or Unallowed section (part a.(4)) of this finding, DHS claimed adoption subsidy expenditures in the TANF Program prior to the finalization of the adoption. Questioned costs were undeterminable.
 - (d) DHS did not maintain case file documentation to support client eligibility, authorization for client services, or the amount of the assistance provided for 22 (34%) of 64 expenditures reviewed. We questioned costs of \$2,593.

Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal programs be adequately documented, be necessary and reasonable for the administration of the federal award, and be consistent with policies and procedures that apply to both the federal award and other activities of the state. Also, DHS policies and procedures require a client-signed assistance application (DHS-1171) and documentation of eligibility determination on the Local Office Automation II (LOA2) budget for all clients at initial application for benefits

and at established redetermination periods. DHS policies also require case records to contain all forms, documents, and other evidence relevant to the client's current and past eligibility. Because DHS did not maintain required case file documentation, it could not ensure or demonstrate compliance with federal requirements related to activities allowed or unallowed, allowable costs/cost principles, and eligibility for the TANF Program.

- (2) DHS did not ensure that payroll costs were charged to the appropriate federal programs and were properly documented in compliance with federal laws and regulations. As a result, we identified negative questioned costs of \$74,170.

Our review disclosed:

- (a) DHS did not properly allocate employee payroll costs using established cost pools for employees who worked less than 100% on a single federal award. We identified 8 employees for whom DHS improperly recorded 100% of their salaries as federal expenditures directly to the Foster Care: Title IV-E Program. DHS should have recorded the expenditures to a cost pool and allocated the costs to the federal programs benefited by these employees' services. We identified negative questioned costs of \$74,066 for payroll costs that should have been allocated to the TANF Program.
- (b) DHS did not adjust the amount of predetermined payroll cost distributions to reflect actual payroll costs for one employee charged to multiple federal programs. DHS performed a comparison of actual payroll costs to the predetermined payroll cost distributions but did not adjust the amounts charged to the federal programs. As a result, we identified negative questioned costs of \$104 in the TANF Program.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or

equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) also requires DHS to compare, at least quarterly, actual payroll costs to predetermined payroll cost distributions and to revise distributions as necessary.

- (3) DHS did not amend its cost allocation plan and did not submit an amendment to DCA, within HHS, in accordance with federal requirements. As a result, DCA is not aware of and has not approved allocation methodologies used by the State.

In fiscal year 2007-08, DHS included first-line supervisors' costs in a cost pool along with their staff to be allocated to federal programs based on time studies. DHS's federally approved cost allocation plan methodology indicated that the first-line supervisors' costs would be allocated to federal programs based on a distribution of the relative number of staff they supervised. DHS did not amend its methodology language for the affected cost pools and did not submit this amendment to DCA.

Federal regulation 45 *CFR* 95 states that DHS shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if the State plan is amended so as to affect the allocation of costs.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

c. Cash Management

DHS's internal control did not ensure compliance with federal cash management requirements contained in the federal Cash Management Improvement Act (CMIA) of 1990.

As a result, DHS overdrew cash and understated interest due to the U.S. Department of Treasury. Noncompliance with CMIA provisions could negatively affect federal program funding, including possible sanctions by federal granting agencies.

The 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 the CMIA in accordance with federal regulation 31 *CFR* 205. To comply with the 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.

Our review of DHS's compliance with the CMIA disclosed:

- (1) DHS did not draw the correct amount for the TANF Program biweekly payroll adjustment for the first quarter of fiscal year 2007-08. As a result, DHS had overdrawn \$167,500 during the first quarter of fiscal year 2007-08 and understated interest due to the U.S. Department of Treasury by \$800 in its annual CMIA report to the Michigan Department of Treasury.

The CMIA agreement requires that DHS use the Modified Payment Schedule - Biweekly funding technique, which calculates the draws based on a prorated amount of the estimated total annual program expenditures. DHS had overdrawn approximately \$41,900 for four of the biweekly payroll draws in the first quarter based on DHS's calculation of federal funds expected to be paid out.

- (2) DHS did not follow the clearance pattern as outlined in the CMIA agreement for the Benefits on Behalf of Clients - Non-EBT funding component of the TANF Program for fiscal years 2007-08 and 2006-07. As a result, DHS had drawn down funds totaling \$0.5 million and \$2.5 million at least one day early for fiscal years 2007-08 and 2006-07, respectively. In addition, DHS understated interest due to the U.S. Department of Treasury in its annual reports to the Michigan Department of Treasury by \$33 and \$336 for fiscal years 2007-08 and 2006-07, respectively.

The CMIA agreement requires DHS to wait until the sixth day after making Benefits on Behalf of Clients - Non-EBT payments before drawing down federal funds. Throughout the audit period, DHS generally performed draws for this component using a 5-day clearance pattern instead of the 6-day requirement outlined in the CMIA agreement.

- (3) DHS did not draw the correct amount for the Benefits on Behalf of Clients - Non-EBT funding component of the TANF Program for the first quarter of fiscal year 2007-08 and all of fiscal year 2006-07. As a result, DHS had overdrawn \$5,400 and \$24,300 for fiscal years 2007-08 and 2006-07, respectively. In addition, DHS understated interest due to the U.S. Department of Treasury in its annual report to the Michigan Department of Treasury by \$31 and \$281 for fiscal years 2007-08 and 2006-07, respectively.

We determined that draws made during our audit period for this funding component improperly included TANF Program expenditure amounts which DHS designated as 100% State-funded MOE requirement expenditures. Therefore, these expenditures were not eligible for federal reimbursement. We did not question costs related to these errant draw amounts because the amounts were offset through quarterly settlement adjustments between DHS and the U.S. Department of Treasury.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it would continue to strengthen its internal control to ensure that federal funds are drawn in compliance with the CMIA agreement.

d. Eligibility

Our review disclosed:

- (1) DHS's internal control did not ensure that assistance and services were provided only to eligible recipients:

As discussed in the Allowable Costs/Cost Principles section (part b.(1)(d)) and Matching, Level of Effort, and Earmarking section (part e.(1)(b)) of this finding, DHS did not maintain documentation to support the recipients' need and eligibility for TANF Program assistance for 25 (50%)

of 50 expenditures reviewed. We questioned costs for these expenditures in the Allowable Costs/Cost Principles section (part b.(1)(d)) of this finding.

DHS could not ensure or demonstrate compliance with federal laws and regulations related to a family's eligibility for assistance benefits because it did not maintain documentation, such as the DHS-1171 and the LOA2 budget.

Federal regulation 45 *CFR* 260.20 requires a family to be needy in order to be eligible for TANF Program assistance and job preparation services. To determine if a family is needy, DHS's procedures require designated forms to be completed and additional case file documentation to be maintained as necessary to help ensure that TANF Program federal funds will be used only for eligible families and purposes. DHS's TANF State Plan states that TANF Program assistance recipients are referred to the Work First Program for job preparation services.

- (2) DHS's internal control did not include a process to determine if recipients of TANF Program assistance at or beyond 60 months met hardship exception criteria defined by the State.

DHS's TANF State Plan covering fiscal year 2006-07 states that Michigan did not have a time limit on TANF Program assistance. Families in need of assistance beyond the 60-month limit and exceeding 20% of the average monthly number of such families receiving assistance in a fiscal year will be State-funded as long as they continue to meet program requirements. HHS conducted a review of DHS's TANF assistance payments for the period of April 1, 2006 through March 31, 2007 and recommended that DHS develop criteria specifying the circumstances that warrant a hardship exception for the 60-month limit. DHS revised the TANF State Plan for fiscal year 2007-08 to include hardship exception criteria and stated that Michigan will extend assistance beyond the 60-month limit if recipients meet the hardship criteria defined in the plan. However, DHS had not developed a process to determine if recipients were at or exceeded the 60-month requirement or met the hardship criteria defined by DHS.

Federal regulation 45 *CFR* 264.1(a) states that DHS may not use any of its federal TANF Program funds to provide assistance to a family that includes an adult head-of-household or a spouse of the head-of-household who has received federal assistance for a total of five years (i.e., 60 cumulative months, whether or not consecutive). Federal regulation 45 *CFR* 264.1(c) allows states to extend assistance paid for by federal TANF Program funds beyond the five-year limit for up to 20% of the average monthly number of families receiving assistance during the fiscal year for families that meet hardship criteria defined by the states.

- (3) DHS had not established a process to identify if individuals receiving TANF-funded assistance and convicted of a drug-related felony were in violation of their probation or parole requirements. In addition, DHS automatically denied TANF-funded adoption subsidies to individuals convicted of these felonies regardless of whether or not the individuals were in violation of probation or parole.

Section 619 of both Act 131, P.A. 2007, and Act 345, P.A. 2006, states that DHS will not provide TANF-funded assistance to individuals convicted of a felony for the possession, use, or distribution of a controlled substance after August 22, 1996 if the individuals are in violation of their probation or parole requirements.

- (4) DHS needs to improve its internal control over TANF-funded adoption subsidies. During our review, we noted that DHS did not conduct annual eligibility determinations to ensure that adoptive families continued to meet the eligibility requirements of the program.

Federal regulation 45 *CFR* 206.10(a)(9) requires DHS to redetermine eligibility at a minimum of every 12 months or when a change in the recipient's circumstances occurs.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program eligibility. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to eligibility.

e. Matching, Level of Effort, and Earmarking

Our review disclosed:

- (1) DHS's internal control did not ensure that TANF's MOE expenditures met federal laws and regulations:
 - (a) As discussed in the Activities Allowed or Unallowed section (part a.(1)) of this finding, DHS could not support that TANF Program expenditures claimed to prevent and reduce the incidence of out-of-wedlock pregnancies met the requirements for the third purpose of TANF. DHS counted \$122,502,903 of higher education scholarship and grant State expenditures and third-party expenditures to meet the State's MOE requirement.
 - (b) DHS did not maintain documentation to support the recipients' need and eligibility for TANF Program assistance for 19 (53%) of 36 MOE expenditures. We reported the federal share of questioned costs for these expenditures in the Allowable Costs/Cost Principles section (part b.(1)(d)) of this finding.
 - (c) DHS did not establish an interagency agreement with the Michigan Public Service Commission (MPSC) for MPSC's expenditures claimed as TANF's MOE. An interagency agreement would help define eligibility requirements and reduce the risk of MPSC reporting improper expenditures that do not meet TANF Program eligibility requirements for MOE.

Federal regulation 45 *CFR* 263.2(b) requires that funds counted as MOE expenditures, except those expended for pro-family activities under the third and fourth purposes of TANF, must be expended on needy families. To determine if a family is needy, DHS's procedures require designated forms to be completed and additional case file documentation to be maintained as necessary to help ensure that TANF Program federal funds will be used only for eligible families and purposes.

- (2) DHS's internal control did not ensure that the total number of months a recipient received TANF Program assistance was appropriately counted toward the 60-month federal TANF Program funding limit. As a result,

DHS could not identify all months of TANF Program assistance that should have been counted toward the 60-month federal TANF Program funding limit. Our review disclosed:

- (a) DHS did not include all months a recipient received TANF Program assistance in its calculation of the number of cases exceeding the federal TANF Program funding limit.

DHS tracks the number of months a recipient received TANF Program assistance by recipient and by case number. DHS used the number of TANF Program assistance months for an adult recipient's case number to determine how many cases exceeded the 60-month federal TANF Program funding limit. Adult recipients who received new case numbers did not have previous months of federal TANF Program assistance counted toward the 60-month limit. We noted that 3,556 TANF Program assistance recipients had multiple case numbers and were the primary adult recipient on each case. Of these 3,556 recipients, 814 (23%) had a cumulative number of TANF Program assistance months that reached or exceeded 60 months during the audit period.

- (b) DHS's Client Information Management System (CIMS) does not have an indicator to determine if an adult is the spouse of an adult head-of-household.

Federal regulation 45 *CFR* 264.1(a) states that DHS may not use any of its federal TANF Program funds to provide assistance to a family that includes an adult head-of-household or a spouse of the head-of-household who has received federal assistance for a total of five years (i.e., 60 cumulative months, whether or not consecutive). Federal regulation 45 *CFR* 264.1(c) allows states to extend assistance paid for by federal TANF Program funds beyond the five-year limit for up to 20% of the average monthly number of families receiving assistance during the fiscal year for families that meet hardship criteria defined by the states. DHS's TANF State Plan for fiscal year 2006-07 states that Michigan did not have a time limit on TANF Program assistance. Families in need of assistance beyond the 60-month limit and exceeding the 20% limitation will be State-funded as long as they continue to meet program

requirements. DHS's revised TANF State Plan for fiscal year 2007-08 states that Michigan will extend assistance beyond the 60-month limit if recipients meet the hardship criteria defined in the plan. However, DHS had not developed a process to determine if recipients met the hardship criteria.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that Bridges would have functionality to remind workers to obtain required verifications and prevent eligibility determinations until the workers log the information into Bridges. Bridges also would have a count of the months of TANF-funded assistance counted toward the federal 60-month limit. Bridges had not been implemented Statewide during our audit period.

f. Procurement and Suspension and Debarment

DHS needs to improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations. We questioned costs totaling \$55,091.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award.

Our review of DHS's procurement and suspension and debarment practices disclosed:

- (1) DHS's internal control did not ensure that 1 (25%) of 4 contracts were signed by authorized representatives of all parties before services began. As a result, we questioned costs of \$55,091.

DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

- (2) DHS's internal control did not ensure that it maintained supporting documentation that 1 (25%) of 4 contracts were awarded to a vendor who was not suspended or debarred.

We reviewed the federal Excluded Parties List System and verified that none of the subrecipients or vendors in our samples were suspended or debarred during the respective fiscal years. As a result, we have not reported any questioned costs for this contract.

Federal regulation 45 *CFR* 92.35 prohibits DHS and its subgrantees from contracting with or making subawards to any party that is suspended or debarred.

g. Reporting

DHS's internal control did not ensure that it complied with TANF Program federal laws and regulations regarding reporting requirements. As a result, DHS did not report accurate TANF Program data to the federal cognizant agency (HHS). Our review of DHS's required reports disclosed:

- (1) DHS's internal control did not ensure employment status for families receiving TANF Program assistance, as reported in the TANF Data Report (ACF-199), was accurate. We reviewed supporting documentation for 8 TANF Program families included in a quarterly ACF-199 for fiscal year 2006-07 and noted that DHS did not accurately report the employment status for 1 (13%) of the 8 families. This family was coded as employed and meeting work participation requirements; however, the individual had not been working and did not meet work participation requirements.
- (2) DHS's internal control did not ensure that State MOE expenditures, as reported in the Annual Report on State Maintenance of Effort Programs (ACF-204) for fiscal year 2007-08, were accurate. We reviewed the ACF-204 for fiscal year 2007-08 and noted that State MOE for the Jobs, Employment and Training (JET) Program was overstated by \$2,228,143, State MOE for Employment Training and Support Services was understated by \$2,118,557, State MOE for the Low-Income Energy Efficiency Fund was understated by \$124,875, State MOE for Case Management was understated by \$119,315, and State MOE for Michigan

School Readiness was overstated by \$85,905. In aggregate, total State MOE was understated by \$33. DHS management did not review the report for accuracy prior to submission to HHS.

Federal regulation 45 *CFR* 265.3 requires states to file a TANF Data Report on a quarterly basis. This report is to include information on families receiving TANF Program assistance, such as their employment status and work participation activities. This information is used by the federal government to determine if states are meeting work participation requirements. Federal regulation 45 *CFR* 265.8 states that the Office of Family Assistance, within HHS, will take action to impose a reporting penalty if data in the TANF Data Report is not accurate.

In addition to the quarterly TANF Data Report, federal regulation 45 *CFR* 265.9 requires states to file an annual report containing information on the states' MOE programs for that year. This report is to include both the total annual state expenditures and the total annual state expenditures claimed as MOE.

h. Subrecipient Monitoring

Our review disclosed:

- (1) DHS did not always issue, or have documentation that it issued, management decisions regarding findings in subrecipient Single Audit reports.

Untimely management decisions hinder DHS's ability to ensure subrecipients' corrective action for audit findings to prevent future sanctions or disallowed costs.

We reviewed 8 subrecipient Single Audit reports. We identified 2 Single Audit reports that contained audit findings related to TANF Program federal funds passed through by DHS to the subrecipient. DHS did not provide documentation of issuing a management decision for 1 (50%) of the 2 Single Audit reports.

OMB Circular A-133, Section 400(d), requires DHS to issue a management decision on audit findings within six months after receipt of

a subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

- (2) DHS's internal control did not ensure that 1 (14%) of the 7 TANF Program subrecipients reviewed were monitored during the award period to ensure that they complied with TANF Program federal requirements. DHS distributed \$17.9 million to this subrecipient during the award period.

DHS's TANF Program management did not review and approve billings from this subrecipient to ensure compliance with the grant agreement.

Public Law 104-156, section 7502(f)(2), and OMB Circular A-133, Section 400(d)(3), require DHS to monitor the activities of subrecipients as necessary to ensure that the federal award is used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that a process was implemented to ensure that documentation on management decisions was maintained. Also, DHS planned to have one office within the department issue and track all management decisions. However, DHS did not implement these processes during the audit period.

i. Special Tests and Provisions

DHS's internal control did not ensure that it complied with TANF Program federal laws and regulations regarding special tests and provisions requirements for child support noncooperation, IEVS, penalty for refusal to work, adult custodial parent of child under six when childcare is not available, and penalty for failure to comply with Work Verification Plan. As a result, we questioned costs totaling \$1,302. Our review disclosed:

- (1) DHS's internal control did not ensure that TANF Program families who did not cooperate with establishing paternity and child support orders were sanctioned as required by federal law and DHS's TANF State Plan. We questioned costs totaling \$702.

We reviewed 51 case files of TANF Program families identified as not cooperating with paternity and child support order establishment procedures and noted that DHS did not appropriately sanction the family in 9 (18%) of the 51 cases. In addition, in 4 (8%) of 51 cases reviewed, DHS could not document that the case workers had followed up on Michigan Child Support Enforcement System (MiCSES) notices of clients not cooperating with paternity and child support to determine if the clients should be sanctioned. After our initial review, DHS was able to provide documentation to indicate that the MiCSES notices were issued in error and the clients were actually cooperating with paternity and child support order establishment procedures, so no sanctions were required. As a result, we did not question costs for the 4 cases.

Federal regulation 45 *CFR* 264.30 states that DHS must deduct an amount equal to not less than 25% from the TANF Program assistance that would otherwise be provided to the family of the individual and may deny the family any TANF Program assistance. DHS's TANF State Plan states that failure to cooperate in establishing paternity and pursuing child support for dependent children will result in TANF Program ineligibility for a one-month minimum.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program special tests and provisions (child support noncooperation). We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to special tests and provisions (child support noncooperation).

- (2) DHS's internal control did not ensure that it complied with certain IEVS requirements.

DHS prepares reports to disseminate IEVS information from various data matches to the recipients' case workers to be used in determining the recipients' need and eligibility for TANF Program assistance. We noted:

- (a) DHS did not retain IEVS information to support that data was received or reports were prepared for case workers during the audit period.
- (b) DHS did not use the Social Security Administration's (SSA's) beneficiary earnings exchange record of federal tax return information to determine the recipients' need and eligibility for TANF Program assistance.
- (c) DHS did not include all recipients of TANF-funded benefits with income and/or citizenship requirements in the IEVS data matches conducted during the audit period.
- (d) DHS needs to improve its internal control over case workers documenting action on IEVS information in the case file.

We reviewed 31 TANF Program assistance cases and noted that DHS did not maintain documentation to support that the IEVS information was reviewed, verified, and used to determine the recipients' need and eligibility for TANF Program assistance for 9 (29%) of 31 cases. In addition, in 7 (23%) instances, DHS had evidence in the case file that IEVS information was used to determine the recipients' need and eligibility for TANF Program assistance but did not document the actions taken on DHS required forms.

Federal regulation 45 *CFR* 205.55 requires states to request information through IEVS for wages, unemployment compensation, SSA information, and unearned income from the Internal Revenue Service at the first opportunity following receipt of an application for assistance. Federal regulation 45 *CFR* 205.56 requires states to use the IEVS information to determine an individual's eligibility for assistance under the state plan and the amount of assistance.

In the prior Single Audit, we disclosed material weaknesses in DHS's internal control over TANF Program special tests and provisions (IEVS). We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to special tests and provisions (IEVS).

- (3) DHS did not always terminate assistance for TANF Program recipients who refuse to engage in work and are not subject to exceptions established by DHS. We questioned costs totaling \$600.

We reviewed 54 case files of TANF Program families in which a recipient was identified as not cooperating in work programs. In 6 (11%) of the 54 case files, DHS did not provide evidence that assistance had been terminated as required by federal regulation. In addition, in 4 instances, DHS had evidence that recipients met exception criteria but did not document the exception disposition on the required Good Cause Determination Form (DHS-71).

Federal regulation 45 *CFR* 261.14 requires DHS to reduce or terminate assistance of those recipients who refuse to engage in work and are not subject to exceptions established by DHS. DHS's TANF State Plan states that if a person fails at application to participate in employment-related activities without good cause, the family is ineligible for assistance and, if a recipient fails to participate in employment-related activities without good cause, the family loses its eligibility for assistance for a minimum of up to three calendar months.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over TANF Program special tests and provisions (penalty for refusal to work). We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to special tests and provisions (penalty for refusal to work).

- (4) DHS's internal control did not ensure that case workers documented the reason that TANF Program assistance was terminated for recipients with a child less than six years of age.

We reviewed 10 case files for TANF Program families with a child less than six years of age that were terminated from TANF Program assistance for refusal to engage in work. In 1 (10%) of the 10 case files, DHS did not maintain documentation to support the reason assistance was terminated. As a result, we could not determine if the recipient disclosed an inability to obtain childcare when TANF Program assistance was terminated.

Federal regulation 45 *CFR* 261.15 states that DHS may not terminate assistance for an individual's refusal to engage in required work if the individual is a single custodial parent caring for a child under age six who has a demonstrated inability to obtain needed childcare. DHS's procedures state that the reasons for demonstrating inability to obtain needed childcare are that childcare appropriate for the child's age and conditions could not be located, childcare is not affordable, childcare is not within a reasonable distance, or the provider does not meet State and local standards.

In the prior Single Audit, we disclosed material weaknesses in DHS's internal control over TANF Program special tests and provisions (adult custodial parent of child under six when childcare is not available). We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to special tests and provisions (adult custodial parent of child under six when childcare is not available).

- (5) DHS did not submit an amended Work Verification Plan when DHS modified its internal control over the State's work participation rate.

DHS outlined in its interim Work Verification Plan, effective September 30, 2007, the internal control to be implemented to ensure compliance with work verification requirements. DHS did not implement local office cash assistance case reviews as outlined in the Work Verification Plan. DHS submitted an amended Work Verification Plan to the federal government to eliminate this internal control; however, the amended plan was not submitted to HHS until August 2008. In addition, the amended verification plan was not effective until October 1, 2008.

Federal regulation 45 *CFR* 261.63(c) requires DHS to submit an amended verification plan by the end of the quarter in which DHS modified its internal control.

RECOMMENDATIONS

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE TANF PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES.

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE TANF PROGRAM TO ENSURE ITS COMPLIANCE WITH LAWS AND REGULATIONS REGARDING CASH MANAGEMENT.

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE TANF PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ELIGIBILITY.

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE TANF PROGRAM TO ENSURE ITS COMPLIANCE WITH LAWS AND REGULATIONS REGARDING MATCHING, LEVEL OF EFFORT, AND EARMARKING.

We recommend that DHS improve its internal control over the TANF Program to ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and reporting.

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE TANF PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE TANF PROGRAM TO ENSURE

ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SPECIAL TESTS AND PROVISIONS.

FINDING (4310910)

10. Child Support Enforcement (CSE), CFDA 93.563

U.S. Department of Health and Human Services	CFDA 93.563: Child Support Enforcement
Award Number: 0404IDHMHR G 07 04 MI 4004 G 08 04 MI 4004	Award Period: 10/01/2003 - 06/30/2009 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: \$26,175

DHS's internal control over the CSE Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, procurement and suspension and debarment, and subrecipient monitoring.

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

Federal expenditures for the CSE Program totaled \$348.0 million for the two-year period ended September 30, 2008. We identified known questioned costs of \$26,175 and known and likely questioned costs totaling \$98,061.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS did not maintain the required certifications to support payroll costs charged for one employee. Because DHS did not properly document that this employee worked solely on a single federal program, it was not in compliance with federal regulations regarding federal payroll documentation. We questioned costs totaling \$26,175.

For this employee, DHS did not complete a semiannual certification or a pay period specific certification covering the selected payroll period.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are expected to work solely on a single federal award to periodically certify that they did work solely on that program for the period covered by the certification. The certification must be prepared at least semiannually and must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

b. Procurement and Suspension and Debarment

DHS, in coordination with DMB, did not have internal control to ensure that it maintained supporting documentation that 1 (6%) of 17 contracts were awarded to a vendor who was not suspended or debarred.

We reviewed the federal Excluded Parties List System and verified that none of the subrecipients or vendors in our samples were suspended or debarred during the respective fiscal years. As a result, we have not reported any questioned costs for this contract.

Federal regulation 45 *CFR* 92.35 prohibits DHS and its subgrantees from contracting with or making subawards to any party that is suspended or debarred.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that, in conjunction with DMB, it has modified its procedures and documents to require that vendors certify prior to a contract that they are not presently suspended or debarred, proposed for debarment, or otherwise ineligible to receive an award. The contract in this finding was originally awarded in 2005 and amended in 2008 to extend the contract period.

c. Subrecipient Monitoring

DHS did not always issue, or have documentation that it issued, management decisions regarding findings in subrecipient Single Audit reports.

Untimely management decisions hinder DHS's ability to ensure subrecipients' corrective action for audit findings to prevent future sanctions or disallowed costs.

We reviewed 30 subrecipient A-133 audit reports. We identified 3 Single Audit reports that contained audit findings related to CSE Program federal funds passed through by DHS to the subrecipient. DHS did not provide documentation of issuing a management decision for 3 (100%) of the 3 Single Audit reports.

OMB Circular A-133, Section 400(d), requires DHS to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that it planned to have one office within the department issue and track all management decisions. However, DHS did not implement this process during the audit period.

RECOMMENDATIONS

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

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE CSE PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING PROCUREMENT AND SUSPENSION AND DEBARMENT.

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE CSE PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

FINDING (4310911)

11. 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 06 AA MI 5100 G 06 AA MI 5110 G 07 AA MI 5100 G 07 AA MI 5110 G 08 AA MI 5100	Award Period: 10/01/2005 - 09/30/2007 10/01/2005 - 09/30/2008 10/01/2006 - 09/30/2008 10/01/2006 - 09/30/2009 10/01/2007 - 09/30/2010
	Known Questioned Costs: \$81,044

DHS's internal control over REAP did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; eligibility; and procurement and suspension and debarment.

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

Federal expenditures for REAP totaled \$15.1 million for the two-year period ended September 30, 2008. We identified known questioned costs of \$81,044 and known and likely questioned costs totaling \$145,445.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

Our review disclosed:

(1) DHS's internal control did not ensure that REAP expenditures met the allowable cost principles outlined in Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225). As a result, we questioned costs totaling \$51,743. Our review disclosed:

(a) DHS did not obtain all documentation necessary to support services provided to unaccompanied refugee minors in 5 (18%) of the 28 Unaccompanied Refugee Minors Program (UMP) expenditures reviewed. Federal regulation 45 *CFR* 400.28 requires that DHS provide for the maintenance of operational records as are necessary

for federal monitoring of the State's REAP. We questioned costs of \$17,544.

- (b) DHS did not maintain documentation to support refugees' eligibility in 1 (8%) of 13 UMP expenditures reviewed for fiscal year 2006-07. DHS paid a contractor for services such as nonscheduled payments, intensive independent living services, foster parent training, and mentoring services without obtaining documentation detailing the specific services provided or a listing of the individuals to whom these services were provided. As a result, DHS could not document that only necessary and reasonable services were provided to individuals eligible for REAP. Federal regulation 45 *CFR* 400.28 requires DHS to maintain documentation of services and assistance provided, including identification of individuals receiving those services. We questioned costs of \$34,199.

Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal awards be necessary and reasonable for the proper performance of REAP and adequately supported.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that it would request a corrective action plan from the two UMP service providers. DHS also indicated in its corrective action plan that a refugee services monitor would review expenditure documentation each month and disallow any unsupported charges. DHS implemented this corrective action in fiscal year 2007-08 and our testing results indicated that the number of errors decreased in fiscal year 2007-08.

- (2) DHS did not amend its cost allocation plan and did not submit an amendment to DCA, within HHS, in accordance with federal requirements. As a result, DCA is not aware of and has not approved allocation methodologies used by the State.

In fiscal year 2007-08, DHS included first-line supervisors' costs in a cost pool along with their staff to be allocated to federal programs based on time studies. DHS's federally approved cost allocation plan methodology indicated that the first-line supervisors' costs would be allocated to federal

programs based on a distribution of the relative number of staff they supervised. DHS did not amend its methodology language for the affected cost pools and did not submit this amendment to DCA.

Federal regulation 45 *CFR* 95 states that DHS shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if the State plan is amended so as to affect the allocation of costs.

b. Eligibility

DHS's internal control did not ensure that REAP benefits were issued only to refugees eligible for services according to federal laws and regulations.

DHS did not document eligibility information for 1 (8%) of 13 UMP expenditures reviewed for fiscal year 2006-07. DHS paid a contractor for services such as nonscheduled payments, intensive independent living services, foster parent training, and mentoring services without obtaining documentation detailing the specific services provided or a listing of the individuals to whom these services were provided. As a result, DHS could not document that only necessary and reasonable services were provided to individuals eligible for REAP. Federal regulation 45 *CFR* 400.28 requires DHS to maintain documentation of services and assistance provided, including identification of individuals receiving those services.

Federal regulations 45 *CFR* 400.53, 45 *CFR* 400.150, and 45 *CFR* 400.152 require refugees to meet immigration status and identification requirements to be eligible for grants.

We reported a similar condition in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that it planned to correct the condition through maintaining all records of expenditures and randomly reviewing invoices to ensure all backup documentation was maintained. DHS implemented this corrective action in fiscal year 2007-08 and our testing results indicated that there were no errors in our sample of fiscal year 2007-08 transactions.

c. Procurement and Suspension and Debarment

DHS's internal control did not ensure that 1 (14%) of 7 contracts was signed by authorized representatives of all parties before services began. As a result, we questioned costs of \$29,301.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award.

DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that it had implemented written procedures for processing contracts and that, in some instances, services were provided prior to both parties signing a contract. DHS has informed us that, although it has written procedures, there are circumstances in which those procedures will not be followed and services and expenditures will begin before a contract is signed.

RECOMMENDATIONS

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER REAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES AND ELIGIBILITY.

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER REAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING PROCUREMENT AND SUSPENSION AND DEBARMENT.

FINDING (4310912)

12. Low-Income Home Energy Assistance, CFDA 93.568

U.S. Department of Health and Human Services	CFDA 93.568 Low-Income Home Energy Assistance
Award Number: G 06 B1 MILIEA G 07 B1 MILIEA G 07 01 MILIE2 G 08 B1 MILIEA	Award Period: 10/01/2005 - 09/30/2008 10/01/2006 - 09/30/2008 10/01/2006 - 09/30/2008 10/01/2007 - 09/30/2009
	Known Questioned Costs: \$3,842

DHS's internal control over the Low-Income Home Energy Assistance Program (LIHEAP) did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, cash management, and eligibility. Our review disclosed material weaknesses in internal control and material noncompliance regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for LIHEAP.

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

Federal expenditures for LIHEAP totaled \$250.2 million for the two-year period ended September 30, 2008. We identified known questioned costs of \$3,842 and known and likely questioned costs totaling \$20,022,200.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS internal control did not ensure that expenditures incurred were for activities allowed. Our audit tests disclosed:

- (1) DHS did not maintain applications to document that the client requested services or made accurate disclosures in 11 (14%) of 76 State Emergency Relief (SER) energy expenditures reviewed. We questioned costs in the amount of \$2,454, in the Allowable Costs/Cost Principles section (part b.(1)) of this finding.

Title 42, Section 8624(b) of the *United States Code (USC)* allows DHS to use LIHEAP funds to intervene in energy crisis situations of low-income households. DHS policy requires a signed application to ensure that a client requested energy crisis intervention and that the client's income and emergency need disclosures complied with federal allowable activity requirements.

- (2) As discussed in the Allowable Costs/Cost Principles section (part b.(1)(c)) of this finding, DHS did not maintain documentation to support a valid energy related emergency in 5 (7%) of 76 SER energy expenditures reviewed. We questioned the costs in part b.(1) of this finding.

Federal law 42 *USC* 8624(b)(1) allows DHS to use LIHEAP funds to intervene in household energy related emergencies.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that case documentation would be reviewed during supervisor case readings and field office program reviews.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure the propriety of LIHEAP expenditures. As a result, we questioned costs totaling \$3,842. Our audit tests disclosed:

- (1) DHS did not ensure that LIHEAP expenditures met the requirements of federal regulation 45 *CFR* 96.30. We questioned costs of \$3,824.

Federal regulation 45 *CFR* 96.30 requires that DHS's fiscal control and accounting procedures permit the tracing of LIHEAP funds to document that DHS did not use LIHEAP funds in violation of the restrictions and prohibitions of LIHEAP laws and federal regulations. Our review disclosed:

- (a) DHS did not maintain documentation to support that all requirements of DHS's LIHEAP State Plan were met for 9 (12%) of 76 SER energy expenditures reviewed.

- (b) DHS did not properly authorize the client's energy related emergency assistance payment for 11 (14%) of 76 SER energy expenditures reviewed.
 - (c) DHS did not maintain documentation to support the energy related emergency and the payment amount issued for 6 (8%) of 76 SER energy expenditures reviewed.
- (2) DHS needs to improve its internal control over the monitoring of its home heating credit (HHC) vendor to help ensure the propriety and compliance of HHC transactions.

OMB Circular A-133, Section 210(f), requires DHS to ensure compliance for HHC transactions for which the vendor is responsible for program compliance or to review vendor records to determine program compliance. DHS established an interagency agreement with the Department of Treasury that specified that the Department of Treasury was a DHS vendor. The interagency agreement requires the Department of Treasury to develop the HHC claim form (MI-1040CR-7), process HHC claims, determine claimant eligibility, and issue HHC to eligible claimants in accordance with Section 206.527a of the *Michigan Compiled Laws*. DHS reimbursed the Department of Treasury \$140.7 million for HHC transactions during the two-year period ended September 30, 2008. Our review disclosed:

- (a) The Department of Treasury did not correctly process 3 (11%) of 28 HHC claims reviewed. In 2 instances, the Department of Treasury did not correctly calculate the HHC. In the other instance, the Department of Treasury properly calculated the claimant's credit; however, it overpaid the claimant's calculated credit. We questioned costs of \$18.

By establishing effective monitoring of the Department of Treasury's processing of HHC payments, DHS could ensure that the Department of Treasury obtains the necessary information to verify claimants' HHC claims and pays claimants the correct amount.

- (b) DHS had not implemented a process to periodically reconcile HHC claim detail information provided by the Department of Treasury in electronic format to the Department of Treasury's reimbursement billings and summary reports provided in paper format.

DHS received reimbursement billings from the Department of Treasury with summary reports of claims processed and mailed by the Department of Treasury. DHS reconciled the reimbursement billing amounts to the summary reports prior to authorizing payment to the Department of Treasury. The Department of Treasury also provided DHS with an electronic file of the detailed claims processed and mailed by the Department of Treasury. DHS did not reconcile the electronic data to the summary data provided with the reimbursement billings.

We reviewed 28 of the 469 HHC processing runs included in the reimbursement billings selected in our review. We noted that the detailed claim information in the electronic file did not support the Department of Treasury reimbursement billings for 13 (46%) of the 28 HHC processing runs. For these 28 HHC processing runs, the detailed information in the electronic file totaled \$8,873,698 and the Department of Treasury reimbursement billings totaled \$11,184,568, resulting in the reimbursement billings exceeding the total electronic claim detail information by \$2,310,870. DHS was unable to provide documentation to support why the reimbursement billings were greater than the detailed claim information in the electronic file.

DHS local office staff use the detailed claim information in the electronic file as a factor in calculating the amount of a client's energy related emergency assistance payment. A periodic reconciliation of the detailed claim information in the electronic file to the reimbursement billings would help ensure that DHS local office staff have complete and accurate HHC detailed claim information.

- (3) DHS did not amend its cost allocation plan and did not submit an amendment to DCA, within HHS, in accordance with federal requirements. As a result, DCA is not aware of and has not approved allocation methodologies used by the State.

In fiscal year 2007-08, DHS included first-line supervisors' costs in a cost pool along with their staff to be allocated to federal programs based on time studies. DHS's federally approved cost allocation plan methodology indicated that the first-line supervisors' costs would be allocated to federal programs based on a distribution of the relative number of staff they supervised. DHS did not amend its methodology language for the affected cost pools and did not submit this amendment to DCA.

Federal regulation 45 *CFR* 95 states that DHS shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if the State plan is amended so as to affect the allocation of costs.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over LIHEAP allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

c. Cash Management

DHS's internal control did not ensure compliance with federal cash management requirements contained in the federal CMIA of 1990.

As a result, DHS overdraw cash and understated interest due to the U.S. Department of Treasury. Noncompliance with CMIA provisions could negatively affect federal program funding, including possible sanctions by federal granting agencies.

The 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 the CMIA in accordance with federal regulation 31 *CFR* 205. To comply with the 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.

Our review of DHS's compliance with the CMIA disclosed that DHS did not use the correct funding technique as outlined in the CMIA agreement for LIHEAP. As a result, DHS had overdrawn \$2.7 million during fiscal year 2006-07 and understated interest due to the U.S. Department of

Treasury by \$26,000 in its annual CMIA report to the Michigan Department of Treasury.

The CMIA agreement requires that DHS use the Modified Payment Schedule - Biweekly funding technique, which calculates the draws based on a prorated amount of the estimated total annual program expenditures. DHS continued to use the funding technique from the fiscal year 2003-04 CMIA agreement for the first and second quarters of fiscal year 2006-07, which calculated the draws based on the prior quarter cost allocation. DHS switched to the correct funding technique beginning with the third quarter draws.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that it would continue to strengthen its internal control to ensure that federal funds are drawn in compliance with the CMIA agreement.

d. Eligibility

DHS needs to improve its internal control over eligibility documentation for SER energy expenditures. Our audit tests disclosed:

- (1) As discussed in the Activities Allowed or Unallowed section (part a.(1)) of this finding, DHS did not maintain applications to document that the client made accurate disclosures in 11 (14%) of 76 SER energy expenditures reviewed. DHS policy requires a signed application to ensure that a client requested energy crisis intervention and that the client's income and emergency need disclosures complied with federal eligibility requirements. We questioned costs for 3 of these expenditures totaling \$1,203 in the Allowable Costs/Cost Principles section (part b.(1)) of this finding. The other 8 expenditures were for clients that were categorically eligible or the clients' files contained documents other than the application to support the clients' eligibility. As a result, we did not report questioned costs for these expenditures in this section of the finding.
- (2) DHS local office staff did not certify client eligibility for 20 (26%) of 76 SER energy expenditures reviewed. DHS policy requires local office staff to certify by signature that a client met income and emergency need federal eligibility requirements. We questioned costs for 3 of these expenditures totaling \$1,203, in the Allowable Costs/Cost Principles

section (part b.(1)) of this finding. The other 17 expenditures were for clients that were categorically eligible or the clients' files contained documents other than the application to support the clients' eligibility. As a result, we did not report questioned costs for these expenditures in this section of the finding.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that case documentation would be reviewed during supervisor case readings and field office program reviews.

RECOMMENDATIONS

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER LIHEAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED.

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER LIHEAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES.

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER LIHEAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING CASH MANAGEMENT.

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER LIHEAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ELIGIBILITY.

FINDING (4310913)

13. Community Services Block Grant (CSBG), CFDA 93.569

U.S. Department of Health and Human Services	CFDA 93.569: Community Services Block Grant
Award Number: G 06 B1 MI COSR G 07 B1 MI COSR G 08 B1 MI COSR	Award Period: 10/01/2005 - 06/30/2007 10/01/2006 - 09/30/2008 10/01/2007 - 09/30/2009
	Known Questioned Costs: \$240,868

DHS's internal control over the CSBG Program did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.

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

Federal expenditures for the CSBG Program totaled \$46.1 million for the two-year period ended September 30, 2008. We questioned costs totaling \$240,868.

Our exceptions, by compliance area, are as follows:

a. Procurement and Suspension and Debarment

DHS's internal control did not ensure that 4 (16%) of 25 contracts were signed by authorized representatives of all parties before services began. As a result, we questioned costs of \$240,868.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award.

DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it had implemented written procedures for processing contracts and that, in some instances, services were provided prior to both parties signing a contract. DHS has informed us that, although it has written procedures, there are circumstances in which those procedures will not be followed and services and expenditures will begin before a contract is signed.

b. Subrecipient Monitoring

DHS did not always issue management decisions on audit findings within six months of receipt of subrecipient Single Audit reports.

Untimely management decisions hinder DHS's ability to ensure subrecipients' corrective action for audit findings to prevent future sanctions or disallowed costs.

We reviewed 23 subrecipient Single Audit reports. We identified 3 Single Audit reports that contained audit findings related to CSBG Program federal funds passed through by DHS to the subrecipient. DHS did not issue a management decision within the required time frame for 1 (33%) of the 3 Single Audit reports for which DHS issued a management decision.

OMB Circular A-133, Section 400(d), requires DHS to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it planned to have one office within the department issue and track all management decisions. However, DHS did not implement this process during the audit period.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE CSBG PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING

PROCUREMENT AND SUSPENSION AND DEBARMENT AND SUBRECIPIENT MONITORING.

FINDING (4310914)

14. Child Care and Development Fund (CCDF) Cluster, CFDA 93.575 and 93.596

U.S. Department of Health and Human Services	CCDF Cluster: <i>CFDA 93.575</i> : Child Care and Development Block Grant; <i>CFDA 93.596</i> : Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 02 01 MI CCDF G 06 01 MI CCDF G 07 01 MI CCDF G 07 01 MI CCDF (Mandatory) G 07 01 MI CCDF (Matching) G 08 01 MI CCDF G 08 01 MI CCDF (Mandatory) G 08 01 MI CCDF (Matching)	Award Period: 10/01/2001 - 09/30/2004 10/01/2005 - 09/30/2008 10/01/2006 - 09/30/2009 10/01/2006 - 09/30/2007 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2010 10/01/2007 - 09/30/2008 10/01/2007 - 09/30/2008
	Known Questioned Costs: \$2,948

DHS's internal control over the CCDF Cluster 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 regarding 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 CCDF Cluster.

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

Federal expenditures for the CCDF Cluster totaled \$508.0 million for the two fiscal years ended September 30, 2008. We identified known questioned costs of \$2,948 and known and likely questioned costs totaling \$205,022,453.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that CCDF Cluster expenditures incurred were for activities allowed according to applicable federal laws and regulations. Our review disclosed:

- (1) As discussed in the Allowable Costs/Cost Principles section (part b.(1)(a)) of this finding, DHS did not maintain documentation to support client or provider eligibility for day-care benefits for 16 (36%) of 44 expenditures reviewed. We questioned costs of \$2,739 in part b.(1) of this finding.
- (2) As discussed in the Eligibility section (part c.(2)) of this finding, DHS's internal control did not prevent child day-care payments from being issued to a provider who was found to be convicted of certain crimes, rendering the provider ineligible for child day-care payments. We questioned costs of \$152 in part c.(2) of this finding.

Federal law 42 USC 9858c(c)(2)(A) states that CCDF Cluster funds may be used for childcare services on behalf of an eligible child who is enrolled with an eligible provider.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CCDF Cluster activities allowed or unallowed. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed.

b. Allowable Costs/Cost Principles

Our review disclosed:

- (1) DHS's internal control did not ensure that child day-care payments met the allowable cost principles of OMB Circular A-87 (federal regulation

2 *CFR* 225). As a result, we questioned costs totaling \$2,796. Our audit tests disclosed:

- (a) DHS did not maintain documentation to support the amount of child day-care payments made, client eligibility, or provider eligibility. For 18 (41%) of 44 payments reviewed, DHS child day-care payment calculations and supporting documentation did not agree or DHS did not have key eligibility documentation in the client or provider case files. As a result, we questioned costs of \$2,796.

We noted payment calculation differences resulting from incomplete documentation needed to properly calculate benefits, miscalculated department pay percentages, and incorrectly applied hourly rates. We also noted incomplete documentation related to eligibility factors, such as household income level, child's age, and client's eligibility reason verifications.

- (b) As discussed in the Eligibility section (part c.(2)) of this finding, DHS's internal control did not prevent child day-care payments from being issued to a provider who was found to be convicted of certain crimes, rendering the provider ineligible for child day-care payments. We questioned costs of \$152 in part c.(2) of this finding.

Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal awards be necessary and reasonable for the proper performance of the CCDF Cluster and be adequately supported.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CCDF Cluster allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

- (2) DHS did not amend its cost allocation plan and did not submit an amendment to DCA, within HHS, in accordance with federal requirements. As a result, DCA is not aware of and has not approved allocation methodologies used by the State.

In fiscal year 2007-08, DHS included first-line supervisors' costs in a cost pool along with their staff to be allocated to federal programs based on time studies. DHS's federally approved cost allocation plan methodology indicated that the first-line supervisors' costs would be allocated to federal programs based on a distribution of the relative number of staff they supervised. DHS did not amend its methodology language for the affected cost pools and did not submit this amendment to DCA.

Federal regulation 45 *CFR* 95 states that DHS shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if the State plan is amended so as to affect the allocation of costs.

c. Eligibility

DHS's internal control did not ensure that day-care benefits were issued to, or on behalf of, eligible clients and providers. As a result, we questioned costs totaling \$152. Our review disclosed:

- (1) As discussed in the Allowable Costs/Cost Principles section (item b.(1)(a)) of this finding, DHS did not maintain documentation to support client or provider eligibility for day-care benefits for 16 (36%) of 44 expenditures reviewed. We noted incomplete supporting documentation related to child's citizenship, client's household income level, client's eligibility reason verifications, child's age, and provider's age. We questioned costs of \$2,739 in part b.(1) of this finding.

Federal regulation 45 *CFR* 98.20 provides eligibility requirements for day-care services and permits DHS to establish eligibility requirements in addition to those outlined in the section as long as the additional requirements are not in violation of the regulation. Federal regulation 45 *CFR* 98.16(g)(5) requires that DHS identify additional eligibility requirements in its CCDF State Plan. Sections 3.3 and 6.6 of DHS's CCDF State Plan provide specific requirements for client and provider eligibility, respectively.

- (2) DHS authorized and issued child day-care payments to 1 day-care aide who was found to be convicted of certain crimes, rendering the provider ineligible to receive child day-care payments. We questioned costs of \$152.

Federal regulation 45 *CFR* 98.20 provides eligibility requirements for day-care services and permits DHS to establish eligibility requirements in addition to those outlined in the section as long as the additional requirements are not in violation of the regulation. Federal regulation 45 *CFR* 98.16(g)(5) requires that DHS identify additional eligibility requirements in its CCDF State Plan. Section 6.6 of DHS's CCDF State Plan requires that criminal background checks be completed for each provider who applies for enrollment as a day-care aide or relative care provider, as well as any adults living in the home with the relative care provider. If the criminal background check indicates that the provider or adults living in the home with the relative provider have been convicted of certain crimes, the provider is not enrolled and cannot receive child day-care payments.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CCDF Cluster eligibility. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to eligibility.

RECOMMENDATION

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE CCDF CLUSTER TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND ELIGIBILITY.

FINDING (4310915)

15. 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 07 01 MI 1400 G 08 01 MI 1400	Award Period: 10/01/2006 - 09/30/2008 10/01/2007 - 09/30/2009
	Known Questioned Costs: \$62,226

DHS's internal control over the CWSS Program did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.

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

Federal expenditures for the CWSS Program totaled \$19.0 million for the two-year period ended September 30, 2008. We identified questioned costs totaling \$62,226.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award.

Our review of DHS's procurement and suspension and debarment practices disclosed:

- a. DHS's internal control did not ensure that it entered into written contracts for 1 (7%) of 15 procurements that required a contractual relationship. Our audit tests disclosed that DHS did not enter into a written contract with 1 vendor of the CWSS Program that provided foster care services during the audit period. As a result, we questioned costs totaling \$56.
- b. DHS's internal control did not ensure that 5 (11%) of 45 amendments were signed by authorized representatives of all parties before services began. Because the nature of the amendments did not impact the allowability of the services, we did not report questioned costs.
- c. DHS's internal control did not prevent 3 (21%) of 14 contracts from incurring expenditures for services provided after the contract's expiration date. As a result, we identified questioned costs of \$62,170.

DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be

agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it had implemented written procedures for processing contracts and that in some instances services were provided prior to both parties signing a contract. DHS has informed us that, although it has written procedures, there are circumstances in which those procedures will not be followed and services and expenditures will begin before a contract is signed.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE CWSS PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING PROCUREMENT AND SUSPENSION AND DEBARMENT.

FINDING (4310916)

16. 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: 07 01 MI 1401 08 01 MI 1401	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: \$3,427,272

DHS's internal control over the Foster Care: Title IV-E Program 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, and subrecipient monitoring. Also, DHS did not comply with federal laws and regulations regarding matching, level of effort, and earmarking. 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 a qualified opinion on compliance with federal laws and regulations for the Foster Care: Title IV-E 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: Title IV-E Program awards.

Federal expenditures for the Foster Care: Title IV-E Program totaled \$155.2 million for the two-year period ended September 30, 2008. We identified known questioned costs of \$3,427,272 and known and likely questioned costs totaling \$25,333,156.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that expenditures incurred were for activities allowed. As a result, we questioned costs totaling \$75,846, of which \$13,643 is questioned in the Eligibility section (part c.) of this finding. Our audit tests disclosed:

- (1) DHS inappropriately charged \$49,091 of day-care related maintenance payments to the Foster Care: Title IV-E Program during fiscal years 2007-08 and 2006-07 for children that needed care while their foster parents attended classes leading to a high school diploma or its equivalent or English as a second language classes. We questioned costs totaling \$49,091.

Federal regulation 45 *CFR* 1355.20(a)(1) allows foster care maintenance payments to be made for daily supervision in licensed childcare only when work responsibilities preclude foster parents from being at home when the child for whom they have care and responsibility in foster care is not in school.

- (2) As discussed in the Eligibility section (part c.) of this finding, DHS issued Foster Care: Title IV-E Program payments on behalf of ineligible children. We questioned the costs of these expenditures in the Eligibility section (part c.).
- (3) DHS needs to improve its internal control over child care institution (CCI) payments to help ensure that the activities and amounts charged to the

Foster Care: Title IV-E Program are allowable and accurate. Our review disclosed:

- (a) DHS splits the total amounts paid to CCIs into maintenance and treatment amounts. DHS calculates the percentage split between maintenance and treatment amounts paid to CCIs from expenditure reports submitted by the CCIs. This is necessary because only the maintenance portion can be funded by the Foster Care: Title IV-E Program. The CCIs submit their expenditure reports on an annual basis, but DHS does not have policies or procedures in place requiring that it recalculate and update the maintenance and treatment allocation percentages on a periodic basis as new expenditure reports are submitted by the CCIs. As a result, DHS did not complete an updated analysis of maintenance and treatment expenditure reports and update the allocation percentages during the audit period. Instead, DHS continued to use the allocation percentages that were established during fiscal year 2005-06. Questioned costs for the audit period were undeterminable.
- (b) Based on the maintenance and treatment rates actually applied by DHS during the audit period, DHS inappropriately charged CCI treatment payments to the Foster Care: Title IV-E Program when issuing retroactive payments. We questioned costs totaling \$12,880.
- (c) DHS inappropriately charged payments for summer school classes to the Foster Care: Title IV-E Program. We questioned costs totaling \$232.

Federal law 42 *USC* 675(4)(A) defines foster care maintenance payments as payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation. Costs claimed as foster care maintenance payments that include medical, educational, or other expenses are not allowable under the Foster Care: Title IV-E Program.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over Foster Care Title IV-E Program activities allowed or unallowed.

We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control to ensure federal program compliance with activities allowed or unallowed.

b. Allowable Costs/Cost Principles

Our review disclosed:

(1) DHS's internal control did not ensure that Foster Care: Title IV-E Program expenditures met allowable cost principles of Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225). As a result, we questioned costs totaling \$351,834, of which \$62,203 is questioned in the Activities Allowed or Unallowed section (part a.) of this finding, and \$13,643 is questioned in the Eligibility section (part c.) of this finding. Our audit tests disclosed:

(a) DHS inappropriately charged child placing agency (CPA) administrative expenditures directly to the Foster Care: Title IV-E Program. CPA administrative expenditures are incurred for foster care related services that benefit other federal programs in addition to the Foster Care: Title IV-E Program. DHS's approved Public Assistance Cost Allocation Plan (PACAP) includes a cost pool for these types of expenditures. We questioned costs totaling \$273,861.

Also, effective October 31, 2007, Act 131, P.A. 2007, established an option for CPAs to receive an increased administrative rate. However, DHS implemented the increased administrative rate payments to CPAs effective as of October 1, 2007. As a result, we noted that approximately \$116,290 of the \$273,861 in questioned costs noted above were also payments made in noncompliance with State law.

Appendix D of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that DHS allocate indirect costs according to DHS's PACAP. In addition, federal regulation 45 *CFR* 95.517 states that DHS must claim federal reimbursement for costs associated with a program only in accordance with its approved cost allocation plan.

- (b) As discussed in the Activities Allowed or Unallowed section (part a.) of this finding, DHS inappropriately charged day-care related maintenance payments made for the education need reason to the Foster Care: Title IV-E Program. We questioned costs totaling \$49,091 in part a. of this finding.
- (c) As discussed in the Eligibility section (part c.) of this finding, DHS issued Foster Care: Title IV-E Program payments on behalf of ineligible children. We questioned the costs of these expenditures in the Eligibility section (part c.).
- (d) As discussed in the Activities Allowed or Unallowed section (part a.) of this finding, DHS needs to improve its internal control over CCI payments to help ensure that the activities and amounts charged to the Foster Care: Title IV-E Program are allowed and accurate. We were unable to determine questioned costs related to part a.(3)(a) of this finding. We questioned costs totaling \$13,112 in parts a.(3)(b) and a.(3)(c).
- (e) DHS's internal control did not prevent the issuance of Foster Care: Title IV-E Program overpayments. DHS's process for reissuance of cancelled warrants, resulting from increased retroactive payment authorizations, did not calculate the proper reissuance amount and resulted in overpayments. We questioned costs totaling \$2,102.

Appendix A of OMB Circular A-87 (federal regulation of 2 *CFR* 225) requires that costs charged to a federal award be net of applicable credits, including adjustments of overpayments and erroneous charges.

- (f) For 1 (13%) of 8 expenditures reviewed, DHS did not maintain support for the determination of care supplemental payment issued. As a result, we questioned costs totaling \$26.

Appendix A of OMB Circular A-87 (federal regulation of 2 *CFR* 225) requires that costs charged to a federal award be adequately documented.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over Foster Care: Title IV-E Program allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control to ensure federal program compliance with allowable costs/cost principles.

- (2) DHS did not properly allocate employee payroll costs using established cost pools for employees who worked less than 100% on a single federal award. As a result, we identified questioned costs of \$64,222.

We identified 8 employees for whom DHS improperly recorded 100% of their salaries as federal expenditures directly to the Foster Care: Title IV-E Program. DHS should have recorded the expenditures to a cost pool and allocated the costs to the federal programs benefited by these employees' services.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) also requires DHS to compare, at least quarterly, actual payroll costs to predetermined payroll cost distributions and to revise distributions as necessary.

- (3) DHS did not amend its cost allocation plan and did not submit an amendment to DCA, within HHS, in accordance with federal requirements. As a result, DCA is not aware of and has not approved allocation methodologies used by the State.

In fiscal year 2007-08, DHS included first-line supervisors' costs in a cost pool along with their staff to be allocated to federal programs based on time studies. DHS's federally approved cost allocation plan methodology

indicated that the first-line supervisors' costs would be allocated to federal programs based on a distribution of the relative number of staff they supervised. DHS did not amend its methodology language for the affected cost pools and did not submit this amendment to DCA.

Federal regulation 45 *CFR* 95 states that DHS shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if the State plan is amended so as to affect the allocation of costs.

c. Eligibility

DHS's internal control did not ensure that it issued Foster Care: Title IV-E Program payments only on behalf of eligible children. As a result, we noted exceptions in 8 (18%) of 44 maintenance payments reviewed and 1 (4%) of 26 miscellaneous expenditures reviewed. We questioned costs totaling \$287,504, of which \$273,861 is questioned in the Allowable Costs/Cost Principles section (part b.) of this finding. Our audit tests disclosed:

- (1) As discussed in the Allowable Costs/Cost Principles section (part b.) of this finding, DHS inappropriately charged CPA administrative expenditures directly to the Foster Care: Title IV-E Program. These administrative expenditures benefit other federal programs in addition to the Foster Care: Title IV-E Program. We questioned costs totaling \$273,861 in part b. of this finding.
- (2) DHS improperly claimed Foster Care: Title IV-E Program funding for maintenance payments issued on behalf of children who were ineligible at the time the service was rendered because DHS could not provide judicial determinations and court orders did not contain language required by federal regulations:
 - (a) For 1 (2%) of 44 expenditures reviewed, DHS issued maintenance payments on behalf of a child who was ineligible because the first court order removing the child from the home did not include the judicial determination that continuation in the home was contrary to the child's welfare. We questioned costs totaling \$1,325. This expenditure was also determined to be in noncompliance related to parts c.(2)(b) and c.(2)(d)(ii) of this finding.

Federal regulation 45 *CFR* 1356.21(c) requires that the first court order removing the child from the home contain a judicial determination that removal from the home is in the best interest of the child or that continuation in the home is contrary to the child's welfare. In addition, federal regulation 45 *CFR* 1356.21(d) requires that the judicial determination be explicitly documented, made on a case-by-case basis, and stated in the court order.

- (b) For 1 (2%) of 44 expenditures reviewed, DHS issued maintenance payments on behalf of a child who was ineligible because DHS did not have documentation that a judicial determination of the reasonableness of the efforts to prevent the child's removal from the home had been made within 60 days of the child's removal from the home.

Federal regulation 45 *CFR* 1356.21(b)(1)(i) requires that the judicial determination of whether reasonable efforts were made, or were not required to prevent removal, must be made no later than 60 days from the date the child is removed from the home. In addition, federal regulation 45 *CFR* 1356.21(d) requires that the judicial determination be explicitly documented, made on a case-by-case basis, and stated in the court order.

- (c) For 1 (2%) of 44 expenditures reviewed, DHS issued maintenance payments on behalf of a child who was ineligible because DHS did not physically remove the child from the home immediately after the judicial determination that continuation in the home was contrary to the child's welfare. The judicial determination did not specify an alternative time frame for the child's removal. We questioned costs totaling \$1,122.

The HHS Administration for Children and Families' Child Welfare Policy Manual clarifies Section 472(a)(2) of the Social Security Act by requiring that the judicial determination that results in the child's removal must coincide with (i.e., occur at the same time as) the agency's action to physically or constructively remove the child, unless the court order specifies an alternative time frame for removal.

(d) For 6 (14%) of 44 expenditures reviewed, DHS issued maintenance payments on behalf of children who were ineligible because DHS did not correctly determine or document that the children met the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) Program (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996). Our review disclosed:

(i) For 2 (5%) of 44 expenditures reviewed, DHS determined that the child was eligible under the former AFDC Program, although the child was not judicially removed from a parent or specified relative. We questioned costs totaling \$3,403.

Federal regulation 45 *CFR* 1356.21(k) requires that removal from the home must occur pursuant to a judicial order for a physical or constructive removal of the child from a parent or specified relative. DHS's former AFDC State Plan defined a specified relative as a parent, grandparent, aunt, uncle, stepparent, sibling, stepsibling, niece, nephew, first cousin, first cousin once removed, and spouse of any of the above, even after the marriage is ended by death or divorce.

(ii) For 2 (5%) of 44 expenditures reviewed, DHS determined that the children were eligible under the former AFDC Program, although the children had not lived with the parent or specified relative within six months of the month of initiation of court proceedings. We questioned costs totaling \$273.

Federal regulation 45 *CFR* 1356.21(l) requires that for purposes of meeting the requirement for living with a specified relative prior to removal from the home, the child must have been living with the parent or specified relative within six months of the month of initiation of court proceedings, and the child would have been AFDC eligible in that month if she or he had still been living in that home.

- (iii) For 2 (5%) of 44 expenditures reviewed, DHS did not maintain adequate documentation of the AFDC assistance unit's income and resources (assets) to support the children's former AFDC eligibility. We questioned costs totaling \$1,706.

Federal regulation 45 *CFR* 206.10 defines assistance unit as the group of individuals whose income, resources, and needs are considered as a unit for the purposes of determining eligibility and the amount of payment.

- (e) For 1 (17%) of 6 expenditures reviewed, DHS issued day-care related maintenance payments on behalf of a child who was ineligible because DHS documentation did not include verification that the foster parent was employed, as indicated by the day-care need reason code shown in the Unified Child Daycare System for the foster care provider. We questioned costs totaling \$120.

Federal regulation 45 *CFR* 1355.20 (a)(1) allows foster care maintenance payments to be made for daily supervision in licensed childcare only when work responsibilities preclude foster parents from being at home when the child for whom they have care and responsibility in foster care is not in school.

- (3) For 1 (4%) of 26 Foster Care: Title IV-E Program miscellaneous expenditures reviewed, DHS improperly claimed Foster Care: Title IV-E Program funding for a maintenance payment on behalf of a child who was ineligible because the child was placed with a healthcare provider. We questioned costs totaling \$5,694.

Federal law 42 *USC* 672(b) requires that DHS only make maintenance payments on behalf of children placed in licensed foster family homes or CCIs.

- (4) DHS did not implement required searches of child abuse and neglect registries maintained by other states in accordance with the federally mandated effective date. DHS did not perform proper child abuse and neglect registry checks of other states during the 15-month period of October 1, 2006 through December 31, 2007. As a result, children may

have been placed in the homes of foster parents and with other adults living in the home that had child abuse and neglect complaints filed in other states.

Federal law 42 USC 671(a)(20) required that DHS request a search of the child abuse and neglect registry of any other state in which any prospective foster parent or other adult living in the home of a prospective foster parent resided in the preceding five years. The statute offered a delayed implementation of this requirement. However, DHS did not request a delayed implementation for this requirement. Because DHS did not obtain a delayed implementation waiver, the requirement took effect on October 1, 2006. DHS began requesting searches of other states' child abuse and neglect registries in January 2008.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over Foster Care: Title IV-E Program eligibility. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control to ensure federal program compliance with eligibility.

d. Matching, Level of Effort, and Earmarking

DHS claimed matching expenditures in the Foster Care: Title IV-E Program that the State did not incur. As a result, we questioned costs totaling \$2,238,625, of which \$1,735,605 is questioned in the Subrecipient Monitoring section (part f.) of this finding. Our review disclosed:

- (1) DHS contracts with county prosecuting attorney (PA) offices for representation of DHS in child abuse and neglect hearings. Under contract terms, DHS reimburses the counties 50% of eligible expenditures billed by the county PA offices. The amount of eligible expenditures billed by the county PA office, but not reimbursed by DHS represent third party in-kind contributions, which are not an allowable form of match for the Foster Care: Title IV-E Program. However, DHS inappropriately claimed these third party in-kind contribution amounts in its administrative expenditures and obtained federal reimbursement at 50% federal financial participation (FFP). We questioned costs totaling \$503,020.

Federal regulation 45 *CFR* 1356.60(c) allows states to claim administrative expenditures necessary for the proper and efficient administration of the Title IV-E State Plan, including expenditures related to preparation for and participation in judicial determinations. The applicable FFP rate is 50%. The HHS Administration for Children and Families' Child Welfare Policy Manual states that third party in-kind contributions may not be used by a state to meet federal cost-sharing requirements under the Foster Care: Title IV-E Program.

- (2) DHS contracts with Wayne County to provide funding for foster care maintenance and administrative expenditures for eligible juvenile justice children. Under contract terms, DHS reimburses Wayne County for one-half of the FFP rate amount of Wayne County billed expenditures. However, DHS claimed 100% of the Wayne County expenditures and thereby inappropriately obtained federal reimbursement for county-funded expenditures. We questioned costs totaling \$1,735,605 in part f. of this finding.

We do not consider the county expenditures not reimbursed by DHS to be eligible for federal recovery by DHS. Federal regulation 45 *CFR* 95.4 defines FFP as the federal government's share of an expenditure made by a state agency. Federal regulation 45 *CFR* 1355.20 defines state agency as the agency administering the Title IV-E State Plan, which is DHS. Consequently, because these are county expenditures, DHS is not entitled to recovery of Foster Care: Title IV-E funds for these expenditures.

e. Procurement and Suspension and Debarment

DHS needs to improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations. As a result, we questioned costs of \$73,435.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award.

Our review of DHS's procurement and suspension and debarment practices disclosed:

- (1) DHS's internal control did not ensure that it entered into written contracts for 1 (4%) of 26 procurements that required a contractual relationship. We questioned costs totaling \$3,499. Our audit tests disclosed that DHS did not enter into a written contract with a vendor that provided general and specialized foster care services to children during the audit period.
- (2) DHS's internal control did not ensure that 5 (20%) of 25 contracts and 2 (3%) of 74 amendments were signed by authorized representatives of all parties before services began. We questioned costs of \$22,948.
- (3) DHS's internal control did not prevent 5 (20%) of 25 contracts from incurring expenditures for services provided after the contract's expiration date. We identified questioned costs of \$46,988.

DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration, other multi-year services, and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it had implemented written procedures for processing contracts and that in some instances services were provided prior to both parties signing a contract. DHS has informed us that, although it has written procedures, there are circumstances in which those procedures will not be followed and services and expenditures will begin before a contract is signed.

f. Subrecipient Monitoring

Our review disclosed:

- (1) DHS's internal control did not ensure that it monitored Wayne County's eligibility determinations for juvenile justice children. As a result, we questioned costs totaling \$2,434,760.

DHS is primarily responsible for the expenditure of Foster Care: Title IV-E Program funds. DHS has a contract with Wayne County to provide funding to Wayne County for eligible juvenile justice children. DHS considers Wayne County to be a subrecipient.

In order to be reimbursed, Wayne County submits a billing which lists the Wayne County juvenile justice children for whom it is requesting reimbursement. DHS does not verify the eligibility of the children for whom it is paying. The contract between Wayne County and DHS was silent on who was responsible for the continued determination.

As the grantor of the federal funds, OMB Circular A-133 requires DHS to monitor the program to ensure that the funds are expended for only eligible children. Because of the lack of understanding between the two parties, we have questioned all of the amounts provided to Wayne County for the two years ended September 30, 2008.

We reported a similar condition in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it had requested modifications to the system to help ensure that procedures are adhered to in determining Title IV-E eligibility and payments for Wayne County juvenile justice youth.

- (2) DHS did not always issue, or have documentation that it issued, management decisions regarding subrecipient Single Audit findings. In addition, DHS did not always issue the documented management decisions within six months of receipt of subrecipient reports.

Untimely management decisions hinder DHS's ability to ensure subrecipients' corrective action for audit findings to prevent future sanctions or disallowed costs.

We reviewed 2 subrecipient Single Audit reports. We determined that both Single Audit reports contained audit findings related to Foster

Care: Title IV-E federal funds passed through by DHS to the subrecipient. Our review of DHS's subrecipient monitoring efforts disclosed:

- (a) DHS did not provide documentation of issuing a management decision for 1 (50%) of the 2 Single Audit reports.
- (b) DHS did not issue a management decision within the required time frame for 1 (50%) of the 2 Single Audit reports for which DHS issued a management decision.

OMB Circular A-133, Section 400(d), requires DHS to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it planned to have one office within DHS issue and track all management decisions. However, DHS did not implement this process during our audit period.

RECOMMENDATIONS

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE FOSTER CARE: TITLE IV-E PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND ELIGIBILITY.

We also recommend that DHS comply with the Foster Care: Title IV-E Program federal laws and regulations regarding matching, level of effort, and earmarking.

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE FOSTER CARE TITLE IV-E PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING PROCUREMENT AND SUSPENSION AND DEBARMENT.

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE FOSTER CARE TITLE IV-E PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

FINDING (4310917)

17. Adoption Assistance, CFDA 93.659

U.S. Department of Health and Human Services	CFDA 93.659: Adoption Assistance
Award Number: G 07 01 MI 1407 G 08 01 MI 1407	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: \$33,730

DHS's internal control over the Adoption Assistance Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; and matching, level of effort, and earmarking. Our review disclosed material weaknesses in internal control and material noncompliance related to eligibility. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Adoption Assistance Program.

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.

Federal expenditures for the Adoption Assistance Program totaled \$218.8 million for the two-year period ended September 30, 2008. We identified known questioned costs of \$33,731 and known and likely questioned costs totaling \$25,671,053.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that expenditures incurred were for activities allowed. As a result, we questioned costs of \$1,460.

DHS incorrectly charged 5 (28%) of 18 reissued payments reviewed to the Adoption Assistance Program. Adoption Assistance Program staff used the incorrect program code when reissuing a payment. DHS should have charged this expenditure to either TANF or State funds. This error resulted in questioned costs of \$1,460.

DHS indicated that these types of payments must be processed manually, which could result in coding errors. We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that the unit supervisor has trained staff on policy and proper account coding to improve accuracy when processing payments. However, our testing results indicated that the error rate related to reissued payments has increased since the prior audit.

Federal law 42 *USC* 673(a)(1)(B) states that DHS may make adoption subsidy payments to adoptive parents on behalf of eligible children and does not allow DHS to expend Adoption Assistance Program awards for TANF or State-funded purposes.

b. Allowable Costs/Cost Principles

Our review disclosed:

- (1) DHS did not properly allocate employee payroll costs using established cost pools for employees who worked less than 100% on a single federal award. As a result, we identified negative questioned costs of \$1,114.

We identified 8 employees for whom DHS improperly recorded 100% of their salaries as federal expenditures directly to the Foster Care: Title IV-E Program. DHS should have recorded the expenditures to a cost pool and allocated the costs to the federal programs benefited by these employees' services. We identified negative questioned costs of \$1,114 for payroll costs that should have been allocated to the Adoption Assistance Program.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll

costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) also requires DHS to compare, at least quarterly, actual payroll costs to predetermined payroll cost distributions and to revise distributions as necessary.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that it provided instruction on personnel activity reports to the staff to ensure compliance.

- (2) DHS did not amend its cost allocation plan and did not submit an amendment to DCA, within HHS, in accordance with federal requirements. As a result, DCA is not aware of and has not approved allocation methodologies used by the State.

In fiscal year 2007-08, DHS included first-line supervisors' costs in a cost pool along with their staff to be allocated to federal programs based on time studies. DHS's federally approved cost allocation plan methodology indicated that the first-line supervisors' costs would be allocated to federal programs based on a distribution of the relative number of staff they supervised. DHS did not amend its methodology language for the affected cost pools and did not submit this amendment to DCA.

Federal regulation 45 *CFR* 95 states that DHS shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if the State plan is amended so as to affect the allocation of costs.

c. Eligibility

DHS's internal control did not ensure that it issued adoption subsidy payments only on behalf of eligible children. As a result, we identified likely questioned costs totaling \$25,610,099.

Our audit tests disclosed:

- (1) DHS did not ensure that adoption subsidy payments based on AFDC eligibility were made on behalf of AFDC eligible children. As a result, we identified the likely questioned cost impact on adoption subsidy payments to be \$25,610,099.

In determining if an adoption subsidy qualifies for payment under the Adoption Assistance Program, DHS relies on the Foster Care: Title IV-E Program eligibility determination that DHS documents within the Services Worker Support System for Foster Care, Adoption, and Juvenile Justice (SWSS-FAJ). Federal law 42 USC 673(a)(2)(A) indicates that a child must meet one of three financial based criteria to be eligible for the Adoption Assistance Program. The criteria used for at least 93% of the Adoption Assistance Program's participants is that the child was or would have been eligible for the former AFDC Program. This criteria includes a requirement that the child's removal from the home must be as a result of a voluntary placement agreement or a judicial determination that removal from the home was in the child's best interest. DHS Adoption Assistance Program staff use the former AFDC Program eligibility and judicial determination information from the SWSS-FAJ system in determining eligibility for the Adoption Assistance Program. In our review of the Foster Care: Title IV-E Program, we noted that 14% of the Title IV-E funded foster care payments sampled did not meet the Foster Care: Title IV-E Program eligibility requirements related to AFDC eligibility and the judicial determination that removal from the home was in the child's best interest (see Finding 16, part c.(2)(d)). As a result, we quantified the likely questioned cost impact of the Foster Care: Title IV-E Program eligibility error rate (14%) on the adoption subsidy payments to be \$25,610,099.

We reported similar conditions in our prior Single Audits. DHS indicated in its November 2007 corrective action plan that a new computer system and enhancements to an existing computer system will contain functionality which requires DHS to verify within the system that required documentation has been obtained. However, our testing results indicated that the error rate related to eligibility increased since the prior audit.

- (2) DHS did not ensure that required background checks for prospective adoptive parents during the period October 1, 2006 through December 31, 2007 were conducted. As a result, children could have potentially been placed in the homes of adults who have been convicted of certain crimes, or have had child abuse and neglect complaints filed in other states, making them ineligible and unfit to adopt children.

Federal law 42 USC 671(a)(20) implemented additional background checks for prospective foster care and adoptive placements. The law requires each state to conduct fingerprint-based criminal record checks of the national crime information databases for prospective foster or adoptive parents and to search child abuse and neglect registry databases in each state that the prospective foster or adoptive parent, and any other adult living in the home, have resided in the preceding five years if that state maintains such a registry. The checks must be completed prior to approving the foster care or adoptive placement and are required regardless of whether foster care maintenance payments or adoption assistance payments are to be made on behalf of the child.

The deadline for compliance was October 1, 2006; however, States could be granted a delay in the implementation of the requirement if State legislation, other than legislation appropriating funds, would be required in order for a State to comply with the additional requirements.

DHS informed HHS that it could not implement the fingerprint-based criminal record check requirement without State legislation and HHS granted a delay in implementation based on DHS's request. DHS implemented the fingerprint-based criminal record check requirement effective January 1, 2008 without obtaining the State legislation that it indicated to HHS would be necessary. As of March 2009, legislation had not yet been enacted to comply with the fingerprint-based criminal record check requirement.

In addition, DHS did not request a delay in implementation of the requirement to search child abuse and neglect registry databases in each state the prospective foster or adoptive parent and any other adult living in the home have resided in the preceding five years. DHS implemented

the child abuse and neglect registry database search effective January 1, 2008.

There were approximately 3,300 State ward finalized adoptions in Michigan during the period October 1, 2006 through December 31, 2007. Because Michigan did not comply with the requirements until January 1, 2008, these children could have potentially been placed in the homes of adults who have been convicted of certain crimes, or have had child abuse and neglect complaints filed in other states (if that parent lived in another state within the previous five years, that would make them ineligible and unfit to adopt children). Further, all of these placements were in violation of federal law requiring fingerprint-based criminal records checks. In addition, although we did not note any adoptive parents with child abuse and neglect complaints filed in this State, those adoptive parents who had lived in another state within the previous five years were not subject to a child abuse and neglect complaints review and were in violation of federal law. Of those adoptions, approximately 2,000 involved children who received Title IV-E funded adoption subsidy payments.

d. Matching, Level of Effort, and Earmarking

DHS's internal control did not ensure that costs charged to the Adoption Assistance Program complied with federal matching requirements. As a result, we questioned costs in the amount of \$33,385.

DHS provided advance payments totaling \$412,157 to CPAs to find permanent adoptive placements for children in fiscal year 2007-08. DHS assigned incorrect accounting coding to these advance payments. As a result, DHS received federal reimbursement for these costs at an FFP rate of 58.1%; however, these administrative expenditures were only eligible for reimbursement at an FFP rate of 50%. DHS was not eligible for federal reimbursement for the excess amount of \$33,385.

Federal regulation 45 *CFR* 1356.60(c) allows for federal matching funds for various administrative expenditures necessary for the proper and efficient administration of the program, including the costs related to placing the child in an adoptive home. The FFP rate for these types of expenditures is 50%.

RECOMMENDATIONS

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE ADOPTION ASSISTANCE PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED.

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

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE ADOPTION ASSISTANCE PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ELIGIBILITY.

We also recommend that DHS improve its internal control over the Adoption Assistance Program to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking.

FINDING (4310918)

18. Social Services Block Grant (SSBG), CFDA 93.667

U.S. Department of Health and Human Services	CFDA 93.667: Social Services Block Grant
Award Number: G 06 01 MI SOS2 G 07 01 MI SOSR G 08 01 MI SOSR	Award Period: 10/01/2005 - 09/30/2006 10/01/2006 - 09/30/2008 10/01/2007 - 09/30/2009
	Known Questioned Costs: \$4,307,205

DHS's internal control over the SSBG Program 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, and subrecipient monitoring.

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

Federal expenditures for the SSBG Program totaled \$254.7 million for the two-year period ended September 30, 2008. We identified known questioned costs of \$4,307,205 and known and likely questioned costs totaling \$9,424,897.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that SSBG Program expenditures incurred were for allowable activities. As a result, we questioned costs totaling \$4,337,926. Our review disclosed:

- (1) DHS did not ensure that expenditures were incurred in accordance with the SSBG State Plan.

DHS claimed expenditures for information, referral, and advocacy service and homeless youth service expenditures but had not included these activities in the SSBG State Plan. As a result, we questioned costs totaling \$4,337,926.

Federal law 42 *USC* 1397c requires the State to report on the intended use of payments, including information on the types of activities to be supported and the categories or characteristics of individuals to be served prior to expenditure by the State. The State submits the SSBG State Plan to report to the HHS its intended use of SSBG funds.

- (2) As discussed in the Allowable Costs/Cost Principles section (part b.(1)(a)(ii)) of this finding, DHS processed a payment without receiving an invoice from the provider or verification that services were rendered from the provider in 1 (4%) of 23 medical evaluation/diagnostic examination expenditures reviewed. We questioned costs totaling \$300 in part b.(1)(a)(ii) of this finding.
- (3) As discussed in the Allowable Costs/Costs Principles section (part b.(1)(a)(iv)) of this finding, DHS did not maintain documentation to support client eligibility for child day-care payments in 11 (34%) of 32 SSBG expenditures reviewed. We questioned costs totaling \$1,842 in part b.(1)(a)(iv) of this finding.

- (4) As discussed in the Allowable Costs/Costs Principles section (part b.(1)(a)(v)) of this finding, DHS did not maintain documentation to support provider eligibility for child day-care payments to relative/aide providers for 3 (20%) of 15 SSBG expenditures reviewed. We questioned costs of \$235 in part b.(1)(a)(v) of this finding.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that the applicable program areas would be made aware of the provisions of the approved SSBG State Plan and would spend funds accordingly. DHS also indicated that Bridges would have functionality to remind workers to obtain required documentation and prevent eligibility determinations until the worker logs the documentation in the system. Bridges had not been implemented Statewide during our audit period.

b. Allowable Costs/Cost Principles

Our review disclosed:

- (1) DHS's internal control did not ensure the propriety of SSBG Program expenditures. As a result, we questioned costs totaling \$2,802. Our audit tests disclosed:

- (a) DHS did not ensure that SSBG Program expenditures met the requirements of federal regulation 45 *CFR* 96.30. Federal regulation 45 *CFR* 96.30 requires that DHS's fiscal control and accounting procedures permit the tracing of SSBG funds to document that DHS did not use SSBG funds in violation of the restrictions and prohibitions of SSBG laws and federal regulations. Federal regulation 45 *CFR* 96.30 also requires DHS to obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Our review disclosed:

- (i) DHS approved improper contract rate charges in 1 (50%) of 2 guardianship services expenditures reviewed. As a result, we questioned costs totaling \$125.

- (ii) DHS processed a payment without receiving an invoice from the provider or verification that services were rendered by the

provider in 1 (4%) of 23 medical evaluation/diagnostic examination expenditures reviewed. As a result, DHS cannot ensure the propriety of these expenditures. We questioned costs of \$300.

(iii) DHS did not properly approve 1 (4%) of 23 medical evaluation/diagnostic examination expenditures reviewed. As a result, we questioned costs of \$300.

(iv) DHS did not maintain documentation to support client eligibility for child day-care payments for 11 (34%) of 32 expenditures reviewed. As a result, DHS cannot ensure the propriety of these expenditures. We questioned costs totaling \$1,842.

(v) DHS did not maintain documentation to support provider eligibility for child day-care payments to relative/aide providers for 3 (20%) of 15 expenditures reviewed. As a result, DHS cannot ensure the propriety of these expenditures. We questioned costs totaling \$583, of which \$348 is questioned in part b.(1)(a)(iv) of this finding.

(b) As discussed in the Activities Allowed or Unallowed section (part a.(1)) of this finding, DHS did not ensure that expenditures were incurred for allowable activities as reported in the SSBG State Plan for information, referral, and advocacy service and homeless youth service expenditures. As a result, DHS cannot ensure the propriety of these expenditures. We questioned costs totaling \$4,337,926 in part a.(1) of this finding.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that Bridges would have functionality to remind workers to obtain the required documentation and prevent eligibility determinations until the worker logs the documentation in the system. Bridges had not been implemented Statewide during our audit period.

- (2) DHS did not properly allocate employee payroll costs using established cost pools for employees who worked less than 100% on a single federal award. As a result, we identified negative questioned costs of \$52,150.

We identified 8 employees for whom DHS improperly recorded 100% of their salaries as federal expenditures directly to the Foster Care: Title IV-E Program. DHS should have recorded the expenditures to a cost pool and allocated the costs to the federal programs benefited by these employees' services.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) also requires DHS to compare, at least quarterly, actual payroll costs to predetermined payroll cost distributions and to revise distributions as necessary.

- (3) DHS did not amend its cost allocation plan and did not submit an amendment to DCA, within HHS, in accordance with federal requirements. As a result, DCA is not aware of and has not approved cost allocation methodologies used by the State.

In fiscal year 2007-08, DHS included first-line supervisors' costs in a cost pool along with their staff to be allocated to federal programs based on time studies. DHS's federally approved cost allocation plan methodology indicated that the first-line supervisors' costs would be allocated to federal programs based on a distribution of the relative number of staff they supervised. DHS did not amend its methodology language for the affected cost pools and did not submit this amendment to DCA.

Federal regulation 45 *CFR* 95 states that DHS shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if the State plan is amended so as to affect the allocation of costs.

c. Eligibility

DHS's internal control did not ensure that assistance was provided only to or on behalf of eligible clients and providers. Our review disclosed:

- (1) As discussed in the Allowable Costs/Costs Principles section (part b.(1)(a)(iv)) of this finding, DHS did not maintain documentation to support client eligibility for child day-care payments for 11 (34%) of 32 SSBG expenditures reviewed. We questioned costs of \$1,842 in part b.(1)(a)(iv) of this finding.
- (2) As discussed in the Allowable Costs/Costs Principles section (part b.(1)(a)(v)) of this finding, DHS did not maintain documentation to support provider eligibility for child day-care payments to relative/aide providers for 3 (20%) of 15 SSBG expenditures reviewed. We questioned costs totaling \$348 in part b.(1)(a)(iv) and \$235 in part b.(1)(a)(v) of this finding.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that Bridges would have functionality to remind workers to obtain required documentation and prevent eligibility determinations until the worker logs the documentation in the system. Bridges had not been implemented Statewide during our audit period.

d. Procurement and Suspension and Debarment

DHS needs to improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations. As a result, we questioned costs of \$18,627.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award.

Our review of DHS's procurement and suspension and debarment practices disclosed:

- (1) DHS's internal control did not ensure that 3 (23%) of 13 contracts were signed by authorized representatives of all parties before services began. We identified questioned costs of \$17,037.

DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

We reported similar conditions in our prior Single Audit. DHS indicated in its November 2007 corrective action plan that it had implemented written procedures for processing contracts and that, in some instances, services were provided prior to both parties signing a contract.

- (2) DHS did not maintain supporting documentation of State Administrative Board approval for 1 contract that required approval. We identified questioned costs of \$1,590, which represent the expenditure transaction value sampled. The total contract value was \$43,269.

DMB Administrative Guide procedure 0620.01 and State Administrative Board Resolution 2003-1 require, with the exception of emergency contracts involving health and safety and contracts mandated by court order, all grants and contractual agreements of \$25,000 or more, contract or grant extensions which reach the amount of \$25,000 or more, and grant or contract amendments of \$25,000 or more must be approved by the State Administrative Board prior to the grant or contract execution.

e. Subrecipient Monitoring

DHS did not provide subrecipients with timely information relating to the *CFDA* number, the name of the federal awarding agency, or the related federal laws and regulations for all 4 subrecipient contracts reviewed.

To reduce the risk of improper use of federal awards, subrecipients should be notified of the *CFDA* number, the federal awarding agency, and the requirements imposed on them by federal laws and regulations during the contract initiation process and prior to award payments being issued to the subrecipients.

DHS changed the funding source of expenditures related to homeless youth services contracts without notifying the subrecipients of the change. The contracts indicated that the expenditures would be funded by the TANF Program (*CFDA* 93.558); however, DHS changed the funding source to SSBG after the contracts were signed. DHS maintained a contract payment tracking Web site from which subrecipients could obtain the *CFDA* number and the address to the federal *CFDA* Web site where the subrecipient could obtain the name of the federal awarding agency and read the related federal laws and regulations. However, the Web site did not provide the SSBG *CFDA* number until after DHS issued the first award payment to the subrecipient.

OMB Circular A-133, Section 400(d), requires DHS to provide its subrecipients with the federal program name, including the *CFDA* title and number and the name of the federal awarding agency, and to advise subrecipients of requirements imposed on them by federal laws, regulations, contracts, and grant agreements governing the use of federal awards it makes.

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE SSBG PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY, AND PROCUREMENT AND SUSPENSION AND DEBARMENT.

We also recommend that DHS improve its internal control over the SSBG Program to ensure its compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING (4310919)

19. Chafee Foster Care Independence Program (CFCIP), CFDA 93.674

U.S. Department of Health and Human Services	CFDA 93.674: Chafee Foster Care Independence Program
Award Number: G 06 01 MI 1420 G 07 01 MI 1420 G 08 01 MI 1420	Award Period: 10/01/2005 - 09/30/2007 10/01/2006 - 09/30/2008 10/01/2007 - 09/30/2009
	Known Questioned Costs: \$261,371

DHS's internal control over the CFCIP did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and procurement and suspension and debarment. 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, and procurement and suspension and debarment. Our review also disclosed that DHS did not have internal control in place related to matching, level of effort, and earmarking.

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 the CFCIP Program totaled \$11.2 million for the two-year period ended September 30, 2008. We identified known questioned costs of \$261,371 and known and likely questioned costs totaling \$7,763,974.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that CFCIP expenditures incurred were for activities allowed. As a result, we questioned costs totaling \$28,418, of which \$5,537 is questioned in the Allowable Costs/Cost Principles section (part b.) and \$14,181 is questioned in the Eligibility section (part c.) of this finding. Our review disclosed:

- (1) DHS issued payments for services that did not appear to be a reasonable use of CFCIP federal awards for 1 (1%) of 82 expenditures reviewed. DHS purchased tickets for youth to attend a fashion show and did not

document how this activity related to the youths' plan of self-sufficiency. As a result, we questioned costs of \$8,700.

Federal law 42 *USC* 677(d)(1) states that CFCIP funding may be used in any manner that is reasonably calculated to accomplish the purposes of the program. Federal law 42 *USC* 677(a) describes these activities as assistance in obtaining a high school diploma, career exploration, job placement and retention, vocational training, training in daily living skills, money management, counseling, substance abuse prevention, and preventive health activities.

- (2) As discussed in the Allowable Costs/Cost Principles section (part b.) and the Eligibility section (part c.(2)) of this finding, DHS did not maintain adequate documentation of birth certificates, court orders, service plans, and contracts to support that the youth were of the proper age and eligible to receive assistance and to ensure that payments were for reasonable and necessary services. We questioned costs of \$5,537 in part b. and \$14,181 in part c. of this finding.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CFCIP activities allowed or unallowed. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed.

b. Allowable Costs/Cost Principles

DHS's internal control did not ensure that CFCIP expenditures met the allowable cost principles of Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225). As a result, we questioned costs totaling \$28,418, of which \$8,700 is questioned in the Activities Allowed or Unallowed section (part a.) and \$14,181 is questioned in the Eligibility section (part c.) of this finding.

DHS did not maintain adequate documentation to support 12 (15%) of 82 CFCIP expenditures reviewed. We questioned costs of \$5,537. We found that DHS did not maintain:

- (1) Birth certificates to support the youths' age and eligibility for CFCIP, as discussed in the Eligibility section (part c.) of this finding.
- (2) Court orders to support the youths' placement and eligibility for CFCIP, as discussed in the Eligibility section (part c.) of this finding.
- (3) Service plans for youths for the period of the payment to support that the services provided were reasonable and necessary as outlined in federal law 42 USC 677(a).
- (4) Invoices or receipts to support the amount of the payment made.
- (5) Contracts to support the services being provided.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CFCIP allowable costs/cost principles. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to allowable costs/cost principles.

c. Eligibility

DHS's internal control did not ensure the eligibility of youth receiving CFCIP services. As a result, we questioned costs totaling \$14,181. Our review disclosed:

- (1) DHS did not maintain adequate documentation of birth certificates to support the youths' eligibility to receive CFCIP-funded services in 5 (6%) of 82 expenditures reviewed. We questioned costs of \$13,676.
- (2) DHS did not maintain adequate documentation that the child was in a foster care placement after his or her 14th birthday, based on an adjudication of abuse and/or neglect or juvenile justice to support the youths' eligibility to receive CFCIP-funded services in 4 (5%) of

82 expenditures reviewed. We questioned costs of \$2,636, of which \$2,131 is questioned in part c.(1) of this finding.

Federal law 42 USC 677(a) states that CFCIP funding should be used to provide specified services to youth likely to remain in foster care until 18 years of age as well as former foster care youth between 18 and 21 years of age to help with their transition from foster care to self-sufficiency and adulthood. DHS's CFCIP State Plan further defines the age specific eligibility as all youth between 14 and 21 who are or have been in foster care placement based on abuse or neglect after their 14th birthday.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CFCIP eligibility. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to eligibility.

d. Matching, Level of Effort, and Earmarking

DHS did not have controls in place to ensure that the federal matching, level of effort, and earmarking requirement was met. DHS was not able to identify total expenditures related to room and board for children who were between 18 and 21 years of age. If DHS does not monitor housing services provided to all CFCIP eligible youth, it cannot ensure that it complies with the room and board maximums.

Federal law 42 USC 677(b)(3)(B) requires states to certify that not more than 30% of their CFCIP funds will be expended on room and board for youth ages 18 through 20. In addition, 42 USC 677(b)(3)(C) stipulates that states may not use any CFCIP funds on room and board for youth that have not yet turned 18 years old.

DHS documents services provided to youth on the service youth profile report (DHS-4713). Program staff have instructed all outstate* local offices to submit the DHS-4713 to the central office after completion. Central office staff then enters the services from each DHS-4713 into a tracking database. The Youth

* See glossary at end of report for definition.

in Transition Program coordinator can then use this database to monitor the amount of CFCIP funds expended on room and board.

However, our review disclosed that the central office did not receive all outstate DHS-4713s during the audit period and, therefore, was unable to enter all relevant information into the database in a timely manner.

We summarized total expenditures in the accounts which would most likely include room and board expenditures. Based on these calculations, our estimate indicated that DHS did not exceed the 30% maximum for room and board. As a result, we did not report questioned costs.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CFCIP matching, level of effort, and earmarking. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to matching, level of effort, and earmarking.

e. Procurement and Suspension and Debarment

DHS's internal control did not ensure compliance with applicable federal laws and regulations related to procurement and suspension and debarment. As a result, we questioned costs totaling \$235,619, of which \$217 is questioned in the Allowable Costs/Cost Principles section (part b.) and \$2,449 is questioned in the Eligibility section (part c.). Our review disclosed:

- (1) DHS did not enter into a written contract with 11 vendors of the CFCIP Program that provided foster care services to children during the audit period. We questioned costs of \$34,517, of which \$217 is questioned in the Allowable Costs/Cost Principles section (part b.), and \$2,449 is reported in the Eligibility section (part c.).
- (2) DHS did not ensure that 2 (22%) of 9 contracts were signed by authorized representatives of all parties before services began. We questioned costs of \$201,102.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State policies and procedures that conform to applicable federal laws and standards when

procuring goods or services for the administration of a federal award. DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

In prior Single Audits, we disclosed material weaknesses in DHS's internal control over CFCIP procurement and suspension and debarment. We determined that DHS did not implement sufficient corrective action during our audit period to eliminate these weaknesses or to provide for effective internal control over federal laws and regulations related to procurement and suspension and debarment.

RECOMMENDATIONS

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS 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; AND MATCHING, LEVEL OF EFFORT, AND EARMARKING.

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER CFCIP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING PROCUREMENT AND SUSPENSION AND DEBARMENT.

FINDING (4310920)

20. Medicaid Cluster, CFDA 93.778

U.S. Department of Health and Human Services	Medicaid Cluster: <i>CFDA 93.778</i> Medical Assistance Program
Award Number: 07 05 MI 5028 08 05 MI 5028 07 05 MI 5048 08 05 MI 5048	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
Pass-Through Entity: Michigan Department of Community Health	Known Questioned Costs: \$35,199

DHS's internal control over the Medicaid Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and eligibility.

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

Federal expenditures for the Medicaid Cluster totaled \$194.5 million for the two-year period ended September 30, 2008. We identified known questioned costs totaling \$35,199 and known and likely questioned costs totaling \$124,145.

Our exceptions, related to the eligibility compliance area, are as follows:

a. Allowable Costs/Cost Principles

Our review disclosed:

- (1) DHS did not maintain the required certifications to support payroll costs charged for one employee. Because DHS did not properly document that this employee worked solely on a single federal program, it was not in compliance with federal regulations regarding federal payroll documentation. We questioned costs totaling \$35,199.

For this employee, DHS did not complete a semiannual certification and its pay period specific certification corresponding to the selected payroll

period did not include an attestation statement that the employee worked 100% on the federal program. Also, for this employee, the pay period specific certification was not signed by the employee's immediate supervisor. Therefore, the person signing the pay period specific certification may not have possessed firsthand knowledge of the work performed by the employee.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are expected to work solely on a single federal award to periodically certify that they did work solely on that program for the period covered by the certification. The certification must be prepared at least semiannually and must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

- (2) DHS did not amend its cost allocation plan and did not submit an amendment to DCA, within HHS, in accordance with Federal requirements. As a result, DCA is not aware of and has not approved allocation methodologies used by the State.

In fiscal year 2007-08, DHS included first-line supervisors' costs in a cost pool along with their staff to be allocated to federal programs based on time studies. DHS's federally approved cost allocation plan methodology indicated that the first-line supervisors' costs would be allocated to federal programs based on a distribution of the relative number of staff they supervised. DHS did not amend its methodology language for the affected cost pools and did not submit this amendment to DCA.

Federal regulation 45 *CFR* 95 states that DHS shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if the State plan is amended so as to affect the allocation of costs.

b. Eligibility

DHS's internal control did not ensure that its Medicaid Eligibility Quality Control (MEQC) System correctly reported sample results to HHS's Centers for Medicare and Medicaid Services (CMS).

Federal regulations require states to determine client eligibility for Medicaid services and to operate an MEQC System to help ensure the propriety of eligibility determinations using requirements established by CMS. The Michigan Department of Community Health and DHS entered into an interagency agreement, which specified that DHS would determine individual client eligibility for Medicaid and would operate the MEQC System to assess the accuracy of DHS eligibility determinations. DHS's Office of Quality Assurance (OQA) tests a sample of Medicaid-eligible and Medicaid-ineligible cases in accordance with the CMS approved sampling plan.

Our review of DHS's MEQC System disclosed:

- (1) DHS did not report MEQC error results based on final eligibility conclusions. As a result, DHS reported errors in incorrect error categories.

DHS OQA performed a detailed review of case file documentation and a variety of verifications in order to determine if Medicaid case eligibility was correctly determined by the DHS local office worker. The resulting DHS OQA eligibility determination was called the initial case eligibility status (ICES).

When the DHS OQA eligibility review and resulting ICES were completed, DHS central office staff determined total Medicaid claims paid for the case for the sample month. DHS central office staff then performed a payment review in accordance with federal guidelines in order to determine total misspent error dollars by comparing the total paid Medicaid claims to information obtained during the eligibility review. A final case eligibility status (FCES) resulted from the payment review.

Eligibility status dictates presentation in one of four error categories in the annual federal MEQC report. The four categories are: ineligible recipients, eligible recipients but understated liability, eligible recipients but overstated liability, and ineligible services for eligible recipients.

DHS improperly prepared the fiscal year 2006-07 annual federal MEQC report using ICES, rather than FCES. Specifically, we noted that for 1 (2%) of 43 MEQC sample cases reviewed, DHS appropriately changed

the case error category from "eligible recipients but understated liability" in the ICES to "ineligible recipients" in the FCES. However, because the fiscal year 2006-07 annual federal MEQC report was prepared based on ICES, this case was reported as an "eligible recipients but understated liability" error instead of an "ineligible recipients" error. We have determined that this error did not impact the overall mispayment rate reported by DHS in the fiscal year 2006-07 annual federal MEQC report.

- (2) DHS did not include all completed case reviews in the fiscal year 2006-07 annual federal MEQC report. For 1 (2%) of 43 MEQC sample cases reviewed, we noted that DHS completed a case review that concluded that the case did not contain eligibility errors; however, DHS did not include the case in the fiscal year 2006-07 annual federal MEQC report as a completed review. We have determined that this error did not impact the overall mispayment rate reported by DHS in the fiscal year 2006-07 annual federal MEQC report.
- (3) DHS did not maintain documentation to support the weighted average used to calculate error rates reported in the fiscal year 2006-07 annual federal MEQC report. As a result, we are unable to determine if the correct error rates were presented in the fiscal year 2006-07 annual federal MEQC report. Federal regulations require that a state have a payment error rate no greater than 3% or be subject to disallowance of federal funding.
- (4) DHS did not update the OQA database to reflect proper final case eligibility status. Inaccuracies in the OQA database may lead to inaccurate reporting of future DHS MEQC results.

DHS prepared federal reports using the OQA database, which summarizes cases reviewed, initial and final eligibility conclusions, and misspent dollar amounts associated with error cases. We noted 3 cases in which FCES was not updated in the DHS OQA database to reflect the proper status. However, we have determined that the database inaccuracies for these 3 cases did not impact the overall mispayment rate reported by DHS in the fiscal year 2006-07 annual federal MEQC report.

Federal regulation 42 *CFR* 431.816(b)(1) and DHS's interagency agreement with the Department of Community Health require DHS to complete case eligibility reviews and report the findings. Federal regulation 42 *CFR* 431.865(d)(7) requires that DHS's payment error rate for an annual assessment period is the weighted average of the payment error rates in the two 6-month review period comprising the annual assessment period. Also, federal regulation 42 *CFR* 431.830(g) requires that DHS produce an audit trail that can be reviewed by CMS or an outside auditor.

RECOMMENDATION

We recommend that DHS improve its internal control over the Medicaid Cluster to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and eligibility.

FINDING (4310921)

21. Disability Insurance/Supplemental Security Income (SSI) Cluster, *CFDA* 96.001

Social Security Administration	Disability Insurance/SSI Cluster: <i>CFDA</i> 96.001 Social Security - Disability Insurance
Award Number: 05 04 MIDI 00 06 04 MIDI 00 06 04 MIDI 02 07 04 MIDI 00 08 04 MIDI 00	Award Period: 10/01/2004 - 09/30/2005 10/01/2005 - 09/30/2006 10/01/2005 - 09/30/2006 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008
	Known Questioned Costs: \$122,767

DHS's internal control over the Disability Insurance/SSI Cluster did not ensure compliance 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 Disability Insurance/SSI Cluster awards.

Federal expenditures for the Disability Insurance/SSI Cluster totaled \$140.9 million for the two-year period ended September 30, 2008. We identified known

questioned costs totaling \$122,767 and known and likely questioned costs totaling \$470,580.

DHS did not maintain the required certifications to support payroll costs charged for 4 employees. Because DHS did not properly document that these employees each worked solely on a single federal program, it was not in compliance with federal regulations regarding federal payroll documentation. We questioned costs totaling \$122,767.

For these 4 employees, DHS did not complete a semiannual certification and its pay period specific certification corresponding to the selected payroll period did not include an attestation statement that the employee worked 100% on the federal program. Also, for 3 of the 4 employees, the pay period specific certification was not signed by the employee's immediate supervisor. Therefore, the person signing the pay period specific certification may not have possessed firsthand knowledge of the work performed by the employee.

Appendix B, section 8 of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires employees who are expected to work solely on a single federal award to periodically certify that they did work solely on that program for the period covered by the certification. The certification must be prepared at least semiannually and must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

RECOMMENDATION

We recommend that DHS improve its internal control over the Disability Insurance/SSI Cluster to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

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

DEPARTMENT OF HUMAN SERVICES
Summary Schedule of Prior Audit Findings
As of August 17, 2009

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 4310702
Finding Title: Children's Trust Fund (CTF)

Finding: The Department of Human Services' (DHS's) internal control over fund-raising activities did not ensure that CTF assets are safeguarded, transactions are properly recorded, and errors are prevented or detected in a timely manner.

Agency Comments: DHS disagreed with part a. of the finding. DHS believes there was an adequate separation of duties and the reconciliation process was effective in identifying a duplicate transaction which was corrected.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 4310701
Finding Title: Backup and Disaster Recovery Plans

Finding: DHS, in conjunction with the Michigan Department of Information Technology (MDIT), did not establish and implement comprehensive, up-to-date, and tested backup and disaster recovery plans for several of its critical automated information systems.

Agency Comments: DHS, in conjunction with MDIT, continues to implement corrective action. The client server application disaster recovery plans will be finalized as the disaster recovery hardware is acquired and installed. MDIT continues to build-out hardware platforms that will allow the testing of established disaster recovery plans. Mainframe disaster recovery plans were updated in 2007, and 2008 plans have been drafted. DHS is in the process of updating an overall Emergency Management Plan that will address computer unavailability and related business continuation activities.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 4310705
Finding Title: Violence Against Women Formula Grants (VAW), *CFDA* 16.588

Finding: DHS did not comply with federal laws and regulations regarding matching, level of effort, and earmarking for the VAW Program. We considered this to be material noncompliance.

Agency Comments: DHS disagreed with the finding. In June 2007, the Office on Violence Against Women, U.S. Department of Justice, responding to a DHS request for clarification about the match requirement, stated that it would not request DHS to repay the \$2,366,028 questioned cost because DHS had followed the guidance in its 2002 letter that indicated that the State could require subrecipients to provide matching funds. DHS no longer requires subrecipients to provide matching funds.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 6410710
Finding Title: AmeriCorps, *CFDA* 94.006

Finding: The Department of Labor and Economic Growth's (DLEG's) internal control did not ensure that the AmeriCorps Program complied with federal laws and regulations regarding subrecipient monitoring.

Agency Comments: The Michigan Community Service Commission (MCSC), formerly of DLEG, has implemented corrective action. In fiscal year 2006-07, the AmeriCorps federal agency ended its support of the Web-based reporting system, an electronic reporting system, which allowed the subrecipients to input financial data and create and certify both monthly financial expenditure reports and semiannual financial status reports (FSRs). For its fiscal year 2007-08 grantees, MCSC required grantees to submit financial data on an internally developed electronic FSR. DHS closely monitored the receipt of the subrecipients' FSRs. DHS performed a reconciliation of the State's accounting records to the financial data reported on the subrecipients' semiannual FSRs to ensure that the State's FSR was accurate and complete.

Note: On August 14, 2006, the Governor issued Executive Order No. 2006-18, which transferred the MCSC from DLEG to DHS effective October 22, 2006. MCSC is responsible for the federal AmeriCorps Program (CFDA 94.006). As a result, DHS is responsible for the prior audit finding related to the AmeriCorps Program (Finding 6410710).

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310703

Finding Title: Internal Control Over Federal Programs

Finding: DHS's internal control was not effective in ensuring federal program compliance.

Agency Comments: Through the internal control evaluation process, DHS is emphasizing the importance of internal control and providing management with the tools and skills necessary to identify and evaluate risks in the areas for which they are responsible. DHS utilizes its audit tracking system to monitor the status of corrective action implementation. Reports will be provided to management to keep them abreast of the status of open audit findings.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310704

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

Finding: DHS's internal control over the Food Stamp Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, cash management, reporting, and special tests and provisions (issuance document security).

Agency Comments: DHS issued L-Letter L-08-166 on December 9, 2008 stating that, in an ongoing effort to resolve case discrepancies while ensuring accurate benefit amounts, various reports are sent to the field on a regular basis. The L-Letter stressed reports are to be addressed timely to ensure that proper payments are being issued. The L-Letter further described various reports and their purpose, issuance frequency, and actions to be taken.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310706

Finding Title: Promoting Safe and Stable Families (PSSF), *CFDA* 93.556

Finding: DHS's internal control over the PSSF Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Agency Comments: For corrective actions, see Finding 4310719 related to allowable costs/cost principles and Finding 4310720 related to subrecipient monitoring.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310707

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

Finding: DHS's internal control over the TANF Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, and earmarking; subrecipient monitoring; and special tests and provisions.

Agency Comments: DHS disagreed with part of the finding:

- a. DHS believes that TANF funds were drawn down properly based on the advice from legal counsel and the Office of the State Budget. No change has been made in the procedure.
- b. DIT now provides a compact disk at the end of the fiscal year of the database so documentation is available to support TANF expenditures.
- c. Effective January 2008, monthly Law Enforcement Information Network (LEIN) checks are performed of all preadoptive homes.
- d. DHS is reevaluating the 60-month counter in its legacy systems to determine the cause. In addition, DHS will evaluate the process in the Bridges Integrated Automated Eligibility Determination System (Bridges) to determine that

the system accurately applies the correct number of months.

- e. DHS issues monthly reports to its local offices for cases that remain in noncooperation with child support. A reminder noncooperation notice is mailed to clients who remain in noncooperation several months before the case is converted to Bridges. Bridges' functionality will automatically close a TANF case for clients who do not cooperate with child support.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 4310708
Finding Title: Refugee and Entrant Assistance: State Administered Programs (REAP), *CFDA* 93.566

Finding: DHS'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, period of availability of federal funds, and procurement and suspension and debarment.

Agency Comments: DHS notified providers of the eligibility requirements and provided guidance on documentation requirements. Monitoring visits were conducted to ensure compliance. DHS worked with the Department of Community Health and obtained a list, by name and recipient number, which showed all individuals for whom DHS was being billed for pharmacy charges. This list was compared to the federal resettlement lists to determine if the individual was a refugee and within the eight-month limit for refugee medical services.

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 4310709
Finding Title: Low-Income Home Energy Assistance, *CFDA* 93.568

Finding: DHS's internal control over the Low-Income Home Energy Assistance Program (LIHEAP) did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, and earmarking; reporting; and subrecipient monitoring.

Agency Comments: DHS continues to stress the importance of case file documentation. Supervisory case reads are performed to ensure documentation is in the file and eligibility and benefits are correctly calculated. DHS and MDIT have implemented procedures to ensure detailed files are retained to support energy related emergency payments.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310710

Finding Title: Community Services Block Grant (CSBG), *CFDA* 93.569

Finding: DHS's internal control over the CSBG Program did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.

Agency Comments: DHS disagreed with part of the finding. DHS implemented procedures to ensure that contractors provide approval for its subcontracts, as part of their contracting process, prior to DHS approval. Bureau of Community Action management meets monthly to follow up on any outstanding management decision letters that have not been issued to ensure management decisions are done within the required time limit.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310711

Finding Title: Child Care and Development Fund (CCDF) Cluster,
CFDA 93.575 and 93.596

Finding: DHS's internal control over the CCDF Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

Agency Comments: DHS is implementing a comprehensive seven point plan to reform the child day-care program. This plan focuses on increasing controls to reduce improper payments and improve program accuracy and effectiveness. The progress of DHS efforts include (1) expanding comprehensive background checks, (2) improving payment and billing verification to strengthen internal control and reduce fraud, (3) reviewing high risk child day-care cases, (4) investigating improper payment cases and seeking prosecution, (5) conducting provider time and attendance record reviews, (6) terminating inactive clients and providers to prevent improper billing, and (7) amending current childcare administrative rules to enable DHS to impose penalties and disqualification on childcare providers or clients receiving childcare funds through program noncompliance or fraud.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310712

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

Finding: DHS's internal control over the CWSS Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment.

Agency Comments: DHS policy was reviewed and management will ensure the policies are followed to ensure costs are allowable. As noted in the audit report, the 1979 baseline report requirement was eliminated by the Child and Family Services Improvement Act of 2006, Title 42, section 623(c) of the United States Code, and is not in effect for federal fiscal year 2006-07. A new baseline went into effect for federal fiscal year 2007-08. Permanent baseline

records for fiscal year 2007-08 will be maintained in the automated financial files by Bureau of Children's Services.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310713

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

Finding: DHS's internal control over the Foster Care: Title IV-E Program 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, and subrecipient monitoring.

Agency Comments: DHS has established funding specialists whose primary function is to determine and document funding eligibility for all children in foster care. The funding specialists also redetermine eligibility, if necessary. Special determinations are reviewed by supervisors who have been trained in specific Title IV-E funding criteria. Specific to Wayne County, two child welfare funding specialists act as the primary Title IV-E funding staff working on the County of Wayne juvenile justice cases. They are responsible for ensuring that all Title IV-E determinations and redeterminations are completed timely and that the youth for whom a federal claim is made is Title IV-E eligible and in a Title IV-E reimbursable placement.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310714

Finding Title: Adoption Assistance, *CFDA* 93.659

Finding: DHS's internal control over the Adoption Assistance Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

Agency Comments: DHS reviewed policy and proper account coding with the unit.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310715

Finding Title: Social Services Block Grant (SSBG), *CFDA* 93.667

Finding: DHS's internal control over the SSBG Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, cash management, eligibility, and procurement and suspension and debarment.

Agency Comments: DHS will make revisions to the State Plan to include allowable activities in accordance with the grant requirements. In addition, DHS will follow up with its two contractors providing information, advocacy, and referral services to provide technical assistance on maintaining appropriate documentation to support billings. As resources allow, follow-up monitoring will be performed to provide assurance that the documentation supports the billings.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310716

Finding Title: Chafee Foster Care Independence Program (CFCIP),
CFDA 93.674

Finding: DHS'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; procurement and suspension and debarment; and subrecipient monitoring. Our review also disclosed that DHS did not have internal control in place related to matching, level of effort, and earmarking.

Agency Comments: Revisions to the Youth in Transition policy have been drafted to include juvenile justice youth. The State Plan was updated in May 2008 to include juvenile justice youth in CFCIP. A data collection program was developed in the Juvenile Justice On-line Technology (JJOLT), which is utilized only by central office staff. Data has been entered into this system to track the expenditures from the Service Youth Profile Reports (DHS-4713) since October 1, 2006. The data entry into JJOLT will continue until the DHS-3714 is integrated into the Service Worker Support System for Foster Care, Adoption, and Juvenile Justice and can be completed by the foster care workers.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310717

Finding Title: Procurement and Suspension and Debarment

Finding: DHS, in coordination with the Department of Management and Budget, needs to improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations.

Agency Comments: DHS has formal written procedures for processing contracts. In addition, contractors may not be paid until a signed contract is in place. However, there are instances in which services and expenditures begin before a contract is signed. In most of these cases, DHS and the contractor are serving a vulnerable population (e.g., foster care children), and DHS believes it is in the best interest of the client to continue services. Both DHS and the contractor work in a good faith relationship until the contract or amendment has been signed.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310718

Finding Title: Public Assistance Cost Allocation Plan (PACAP)

Finding: DHS needs to improve internal control over its PACAP to ensure compliance with federal laws and regulations by ensuring that the correct payroll distribution rates are applied to cost pools.

Agency Comments: Effective October 1, 2007, changes were made to the cost allocation plan to include all first-, second-, and third-line supervisors in a cost pool.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310719

Finding Title: Federal Payroll

Finding: DHS did not ensure that payroll costs charged to federal programs were properly documented.

Agency Comments: Instructions for preparing the personnel activity report and spreadsheets are posted to the DHS intranet. Instructions for payroll certifications are included in the year-end closing package each year. In addition, a deputy, bureau, and office memorandum was issued on July 23, 2008.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310720

Finding Title: Subrecipient Monitoring

Finding: DHS's internal control did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Agency Comments: Monitoring:
DHS has drafted policy which will require those areas administering contracts to prepare an annual monitoring plan. DHS has developed a Monitoring Guideline Manual and is providing training to staff responsible for monitoring contractors.

Subrecipient A-133 Audit Reports:

DHS is revising its procedure to require management decision letters to be submitted to the Office of Monitoring and Internal Controls so it can follow up with appropriate management if it appears a decision letter will not be issued within the required six-month period.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310721

Finding Title: Cash Management

Finding: DHS's internal control did not ensure compliance with federal cash management requirements contained in the federal Cash Management Improvement Act (CMIA) of 1990.

Agency Comments: DHS addressed the LIHEAP cash draw issues noted in the finding as soon as it was presented by the auditor in March 2007. Procedures were implemented, related to the annual report to the Michigan Department of Treasury, so that (1) staff who perform the draws inform the personnel who prepare the annual report when funds for cash settlement are not fully returned in one single draw and (2) staff who prepare the annual report also check the draw detail associated with the cash settlements.

Audit Period: October 1, 2004 through September 30, 2006

Finding Number: 4310722

Finding Title: Backup and Disaster Recovery Plans

Finding: This finding is included in Section II of the schedule of findings and questioned costs (4310701).

DEPARTMENT OF HUMAN SERVICES

Corrective Action Plan

As of September 8, 2009

FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Finding Number: 4310901

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

Management Views: The Department of Human Services (DHS) disagrees with the finding. Based on the requirements in the U.S. Office of Management and Budget (OMB) Circular A-133, Section 210, DHS believes the relationship with the Michigan Higher Education Assistance Authority (MHEAA) is that of a subrecipient because:

- a. MHEAA determines the individuals who will receive the scholarships.
- b. The scholarships each contain an eligibility criteria component based on need.
- c. MHEAA makes the decisions related to the scholarship program.
- d. The scholarship program is not considered a good or service which is provided to many purchasers.
- e. MHEAA does not operate in a competitive environment.
- f. MHEAA used the federal funds to carry out its own programs as opposed to providing goods and services to DHS.

Planned Corrective Action: Not applicable

Anticipated Completion Date: Not applicable

Responsible Individual: Susan Kangas, Chief Administrative Officer

Finding Number: 4310902

Finding Title: Backup and Disaster Recovery Plans

Management Views: DHS agrees with the finding.

Planned Corrective Action: DHS, in conjunction with the Michigan Department of Information Technology (MDIT), continues to implement corrective action. The client server application disaster recovery plans will be finalized as the disaster recovery hardware is acquired and installed. MDIT continues to build out hardware platforms that will allow the testing of established disaster recovery plans. Mainframe disaster recovery plans were updated and have been drafted. DHS is in the process of updating an overall Emergency Management Plan that will address computer unavailability and related business continuation activities.

Anticipated Completion Date: January 1, 2010

Responsible Individuals: Janet Kurnick-Ziegler, Office of Technology and Information Management
Dan Werk, Division of Administrative Services

Finding Number: 4310903

Finding Title: Children's Trust Fund (CTF)

Management Views: DHS disagrees in part with the finding. While the CTF has not developed a formal policies and procedures document, the staff responsible for inventory and control of donated items have identified practices and procedures related to internal control issues and management each time an event was conducted that involved donations. This information has been documented and cataloged and was made available in the course of the audit.

Planned Corrective Action: The CTF will use the work that has been done and evolved over several years to date as a basis to review its administrative procedures and practices and to ensure that adequate controls over these activities constitute a responsible management control system. The CTF will formalize procedures to ensure that processes related to solicitation, collection, and inventory of each donated item from the point of receipt to distribution are communicated.

Anticipated Completion Date: January 1, 2010

Responsible Individual: Mike Foley, Children's Trust Fund

Finding Number: 4310904

Finding Title: Child Placing Agency (CPA) Unit Rates

Management Views: DHS disagrees with the finding. After vetoing the boilerplate and related funding for the adoption rate increase, in the Governor's October 31 signing letter for Act 131, P.A. 2007, the Governor wrote, "I am directing the Department of Human Services to implement a 4 percent rate increase for adoption providers." DHS increased rates on the basis of that directive.

When Act 113, P.A. 2008, was signed into law on April 29, 2008, it included boilerplate sections 458 and 460 that specified different rates from the 4% rate increase put in place earlier in the year. DHS did not change the adoption rates to comply with the rates cited in boilerplate because:

- a. The 4% rate increase was already implemented, albeit in a slightly different way.
- b. Sections 458 and 460 were regarded as unenforceable because they attempted to place conditions in a prior/existing appropriation (i.e., amendment by reference).

Article IV, Section 25 of the Michigan Constitution provides:

No law shall be revised, altered, or amended by reference to its title only. The section or sections of the act altered or amended shall be re-enacted and published at length.

Both sections of boilerplate began by referencing "from the money [or funds] appropriated in part 1 of 2007 PA 131" It is not permissible to place a condition on an existing appropriation in a subsequent supplemental appropriation.

Planned Corrective Action: Not applicable

Anticipated Completion Date: Not applicable

Responsible Individual: Kathryn O'Grady, Children's Services Administration

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 4310905

Finding Title: Internal Control Over Federal Programs

Management Views: DHS agrees in part with the finding. As noted in its responses, there are some findings with which DHS does not agree. DHS agrees that effective internal control must be implemented in order to ensure compliance with federal and State requirements.

Planned Corrective Action: There has been a fundamental change in the internal control environment within DHS. Emphasis has been placed on the importance of internal control so program objectives are achieved. Management recognizes its role in the success of corrective action implementation. Improvements can be noted in that the number of unqualified opinions has increased, while adverse and qualified opinions have decreased since the last Single Audit. DHS recognizes that internal control improvements are a continuous process which must adapt to the changes in its environment.

DHS's commitment to improvements in the internal control structure are evidenced by increased monitoring of oversight of the Child Day Care Program, Children's Services (programs such as Children's Protective Services, Foster Care, and Adoption), and corrective actions implemented in response to audit findings contained in this report.

For example, the Child Day Care Program has increased its monitoring efforts with its review initiative which measures for accurate and complete documentation in the child day-care case record (both the client file and the provider file). Identified errors

and program noncompliance are corrected on all cases. These reviews allow DHS to identify and address root causes related to errors, program noncompliance, and fraud. The results provide data for continuous program improvement including revised procedures, policy clarifications, and related staff training. The Child Day Care Central Reconciliation Unit reconciles information provided by both providers and parents. In addition, DHS has been performing a time and attendance review to ensure appropriate records are maintained by the provider to support amounts billed.

Anticipated Completion Date: The evaluation of DHS's internal control is ongoing.

Responsible Individuals: Ismael Ahmed, Director
Charles Jones, Financial, Quality, and Technology Services Administration
Susan Kangas, Chief Administrative Officer
Joshua Larsen, Office of Monitoring and Internal Controls
Kathryn O'Grady, Children's Services Administration
Terry Salacina, Field Operations Administration
Stanley Stewart, Chief Deputy Director

Finding Number: 4310906

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

Management Views: DHS agrees in part with the finding. DHS disagrees with parts a. and b.

Regarding part a., the cost pool used is allocated according to the percentage distribution of the full-time equivalent of assistance payment (AP) worker, family independence specialist (FIS), and social services worker positions. DHS believes that the costs of first-line supervisory staff were appropriately assigned

to this cost pool as long as all local office first-line supervisory personnel were included, thus providing for the consistent treatment of such costs.

Regarding part b., funding was included in the initial contract that allowed up to \$2 million in future change orders without obtaining additional State Administrative Board approval (it was approved as part of the \$42,966,246 cost of the contract). In November 2006, DHS provided the Department of Management and Budget (DMB) Acquisition Services (now known as Purchasing Operations) with five system change orders totaling \$149,440 to be used against the \$2 million preapproved reserve for such changes. A DMB-issued change notice to the contractor was necessary to formalize the addition of services prior to the contractor taking action on them.

Instead of writing the change notice to illustrate that the dollar value of the changes was already covered within the existing contract amount, DMB staff added the dollars to the total contract amount, thereby increasing it. DHS recognized this as an internal control deficiency and despite multiple requests by DHS to DMB asking it to clarify that the contract total had not actually changed, DMB did not take action to remedy this processing error.

Planned Corrective Action:

Regarding part a., DHS will update its cost pool descriptions in its next submission to the U.S. Department of Health and Human Services (HHS) Division of Cost Allocation.

Regarding part b., DHS will monitor actual expenditures against this contract to ensure that they remain under the original contract value of \$42,966,246, thereby not expending the additional

funds DMB added that were not approved by the State Administrative Board. If additional service changes or contract dollar increases are required, DHS will work closely with DMB Purchasing Operations so any new change notice also rectifies the error on change notice Number 2.

Regarding part c.(1), AP specialists will disseminate information regarding the reconciliation of the recoupment activity report (GH-280) to the local offices during the week of August 10, 2009 and at upcoming regional management meetings for fiscal year 2009-10.

Regarding part c.(2), during the audit, it was discovered that the policy contained an incorrect retention period for the GH-280. The policy will be changed so the retention period is consistent with federal regulations.

Regarding part c.(3), DHS has complied. The process was changed and DHS complied for the last eight months of the audit period.

Regarding part d., DHS has complied. The changes were loaded into the Michigan Electronic Benefits Transfer (EBT) build on July 28, 2009. The first month's data was reviewed and was found to be accurate.

Anticipated Completion Date: March 1, 2010

Corrective action has been implemented for parts c.(3) and d.

Responsible Individuals: Barbara Anders, Bureau of Adult and Family Services
Russ Hecko, Division of Accounting
Terry Salacina, Field Operations Administration
Daniel Werk, Administrative Services Administration

Finding Number: 4310907
Finding Title: Weatherization Assistance for Low-Income Persons
(Weatherization), *CFDA* 81.042

Management Views: DHS agrees with the finding.

Planned Corrective Action: A management decision was issued and provided to the auditors during audit fieldwork. DHS enhanced the subrecipient monitoring process in March 2009 to provide additional assurance of complete and timely management decisions. The Office of Monitoring and Internal Controls (OMIC) identifies, coordinates, and tracks all DHS management decisions required by OMB Circular A-133 and follows up with appropriate DHS staff as the deadline nears. OMIC staff also provide technical assistance regarding management decisions.

Anticipated Completion Date: Corrective action has been implemented.

Responsible Individuals: Stacie Gibson, Bureau of Community Action
Joshua Larsen, Office of Monitoring and Internal Controls

Finding Number: 4310908
Finding Title: Promoting Safe and Stable Families (PSSF),
CFDA 93.556

Management Views: DHS agrees with the finding.

Planned Corrective Action: Regarding part a.(1), the position is now included in a cost pool. Adjustments are made as needed.

Regarding part a.(2), a policy was issued on July 23, 2008 that requires managers and supervisors of staff who are funded 100% by a single federal funding source to submit semiannual certifications to the Division of Accounting. The Division of Accounting will send out a list of those staff and the forms for each certification period.

Regarding part b.(1), DHS has implemented a policy, effective August 1, 2009, for contract monitoring that requires each program office to perform a risk analysis of its contractors, develop an annual contract compliance plan, and perform the functions in the plan (pre-award monitoring, off-site monitoring, and on-site monitoring). OMIC will monitor the progress of each organizational unit's plan to ensure the monitoring functions are performed. OMIC has developed a Contract Compliance Assurance Guide to aide organizational units monitoring its contractors. OMIC will provide training during August through October 2009 to DHS staff who are responsible for monitoring.

Regarding part b.(2), the local office director spoke to the contractor and followed up with a written statement that no further expenditures for real property or recreational activities will be approved.

Anticipated Completion Date: Corrective action has been implemented.

Responsible Individuals: Russ Hecko, Division of Accounting
Joshua Larsen, Office of Monitoring and Internal Control
Terry Salacina, Field Operations Administration

Finding Number: 4310909
Finding Title: Temporary Assistance for Needy Families (TANF),
CFDA 93.558

Management Views: DHS agrees in part with the finding. DHS disagrees with parts a.(1), a.(2), b.(1)(a), b.(1)(b), b.(3), d.(2), g.(2), and e.(1)(a).

Regarding parts a.(1), b.(1)(a), and e.(1)(a), the TANF Block Grant is designed to help needy families achieve self-sufficiency. States receive a block grant to design and operate their programs to accomplish the purposes of TANF. The four goals of TANF are:

1. Assisting needy families so that children can be cared for in their own homes.
2. Reducing the dependency of needy parents by promoting job preparation, work, and marriage.
3. Preventing out-of-wedlock pregnancies.
4. Encouraging the formation and maintenance of two-parent families.

College scholarships are allowable under TANF Goal 3 (preventing out-of-wedlock pregnancies) because of the direct link between higher levels of education and reduced out-of-wedlock pregnancies. Studies have shown that higher educational achievement correlates with a reduced incidence of out-of-wedlock pregnancy. Therefore, scholarships that allow Michigan youth to pursue higher education can reasonably be calculated to prevent and reduce such pregnancies. Further, scholarship programs such as the Tuition Incentive Program and the Michigan Promise Scholarship direct young people

toward future goals of academic and economic achievement. The knowledge that financial support is realistic and available for higher education is an incentive for young teens and adults to stay in school and avoid pregnancy.

The HHS published its *Report to Congress on Out-of-Wedlock Childbearing* in September 1995 which supports the position of DHS. The report states:

- Research clearly shows that the more education a woman has the less likely she is to give birth nonmarital.
- Intervention designed to improve young girls' achievement may, in the long run, reduce rates of nonmarital childbearing for two generations.
- Strategies designed to increase economic opportunity for low-income men by improving education, job skills, and wages, can be expected, in the long run, to reduce rates of nonmarital childbearing by encouraging higher rates of marriage.

In addition, the HHS Administration for Children and Families has clearly stated that college scholarships and funding for post-secondary and other educational programs meet a TANF goal. This position was reiterated with the release of the TANF Program Final Rule on February 5, 2008:

We agree that expenditures for higher education are allowable uses of funds, even under the 'interim final rule.' In addition, under the final rule, participation in a baccalaureate or advanced degree program can count toward the work participation rate.

Finally, several other states, including Georgia, Massachusetts, and New York, have amended their State Plans and successfully claimed college scholarship program costs under TANF Goal 3. Georgia and Massachusetts have both reported college scholarship expenditures under Goal 3 since fiscal year 2006-07. New York claimed its Tuition Assistance Program (tuition only scholarships to low-income students) as TANF maintenance of effort spending under Goal 3 until 2005, an approach agreed to by the Administration for Children and Families. It ceased its claim only because it no longer needed the maintenance of effort spending because of other state budget changes. The rationale for these successful claims is the same as Michigan's as articulated above.

Regarding parts a.(2) and b.(1)(b), the Office of the State Budget sought legal advice from a reputable firm which represents clients in governmental affairs. The attorney for the firm specializes and consults welfare agencies on all aspects of federal law and policies governing TANF, and an associate for the firm assists states in responding to audits, disallowances, penalties, and other federal actions concerning state administration of federally funded programs.

The private firm advised the State in its July 2000 correspondence that, because federal law views local and state governmental funding essentially the same, there was no problem with a state retaining the 50% share of the cost of an activity at the same time it used TANF funds to pay for the full cost. The letter further stated that, from a federal standpoint, the decision to transfer funds between different levels of government within the state is solely a state fiscal matter.

DHS followed up with the law firm in May 2007. In its June 2007 letter, the law firm stated:

The July 12, 2000, letter concluded it was appropriate for Michigan to use TANF funds to cover the cost of services to non-Title IV-E eligible foster care children (previously authorized under the state's AFDC-EA plan), even though under state law 50 percent of the cost was initially the responsibility of the local agencies, and it was not necessary as a matter of federal law that the state remit any of the TANF funds to the local agencies.

Our further review in response to your request has confirmed the correctness of our prior advice, and we are aware of nothing that has developed in the interim to cause any doubt on the correctness of our conclusion.

The attorney's correspondence made reference to Title 45, Part 263, section 2(e) of the *Code of Federal Regulations (CFR)* regarding what kinds of state expenditures count toward meeting a state's basic maintenance of effort (MOE) expenditures. The regulation states:

Expenditures for benefits or services listed under paragraph (a) of this section may include allowable costs borne by others in the State (e.g., local government) . . .

The correspondence further stated:

If a state may count "allowable costs borne" by local governments as an expenditure for MOE purposes, there is no apparent reason why it may not treat such costs as an expenditure for all

purposes, nor is there any apparent reason why it must indemnify the local government for the costs "borne" by the local government (if it did the costs would not actually be borne by the local government). The cited "applicable requirements" are those in 45 CFR 92.3 and 92.4. Section 92.3 consists of definitions, and 92.4 outlines when matching or cost sharing requirements are met. Nothing in either of these provisions precludes treating county funds as MOE expenditures or requires states to reimburse counties for those expenses.

Other MOE provisions are also consistent with the treatment of a local expenditure as a state expenditure. See 45 CFR 263.5(a) [If a current state or local government program also operated in FY 1995, and expenditures in this program would have been previously authorized and allowable under the former AFDC, JOBS, Emergency Assistance, or other specified programs, then current fiscal year expenditures in this program count in their entirety, provided that the State has met all requirements under 263.2]. The purpose of this treatment is, presumably, is to give States an incentive to require local governments to spend money on desirable programs. What matters is that the programs are operated at a continuing level, not that they are run with money from a particular source.

The use of local funds is generally permissible in other federally funded programs. See 45 CFR 235.66(a)(1) [Public funds may be considered as the State's share in claiming Federal reimbursement where the funds . . . are appropriated directly to the State or local agency, or transferred from another public agency (including Indian tribes) to

the State or local agency and under its administrative control, or certified by the contributing public agency as representing expenditures eligible for FFP under 235.60-235.66].

Based on the legal advice of the private attorney and interpretation of federal regulations, DHS believes it is correct in its application of the TANF funds.

Regarding part b.(3), the cost pool used is allocated according to the percentage distribution of the full-time equivalent of AP worker, FIS, and social services worker positions. DHS believes that the costs of first-line supervisory staff were appropriately assigned to this cost pool as long as all local office first-line supervisory personnel were included, thus providing for the consistent treatment of such costs.

Regarding part d.(2), DHS complied with the HHS recommendation to develop criteria specifying the circumstances which warrant a hardship exception. Currently, Michigan's percentage of recipients who exceed the 60-month time limit is 13.95%. This rate has been within this range for several years.

Regarding part g.(2), DHS disagrees with the characterization of the difference shown for the Michigan School Readiness Program. DHS does not show a difference between its documentation for the Michigan School Readiness Program and the Annual Report on State Maintenance of Effort Programs (ACF-204), at the time the TANF Financial Report (ACF-196) was prepared and submitted. The difference shown by the auditor is a timing difference that will be reflected in the subsequent fiscal year reports. The discrepancy shown in the Low-Income Energy Efficiency Fund is more accurately stated on

the ACF-196. The ACF-204 is required to match, in total, the ACF-196.

Planned Corrective Action:

Regarding parts a.(3), b.(1)(d), d.(1), e.(1)(b), and i.(3), Field Operations will be developing a desk aid regarding the proper documentation and forms needed to support eligibility. The desk aid will be posted on the family independence manager (FIM) / FIS / eligibility specialist (ES) intranet page and distributed at the FIM quarterly meetings and the AP specialist meetings throughout the year.

Regarding parts a.(4) and b.(1)(c), as noted in the finding, DHS upgraded the Adoption Subsidy database in July 2007, which provided DHS with the capability to identify TANF funded adoption subsidies expended prior to the finalization of the adoption.

Regarding part b.(2)(a), the accounting codes of the staff included in the citation will be changed to a program cost account that is linked to the appropriate cost pool. Journal vouchers have been prepared to properly allocate the questioned cost to the correct funding sources.

Regarding part b.(2)(b), the position is now included in a cost pool. Adjustments are made as needed.

Regarding part b.(3), DHS will update its cost pool descriptions in its next submission to the HHS Division of Cost Allocation.

Regarding part c., corrective action has been implemented and includes annually reviewing the Cash Management Improvement Act (CMIA) agreement with appropriate staff, adjusting the draw process when there is a change in the funding

technique, and making appropriate adjustments through the quarterly settlement and the CMIA Annual Report.

Regarding part d.(3), two bills are being drafted by the Michigan Legislature to develop and implement an automated program that does a comparison of public assistance clients with the Law Enforcement Information Network, Automated Fingerprint Information System, and other information systems related to criminal justice or law enforcement. This comparison is to validate outstanding felony or extradition warrants. DHS will take appropriate case action based on this information when available.

The Adoption Assistance and Medical Subsidy Application was revised (effective August 1, 2009) to require criminal history clearance when submitting the application. The Adoption Subsidy Payment Request form will be revised to ask more specific information about the crime and whether the parent is in violation of probation or parole.

Regarding part d.(4), the Adoption Subsidy Office will be implementing an annual report process that will use automation. Adoptive parents can respond by telephone, computer, or mail. Once the data is entered, the Adoption Subsidy System will generate filters that can flag cases that need further investigation in the continuation of TANF eligibility (i.e., income, criminal history, etc.).

Regarding part e.(1)(c), DHS will pursue an interagency agreement with the Michigan Public Service Commission.

Regarding part e.(2), DHS tracks a case table and recipient table within the data warehouse. The case table tracks, for each month, the number of months that unique case number receives TANF benefits. The recipient table tracks (1) the number of months a recipient has received TANF benefits and (2) the number of months the recipient has received TANF benefits on a particular case number. When a recipient joins another recipient, the case counter from the recipient table with the highest counter on that case is set accordingly on the recipient table. The QG-200 report had been reporting the case counter from the case table. DHS has changed it to show the case counter from the recipient table, which is consistent with policy.

Regarding part f., DHS has formal procedures for processing contracts. Contractors may not be paid until a signed contract is in place. However, there are instances in which services begin and expenditures are incurred before the contract is signed. Generally, DHS and the contractor are serving a vulnerable population (e.g., foster care children), and DHS believes it is in the best interest of the client to continue services. Both DHS and the contractor work in a good faith relationship until the contract or amendment has been signed.

Regarding part g.(1), DHS's Office of Quality Assurance (OQA) has established internal control to ensure that the data as reported in the TANF Data Report (AC-199) is accurate. The case cited in error had been reviewed in the TANF Work Participation Review Committee. There were notes in the review packet indicating that the reviewer findings were in error and based on manager's secondary read and TANF Work Participation Review Committee the work

activity code and hours were changed. However, the change was not on the TANF Web Based Data Entry System.

To ensure that changes are made to the database, the manager will monitor the process more closely. During the TANF Work Participation Review Committee meeting, when changes need to be made to the review findings, the case packets are pulled. The TANF reviewer in the committee makes the appropriate changes to the database and makes the corrections in the case packet. The packet is returned to the manager. The manager will ensure that the changes were made prior to having the case packet filed.

Regarding part g.(2), DHS will implement a procedure to verify that no changes have occurred to expenditures incurred by other State departments after the period reported by DHS and to report any changes in the subsequent fiscal year. DHS will improve its reconciliation processes for the ACF-196 and ACF-204 reports for MOE counted under the TANF program.

Regarding part h.(1), a management decision was issued and provided to the auditors during audit fieldwork. DHS enhanced the subrecipient monitoring process in March 2009 to provide additional assurance of complete and timely management decisions. OMIC identifies, coordinates, and tracks all DHS management decisions required by OMB Circular A-133 and follows up with appropriate DHS staff as the deadline nears. OMIC staff also provides technical assistance regarding management decisions.

Regarding part h.(2), DHS has implemented a policy, effective August 1, 2009, for contract monitoring that

requires each program office to perform a risk analysis of its contractors, develop an annual contract compliance plan, and perform the functions in the plan (pre-award monitoring, off-site monitoring, and on-site monitoring). OMIC will monitor the progress of each organizational unit's plan to ensure that the monitoring functions are performed. OMIC has developed a Contract Compliance Assurance Guide to aide organizational units monitoring its contractors. OMIC will provide training during August through October 2009 to DHS staff who are responsible for monitoring.

Regarding part i.(1), DHS agrees with the findings for noncooperation with child support for this time period and has been working on this subject for some time. In 2005, DHS submitted a three-year corrective compliance plan to HHS. DHS met the corrective compliance activities and time lines in this HHS approved plan. DHS developed quarterly error rate outcomes and continues to monitor progress on these outcomes. With the implementation of the new DHS eligibility system, Bridges Integrated Automated Eligibility Determination System (Bridges), along with an interface with the child support system, Michigan Child Support Enforcement System (MiCSES), TANF cases in noncompliance with child support will automatically close. This new automation will eliminate the issue in this audit finding. Prior to the rollout of the Bridges system in each county, a cleanup project was completed in 2008 and 2009, including a mass mailing to TANF clients who remain in noncooperation with child support, allowing them an additional chance to cooperate with the child support program. Due to the time allotted for the Statewide implementation of Bridges, DHS requested an extension to the corrective compliance plan activities and time lines, and it was approved by HHS in early

2009. DHS expects that the revised targeted outcomes will be met through the automated closure process by July 2010.

Regarding part i.(2)(a), DHS will work with MDIT to establish a retention schedule for data residing on DHS systems to ensure compliance with federal and/or State requirements.

Regarding part i.(2)(b), when Bridges is fully implemented, Statewide interface information will be sent to the local offices through tasks and reminders to complete this requirement.

Regarding part i.(2)(c), DHS will analyze the processes needed to determine what is needed to perform the data match.

Regarding part i.(2)(d), Bridges now generates a task and reminder for the worker to act upon any information that pertains to Income Eligibility Verification System (IEVS) information. Any task and reminder not acted upon in a timely manner is escalated to the FIM. FIMs will be reminded to act upon any task and reminders that are escalated to them in a timely manner.

Regarding part i.(4), Field Operations Administration is currently working with the Office of Training and Staff Development to create job aids clarifying what information is needed to meet requirements for TANF and other programs.

Regarding part i.(5), the amended verification plan was effective October 2008.

Anticipated Completion Date: July 1, 2010

Corrective action has been implemented for parts a.(4), b.(1)(c), b.(2)(b), c., e.(2), f., g.(1), h.(1), h.(2), and i.(5).

Responsible Individuals: Barbara Anders, Bureau of Adult and Family Services
Russ Hecko, Division of Accounting
Julie Horn Alexander, Office of Quality Assurance
Joshua Larsen, Office of Monitoring and Internal Controls
Susan Kangas, Chief Administrative Officer
Janet Kurnick-Ziegler, Office of Technology and Information Management
Terry Salacina, Field Operations Administration
Marilyn Stephen, Office of Child Support
Helen Weber, Division of Contracts and Rate Setting

Finding Number: 4310910
Finding Title: Child Support Enforcement (CSE), *CFDA* 93.563

Management Views: DHS agrees with the finding.

Planned Corrective Action: Regarding part a., a policy was issued on July 23, 2008 that requires managers and supervisors of staff who are funded 100% by a single federal funding source to submit semiannual certifications to the Division of Accounting. The Division of Accounting will send out a list of those staff and the forms for each certification period.

Regarding part b., DHS has formal procedures for processing contracts. Contractors may not be paid until a signed contract is in place. However, there are instances in which services begin and expenditures are incurred before the contract is signed. Generally, DHS and the contractor are serving a vulnerable

population (e.g., foster care children), and DHS believes it is in the best interest of the client to continue services. Both DHS and the contractor work in a good faith relationship until the contract or amendment has been signed.

Regarding part c., a management decision was issued and provided to the auditors during audit fieldwork. DHS enhanced the subrecipient monitoring process in March 2009 to provide additional assurance of complete and timely management decisions. OMIC identifies, coordinates, and tracks all DHS management decisions required by OMB Circular A-133 and follows up with appropriate DHS staff as the deadline nears. OMIC staff also provide technical assistance regarding management decisions.

Anticipated Completion Date: Corrective action has been implemented.

Responsible Individuals: Russ Hecko, Division of Accounting
Joshua Larsen, Office of Monitoring and Internal Controls
Marilyn Stephen, Bureau of Child Support
Helen Weber, Division of Contracts and Rate Setting

Finding Number: 4310911

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

Management Views: DHS agrees in part with the finding. DHS disagrees with part a.(2). The cost pool used is allocated according to the percentage distribution of the full-time equivalent of AP worker, FIS, and social services worker positions. DHS believes that the costs of first-line supervisory staff were appropriately assigned to this cost pool as long as all local office first-line

supervisory personnel were included, thus providing for the consistent treatment of such costs.

Planned Corrective Action: Regarding part a.(1)(a), the Office of Refugee Services limits funding for tutoring services to the allowable maximum rate of \$15 per hour and makes payment only after the service has been provided.

Regarding parts a.(1)(b) and c., the Office of Refugee Services believes this was an isolated incident and that procedures are in place to ensure documentation is retained to support payments. The contractor has since been changed from a vendor to a subrecipient and now has different reporting requirements.

Regarding part a.(2), DHS will update its cost pool descriptions in its next submission to the HHS Division of Cost Allocation.

Regarding part b., DHS has formal procedures for processing contracts. Contractors may not be paid until a signed contract is in place. However, there are instances in which services begin and expenditures are incurred before the contract is signed. Generally, DHS and the contractor are serving a vulnerable population (e.g., foster care children), and DHS believes it is in the best interest of the client to continue services. Both DHS and the contractor work in a good faith relationship until the contract or amendment has been signed.

Anticipated Completion Date: March 1, 2010

Corrective action has been implemented for parts a.(1)(a), a.(1)(b), and c.

Responsible Individuals: Russ Hecko, Division of Accounting
Al Horn, Office of Refugee Services
Helen Weber, Division of Contracts and Rate Setting

Finding Number: 4310912
Finding Title: Low-Income Home Energy Assistance, *CFDA* 93.568

Management Views: DHS agrees in part with the finding. DHS disagrees with part b.(3). The cost pool used is allocated according to the percentage distribution of the full-time equivalent of AP worker, FIS, and social services worker positions. DHS believes that the costs of first-line supervisory staff were appropriately assigned to this cost pool as long as all local office first-line supervisory personnel were included, thus providing for the consistent treatment of such costs.

Planned Corrective Action: Regarding parts a.(1), a.(2), b.(1), d.(1), and d.(2), Field Operations Administration will be developing a desk aid regarding the proper documentation and forms needed to support eligibility. The desk aid will be posted on the FIM/FIS/ES intranet page and distributed at the FIM quarterly meetings and the AP specialist meetings throughout the year.

Regarding part b.(2)(a), as noted, the finding is directed toward the Department of Treasury. Verifying tax claim information is a function of the Department of Treasury.

Regarding part b.(2)(b), DHS contacted the Department of Treasury to discuss the finding. A meeting will be scheduled with representatives from DHS, MDIT, and the Department of Treasury to examine the procedures and determine why a difference exists between the electronic files and the

summary data. DHS will periodically meet with MDIT when billings are received to ensure the electronic files agree with the billing.

Regarding part b.(3), DHS will update its cost pool descriptions in its next submission to the HHS Division of Cost Allocation.

Regarding part c., corrective action has been implemented and includes an annual review of the CMIA agreement with appropriate staff, adjusting the draw process when there is a change in the funding technique, and making appropriate adjustments through the quarterly settlement and the CMIA Annual Report.

Anticipated Completion Date: March 1, 2010

Corrective action has been implemented for part c.

Responsible Individuals: Barbara Anders, Bureau of Adult and Family Services
Russ Hecko, Division of Accounting
Terry Salacina, Field Operations Administration

Finding Number: 4310913
Finding Title: Community Services Block Grant (CSBG),
CFDA 93.569

Management Views: DHS agrees with the finding.

Planned Corrective Action: Regarding part a., DHS has formal procedures for processing contracts. Contractors may not be paid until a signed contract is in place. However, there are instances in which services begin and expenditures are incurred before the contract is signed. Generally, DHS and the contractor are serving a vulnerable

population (e.g., foster care children), and DHS believes it is in the best interest of the client to continue services. Both DHS and the contractor work in a good faith relationship until the contract or amendment has been signed.

Regarding part b., a management decision was issued and provided to the auditors during audit fieldwork. DHS enhanced the subrecipient monitoring process in March 2009 to provide additional assurance of complete and timely management decisions. OMIC identifies, coordinates, and tracks all DHS management decisions required by OMB Circular A-133 and follows up with appropriate DHS staff as the deadline nears. OMIC staff also provides technical assistance regarding management decisions.

Anticipated Completion Date: Corrective action has been implemented.

Responsible Individuals: Stacie Gibson, Bureau of Community Action
Joshua Larsen, Director, Office of Monitoring and Internal Controls
Helen Weber, Division of Contracts and Rate Setting

Finding Number: 4310914

Finding Title: Child Care and Development Fund (CCDF) Cluster, CFDA 93.575 and 93.596

Management Views: DHS agrees in part with the finding. DHS disagrees with part b.(2). The cost pool used is allocated according to the percentage distribution of the full-time equivalent of AP worker, FIS, and social services worker positions. DHS believes that the costs of first-line supervisory staff were appropriately assigned to this cost pool as long as all local office first-line supervisory personnel were included, thus providing for the consistent treatment of such costs.

Planned Corrective Action: Regarding parts a.(1), b.(1)(a), and c.(1), DHS initiated a case review project in May 2008 to help improve case record documentation. This project measures for accurate and complete documentation in the client and provider child day-care case record file. Any identified errors or instances of noncompliance require corrective action. These reviews allow DHS to identify and address root causes related to errors, program noncompliance, and fraud.

Regarding parts a.(2), b.(1)(b), c.(2), DHS identified the unacceptable criminal background of the provider cited in April 2007 and terminated the provider at that time. In April 2007, DHS expanded the background checks conducted for unregulated, unlicensed providers.

Regarding part b.(2), DHS will update its cost pool descriptions in its next submission to the HHS Division of Cost Allocation.

Anticipated Completion Date: March 1, 2010

Corrective action has been implemented for parts a.(1), a.(2), b.(1)(a), b.(1)(b), c.(1), and c.(2).

Responsible Individuals: Lisa Brewer-Walraven, Office of Early Education and Care
Russ Hecko, Division of Accounting
Terry Salacina, Field Operations Administration

Finding Number: 4310915
Finding Title: Child Welfare Services: State Grants (CWSS),
CFDA 93.645

Management Views: DHS agrees with the finding.

Planned Corrective Action: DHS has formal procedures for processing contracts. Contractors may not be paid until a signed contract is in place. However, there are instances in which services begin and expenditures are incurred before the contract is signed. Generally, DHS and the contractor are serving a vulnerable population (e.g., foster care children), and DHS believes it is in the best interest of the client to continue services. Both DHS and the contractor work in a good faith relationship until the contract or amendment has been signed.

Anticipated Completion Date: Corrective action has been implemented.

Responsible Individuals: Kathryn O'Grady, Children's Services Administration
Helen Weber, Division of Contracts and Rate Setting

Finding Number: 4310916

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

Management Views: DHS agrees in part with the finding. DHS disagrees with parts a.(3)(a), b.(3), d.(1), and d.(2).

Regarding parts a.(3)(a) and b.(1)(d), DHS disagrees that it failed to comply with Activities Allowed or Unallowed. The finding states that DHS does not have policies and procedures in place requiring that rates be updated on a periodic basis, when new expenditure reports are submitted by child care institutions. While the statement is true, there are no federal regulations which require DHS to have policies and procedures to update the rates on a periodic basis.

Regarding part b.(3), the cost pool used is allocated according to the percentage distribution of the full-time equivalent of AP worker, FIS, and social services worker positions. DHS believes that the costs of

first-line supervisory staff were appropriately assigned to this cost pool as long as all local office first-line supervisory personnel were included, thus providing for the consistent treatment of such costs.

Regarding part d.(1), based on its interpretation of federal requirements, DHS believes that contracts of these types are an acceptable administrative claim. DHS has mirrored other states with regard to Title IV-E funding for these contracts. The county matching for the administrative claim is not in-kind but is allowable cash expenditure for salary costs for legal services provided to DHS. The county portion of costs for representation of DHS in foster care matters (i.e., attorney salaries) is its match to the Title IV-E funds. Federal regulation 45 *CFR* 1356.60 (c)(2)(ii) supports the allowable administrative costs necessary for the administration of the foster care program in "Preparation for and participation in judicial determinations." The full expenditure is an allowable cost under Title IV-E and is claimed at the federal financial participation rate of 50% for Title IV-E administration. DHS will seek clarification.

Regarding part d.(2), DHS has claimed only the maintenance payments made on behalf of Title IV-E eligible children residing in Title IV-E eligible placements. While these maintenance costs are originally funded 50% by Wayne County and 50% by the State of Michigan General Funds, the full amount of the maintenance payments is an allowable cost under Title IV-E and is matched at the applicable Federal Medical Assistance Percentage established for each fiscal year.

DHS believes that its treatment is consistent with that of other states. The State of Ohio, which is a county

administered and state supervised child welfare system, claims Title IV-E funding for the maintenance and administration costs expended on behalf of Title IV-E eligible children by any of Ohio's counties. Federal regulations allow counties to administer all or parts of the child welfare system under agreement with their state's welfare agency, and county expenditures allowable under Title IV-E receive federal financial participation in Ohio, California, Texas, Wisconsin, and eight other states.

Planned Corrective Action: Regarding parts a.(1) and b.(1)(b), DHS will review its process and make appropriate changes.

Regarding parts a.(2), a.(3)(c), b.(1)(c), b.(1)(f), and c.(2), targeted case reads are required for all cases that authorize Title IV-E payments beginning April 1, 2009. For any case found to be Title IV-E ineligible, designated staff will request a remedy ticket to correct the eligibility in the Services Worker Support System for Foster Care, Adoption, and Juvenile Justice (SWSS-FAJ) database. The reason for ineligibility is included as part of the request. Case reads allow DHS to review for deficiency trends so appropriate actions can be taken to educate staff or make other changes (e.g., system changes, policy changes, etc.).

Regarding parts a.(3)(b), b.(1)(a), b.(1)(d), b.(1)(e), and c.(1), the retroactive payments were entered into SWSS-FAJ using exception request service codes so payment information would be reflected in that system. Because the services codes are tied into specific account coding, the payments were incorrectly allocated. The payment information in SWSS-FAJ is made through the Model Payment System. Changes to the Model Payment System and SWSS-FAJ are being made at this time and consideration will be given

to the best process to accurately account for retroactive payments.

Regarding part b.(2), the accounting codes of the staff included in the citation will be changed to a program cost account that is linked to the appropriate cost pool. Journal vouchers have been prepared to properly allocate the questioned cost to the correct funding sources.

Regarding part b.(3), DHS will update its cost pool descriptions in its next submission to the HHS Division of Cost Allocation.

Regarding part c.(3), a worker error allowed for processing of this payment. DHS will work with the Reconciliation and Recoupment Unit to rectify the error in the fund source executed in this payment.

Regarding part c.(4), as noted in the audit finding, DHS began requesting searches of other State's child abuse and neglect registries in January 2008.

Regarding part e., DHS has formal procedures for processing contracts. Contractors may not be paid until a signed contract is in place. However, there are instances in which services begin and expenditures are incurred before the contract is signed. Generally, DHS and the contractor are serving a vulnerable population (e.g., foster care children), and DHS believes it is in the best interest of the client to continue services. Both DHS and the contractor work in a good faith relationship until the contract or amendment has been signed.

Regarding part f.(1), DHS began efforts to improve compliance with federal regulations by way of

establishing the Federal Compliance Office (FCO). The FCO became fully operational in September 2008 with a funding manager and four analysts. The FCO assigned staff to work with Wayne County on improving the subrecipient monitoring of the Title IV-E contract. In January 2009, FCO initiated planning with Wayne County and DHS on a protocol that would establish business processes that would monitor Title IV-E eligibility and payments for the youth supervised under the contract. By March 2009, detailed procedures were established so that monitoring could begin on new cases entering care. On June 8, 2009, all parties agreed to finalization of the protocol and procedures which are attached to this response. Based on the development and agreement to the procedures, DHS believes that by October 1, 2009, all cases receiving services under the Title IV-E contract with Wayne County will be appropriately monitored and in compliance with federal regulations. It should be noted that DHS disagrees that the questioned cost is unallowable as the entire amount reimbursed to Wayne County was questioned, which assumes each child was ineligible.

Regarding part f.(2), a management decision was issued and provided to the auditors during audit fieldwork. DHS enhanced the subrecipient monitoring process in March 2009 to provide additional assurance of complete and timely management decisions. OMIC identifies, coordinates, and tracks all DHS management decisions required by OMB Circular A-133 and follows up with appropriate DHS staff as the deadline nears. OMIC staff also provide technical assistance regarding management decisions.

Anticipated Completion Date: March 1, 2010

Corrective action has been implemented for parts c.(4) and f.(2).

Responsible Individuals: Lisa Brewer-Walraven, Office of Early Education and Care
Russ Hecko, Division of Accounting
Joshua Larsen, Office of Monitoring and Internal Controls
Kathryn O'Grady, Children's Services Administration
Terry Salacina, Field Operations Administration
Helen Weber, Division of Contracts and Rate Setting

Finding Number: 4310917

Finding Title: Adoption Assistance, *CFDA* 93.659

Management Views: DHS agrees in part with the finding. DHS disagrees with part b.(2). The cost pool used is allocated according to the percentage distribution of the full-time equivalent of AP worker, FIS, and social services worker positions. DHS believes that the costs of first-line supervisory staff were appropriately assigned to this cost pool as long as all local office first-line supervisory personnel were included, thus providing for the consistent treatment of such costs.

Planned Corrective Action: Regarding part a., effective May 1, 2009, the payment vouchers are approved by the Adoption Subsidy Program unit manager to ensure proper account coding. Payment vouchers will be approved by the unit supervisors when the positions are filled.

Regarding part b.(1), the accounting codes of the staff included in the citation will be changed to a program cost account that is linked to the appropriate cost pool. Journal vouchers have been prepared to properly

allocate the questioned cost to the correct funding sources.

Regarding part b.(2), DHS will update its cost pool descriptions in its next submission to the HHS Division of Cost Allocation.

Regarding part c.(1), the Adoption Assistance Program will no longer rely entirely on Foster Care Title IV-E eligibility information. A change will be made to Adoption Subsidy System where the adoption assistance certification worker will answer the following questions:

Former ADC eligibility	Yes	No
Judicial determination	Yes	No

Regarding part c.(2), DHS has complied. On January 1, 2008, Act 218, P.A. 2007, went into effect. This legislation required licensed foster parents to undergo the required national fingerprint-based criminal background checks. DHS issued the Child and Family Services Bulletin 2008-004 -Fingerprinting: Foster Home and Adoption Applicants and Current Foster Home Licensees in January 2008. Effective January 1, 2008, this policy extended the fingerprint-based criminal history checks to all adoption applicants, including unlicensed relatives and unlicensed unrelated caregivers. DHS distributed an instructional memorandum from the Bureau of Children and Adult Licensing and the Licensing Record Clearance Request document. These documents included information on background and clearance requirements for foster homes and adoption applicants.

Regarding part d., account coding will be established to properly account for expenditures. A journal voucher will be prepared to correctly classify the expenditures for all of fiscal year 2008-09. The fiscal year 2008-09 journal voucher adjustment will be reflected in the current quarter expenditure column on the federal report and, therefore, will be included with all other costs that are incurred during that quarter. For fiscal year 2007-08, an internal journal voucher, which is used for federal reporting purposes, will be posted the same quarter that the journal voucher for fiscal year 2008-09 is processed and this will be reflected in the prior period expenditure column on the federal claim.

Anticipated Completion Date: March 1, 2010.

Corrective action has been implemented for parts a. and c.(2).

Responsible Individuals: Russ Hecko, Division of Accounting
Terry Salacina, Field Operations Administration

Finding Number: 4310918
Finding Title: Social Services Block Grant (SSBG), *CFDA* 93.667

Management Views: DHS agrees in part with the finding. DHS disagrees with parts a.(1), b.(1)(b), and b.(3).

Regarding parts a.(1) and b.(1)(b), the finding is a result of interpretation and application of the wording in the State Plan.

Regarding part b.(3), the cost pool used is allocated according to the percentage distribution of the full-time equivalent of AP worker, FIS, and social services

worker positions. DHS believes that the costs of first-line supervisory staff were appropriately assigned to this cost pool as long as all local office first-line supervisory personnel were included, thus providing for the consistent treatment of such costs.

Planned Corrective Action:

Regarding parts a.(1) and b.(1)(b), DHS will amend the State Plan to clarify its intent.

Regarding parts a.(2), a.(3), a.(4), b.(1)(a), c.(1), and c.(2), Field Operations Administration has requested the affected local offices to identify the cause of the errors and implement corrective action to mitigate the risk of the errors occurring in the future.

Regarding part b.(2), the accounting codes of the staff included in the citation will be changed to a program cost account that is linked to the appropriate cost pool. Journal vouchers have been prepared to properly allocate the questioned cost to the correct funding sources.

Regarding part b.(3), DHS will update its cost pool descriptions in its next submission to the HHS Division of Cost Allocation.

Regarding part d., DHS has formal procedures for processing contracts. Contractors may not be paid until a signed contract is in place. However, there are instances in which services begin and expenditures are incurred before the contract is signed. Generally, DHS and the contractor are serving a vulnerable population (e.g., foster care children), and DHS believes it is in the best interest of the client to continue services. Both DHS and the contractor work in a good faith relationship until the contract or amendment has been signed.

Regarding part e., a new expenditure report was created and introduced to the homeless youth services contractors at the quarterly contractor's meeting on February 19, 2009. The explanation for the different fund sources was provided. The expenditure report includes the proper coding listed under each program to ensure expenditures are paid from the proper fund source and in the proper proportions.

Anticipated Completion Date: March 1, 2010

Corrective action has been implemented for parts d. and e.

Responsible Individuals: Russ Hecko, Division of Accounting
Kathryn O'Grady, Children's Services Administration
Terry Salacina, Field Operations Administration
Jane Schultz, Division of Budget
Helen Weber, Division of Contracts and Rate Setting

Finding Number: 4310919
Finding Title: Chafee Foster Care Independence Program (CFCIP),
CFDA 93.674

Management Views: DHS agrees with the finding.

Planned Corrective Action: Regarding parts a., b., and c., DHS is creating a form for youth eligibility that must be completed prior to using CFCIP funds. The eligibility checklist mirrors policy to ensure eligibility determinations are documented for open case youth, closed case youth, and special cases. The checklist includes a section to verify that required information is documented in the case file (i.e., birth certificate, date entered care, date the case closed, updated service plan/initial service plan, and/or child assessment/reassessment of needs and strengths form). The checklist must be signed

and dated by the foster care worker and supervisor. DHS will monitor CFCIP expenditures through random documentation/file requests of local offices and contractor expenditures. DHS will add language to the service youth profile report to ensure that public and private agency staffs are fully aware that all expenditures must support the youth attaining self-sufficiency and to require that they explain how the expenditure supports the youth in attaining self-sufficiency on the service youth profile report. The form changes will be incorporated into policy and SWSS-FAJ.

Regarding part d., the service youth profile report will be fully integrated into SWSS-FAJ. Quarterly data reports will be requested from the data management unit to track and monitor overall State expenditures. The first quarterly report will be available on January 15, 2010 for the first quarter of fiscal year 2009-10.

Regarding part e., DHS has formal procedures for processing contracts. Contractors may not be paid until a signed contract is in place. However, there are instances in which services begin and expenditures are incurred before the contract is signed. Generally, DHS and the contractor are serving a vulnerable population (e.g., foster care children), and DHS believes it is in the best interest of the client to continue services. Both DHS and the contractor work in a good faith relationship until the contract or amendment has been signed.

Anticipated Completion Date: January 15, 2010

Responsible Individuals: Kathryn O'Grady, Children's Services Administration
Helen Weber, Division of Contracts and Rate Setting

Finding Number: 4310920

Finding Title: Medicaid Cluster, *CFDA* 93.778

Management Views: DHS agrees in part with the finding. DHS disagrees parts a.(2) and b.(1).

Regarding part a.(2), the cost pool used is allocated according to the percentage distribution of the full-time equivalent of AP worker, FIS, and social services worker positions. DHS believes that the costs of first-line supervisory staff were appropriately assigned to this cost pool as long as all local office first-line supervisory personnel were included, thus providing for the consistent treatment of such costs.

Regarding part b.(1), Title 42 of the *Code of Federal Regulations*, Part 431 - State Organization and General Administration, section 431.865 - Disallowance of Federal financial participation for erroneous State payments (for annual assessment periods ending after July 1, 1990), page 58, states "National mean error rate means the payment weighted average of the eligibility payment error rates for all States." This federal regulation is the basis for DHS's position that the payment error rate should be based on the eligibility review.

In addition, the error rate reports submitted to the HHS Centers for Medicare and Medicaid Services have consistently been based on this interpretation of the federal regulation. This interpretation has never been questioned or challenged by HHS Centers for Medicare and Medicaid Services. Therefore, the Department of

Community Health and DHS conclude that the reports were done properly with the correct use of the eligibility payment error finding (the initial case eligibility status (ICES)), and that the interpretation of the federal regulation is correct.

The federal regulations and the federal Medicaid Eligibility Quality Control (MEQC) Manual clearly state that the quality control process includes two types of reviews:

- 1) An eligibility review conducted by OQA reviewers, and based on a thorough investigation of actions taken by the DHS local office regarding an *individual's* eligibility, and based on an independent client interview by the OQA reviewer.
- 2) A payment review conducted by the OQA Central Office Medicaid Analyst and Statistician, consisting of a determination about the possible *claims* misspent, and whether these misspent dollars (if any) were due to a liability or an eligibility error.

The ICES is the result of the eligibility review and is based on the information available to the DHS local office ES. It is important to the policy and local office recipients of these review findings, to use the ICES so they can take appropriate action to correct and prevent errors.

The final case eligibility status (FCES) is the result of the payment review. It is used to determine if error dollars are liability or eligibility driven.

Planned Corrective Action:

Regarding part a.(1), a policy was issued on July 23, 2008 that requires managers and supervisors of staff

who are funded 100% by a single federal funding source to submit semiannual certifications to the Division of Accounting. The Division of Accounting will send out a list of those staff and the forms for each certification period.

Regarding part a.(2), DHS will update its cost pool descriptions in its next submission to the HHS Division of Cost Allocation.

Regarding part b.(2), DHS has established an internal control process to complete a reconciliation of the database as each month is finalized. The reconciliation process ensures that all sampled cases are included in the data analysis. Sampled cases will equal the sum of dropped cases because of over sampling, cases dropped by the reviewer for reasons listed in MEQC manual for the eligibility review, and the number of completed cases. The number of completed cases equals the number of correct cases and the number of error cases.

Regarding part b.(3), DHS's OQA established an internal control process to maintain the documentation that supports the source and accuracy of the population counts used for the weighted average to calculate the error rates.

Data is analyzed and data tables are populated for the fiscal year 2007-08 annual federal MEQC report. A spreadsheet is maintained indicating that the source of population figures is from the monthly Medicaid Active Sample Stage 2 EM-562 report. By month, the stratum population counts are recorded. As the reviews for each month are completed, the sample counts are recorded.

Regarding part b.(4), an internal control process has been implemented to ensure that the FCES value reflects any changes made to the database. This problem was discovered in February 2009 during the finalization of the data for fiscal year 2007-08.

Anticipated Completion Date: March 1, 2010

Corrective action has been implemented for parts a.(1), b.(2), b.(3), and b.(4).

Responsible Individuals: Russ Hecko, Division of Accounting
Julie Horn Alexander, Office of Quality Assurance

Finding Number: 4310921

Finding Title: Disability Insurance/Supplemental Security Income (SSI) Cluster, *CFDA* 96.001

Management Views: DHS agrees with the finding.

Planned Corrective Action: A policy was issued on July 23, 2008 that requires managers and supervisors of staff who are funded 100% by a single federal funding source to submit semiannual certifications to the Division of Accounting. The Division of Accounting will send out a list of those staff and the forms for each certification period.

Anticipated Completion Date: Corrective action has been implemented.

Responsible Individuals: Barbara Anders, Bureau of Adult and Family Services
Russ Hecko, Division of Accounting

GLOSSARY

Glossary of Acronyms and Terms

ACF-196	TANF Financial Report.
ACF-199	TANF Data Report.
ACF-204	Annual Report on State Maintenance of Effort Programs.
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.
AFDC	Aid to Families with Dependent Children.
AP	assistance payment.
application for leave to appeal	A request to a court to grant an appeal when the requesting party does not have an automatic right to appeal.
Bridges Integrated Automated Eligibility Determination System (Bridges)	An automated, integrated service delivery system for Michigan's cash assistance, medical assistance, food assistance, and child care assistance programs.
CCDF	Child Care and Development Fund.
CCI	child care institution.
CFCIP	Chafee Foster Care Independence Program.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
<i>CFR</i>	<i>Code of Federal Regulations.</i>

cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
CMIA	Cash Management Improvement Act.
CMS	Centers for Medicare and Medicaid Services.
control deficiency in internal control over federal program compliance	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a type of compliance requirement of a federal program.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
CPA	child placing agency.
CSBG	Community Services Block Grant.
CSE	Child Support Enforcement.
CTF	Children's Trust Fund.
CWSS	Child Welfare Services: State Grants.
DCA	Division of Cost Allocation.
DCH	Department of Community Health.
DHS	Department of Human Services.

DHS-1171	assistance application.
DHS-4713	service youth profile report.
DLEG	Department of Labor and Economic Growth.
DMB	Department of Management and Budget.
EBT	electronic benefits transfer.
EBT bridge card	A plastic magnetic stripe EBT card used to issue food and cash assistance benefits to eligible DHS customers electronically.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
ES	eligibility specialist.
FCES	final case eligibility status.
FCO	Federal Compliance Office.
FFP	federal financial participation.
FIM	family independence manager.
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 presented fairly in all material respects in conformity with the disclosed basis of accounting.
FIP	Family Independence Program.

FIS	family independence specialist.
FNS	Food and Nutrition Service.
FNS-46	issuance reconciliation report.
FNS-209	quarterly status of claims against households report.
FSR	financial status report.
FT-471	food stamp summary report.
GAAP	accounting principles generally accepted in the United States of America.
GH-280	recoupment activity report.
GH-292	State recoupment activity summary report.
HHC	home heating credit.
HHS	U.S. Department of Health and Human Services.
ICES	initial case eligibility status.
IEVS	Income Eligibility Verification System.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
JJOLT	Juvenile Justice On-line Technology.
LIHEAP	Low-Income Home Energy Assistance Program.

LOA2	Local Office Automation II.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.
material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MCSC	Michigan Community Service Commission.
MDIT	Michigan Department of Information Technology.
MEQC	Medicaid Eligibility Quality Control.

MHEAA	Michigan Higher Education Assistance Authority.
MiCSES	Michigan Child Support Enforcement System.
MOE	maintenance of effort.
MPSC	Michigan Public Service Commission.
OMB	U.S. Office of Management and Budget.
OMIC	Office of Monitoring and Internal Controls.
OQA	Office of Quality Assurance.
other noncompliance	Violations of contracts or grants agreements that are not material to the financial schedules or financial statements but should be communicated to management in accordance with <i>Government Auditing Standards</i> . Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control deficiencies that may be communicated to management in accordance with <i>Government Auditing Standards</i> .
outstate	Michigan counties other than Wayne County.
PA	prosecuting attorney.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
PACAP	Public Assistance Cost Allocation Plan.
PSSF	Promoting Safe and Stable Families.

qualified opinion

An auditor's opinion in which the auditor:

- 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 and/or financial statements 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 and/or financial statements 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 and/or financial statements 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.

questioned cost

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

REAP	Refugee and Entrant Assistance: State Administered Programs.
<i>Secure Michigan Initiative</i>	A self-assessment report issued by MDIT in 2002 that identified the security risks, threats, and vulnerabilities of the State's entire computer system and provided security recommendations to minimize the identified risks, threats, and vulnerabilities.
SEFA	schedule of expenditures of federal awards.
SER	State Emergency Relief.
significant deficiency in internal control over federal program compliance	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.
significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller

General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SSA	Social Security Administration.
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-FAJ	Services Worker Support System for Foster Care, Adoption, and Juvenile Justice.
TANF	Temporary Assistance for Needy Families.
UMP	Unaccompanied Refugee Minors Program.
unqualified opinion	An auditor's opinion in which the auditor states that: 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; or b. 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 and/or financial statements 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 and/or financial statements 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.

USC

United States Code.

USDA

U.S. Department of Agriculture.

VAW

Violence Against Women Formula Grants.

Weatherization

Weatherization Assistance for Low-Income Persons.

