



# 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

Audit report information can be accessed at:

*<http://audgen.michigan.gov>*



Michigan  
Office of the Auditor General  
**REPORT SUMMARY**

*Financial Audit  
Including the Provisions of the Single Audit Act*

Report Number:  
431-0100-11

*Department of Human Services*

*October 1, 2008 through September 30, 2010*

Released:  
June 2011

*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.

~ ~ ~ ~ ~

**Internal Control Over Financial Reporting**

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we did identify significant deficiencies (Findings 1 and 2).

~ ~ ~ ~ ~

**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 instances of other noncompliance (Findings 1 and 2).

~ ~ ~ ~ ~

**Federal Awards:  
Auditor's Reports Issued on Compliance**

We audited 13 programs as major programs and identified known questioned costs of \$396.7 million. DHS expended a total of \$9.4 billion in federal awards, including \$347.2 million of ARRA funding, during the two-year period ended September 30, 2010. We issued 7 unqualified opinions, 4 qualified opinions, and 2 adverse opinions. The opinions

issued by major program are identified on the back of this summary.

~ ~ ~ ~ ~

**Internal Control Over Major Programs**

We identified material weaknesses in internal control over federal program compliance (Findings 4 through 7, 9, 10, and 12). We also identified significant deficiencies in internal over federal program compliance (Findings 3 through 13).

~ ~ ~ ~ ~

**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 3 through 13).

~ ~ ~ ~ ~

**Internal Accounting and Administrative Control  
System:**

Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office of Internal Audit Services, Department of Management and Budget, we have evaluated the implementation of only Section 18.1485 in this financial audit. Section 18.1485 requires each department director to establish an internal accounting and administrative control system, defines the elements of that system,

defines the duties of the department director, and provides for certain reports. We determined that DHS was in substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.

~ ~ ~ ~ ~

We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
	<u>SNAP Cluster:</u>	Unqualified
10.551	• Supplemental Nutrition Assistance Program	
10.561*	• Supplemental Nutrition Assistance Program (Administrative Costs)	
81.042*	Weatherization Assistance for Low-Income Persons	Unqualified
	<u>TANF Cluster:</u>	Adverse
93.558	• Temporary Assistance for Needy Families (TANF)	
93.714	• ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	
93.563*	Child Support Enforcement	Unqualified
93.566	Refugee and Entrant Assistance - State Administered Programs	Qualified
93.568	Low-Income Home Energy Assistance	Qualified
	<u>CSBG Cluster:</u>	Unqualified
93.569	• Community Services Block Grant	
93.710	• ARRA - Community Services Block Grant	
	<u>CCDF Cluster:</u>	Adverse
93.575	• Child Care and Development Block Grant	
93.596	• Child Care Mandatory and Matching Funds of the Child Care and Development Fund	
93.713	• ARRA - Child Care and Development Block Grant	
93.658*	Foster Care - Title IV-E	Qualified
93.659*	Adoption Assistance	Qualified
93.667	Social Services Block Grant	Unqualified
	<u>Medicaid Cluster:</u>	Unqualified
93.778*	• Medical Assistance Program	
	<u>Disability Insurance/SSI Cluster:</u>	Unqualified
96.001	• Social Security - Disability Insurance	

\* Includes American Recovery and Reinvestment Act of 2009 (ARRA) funding.

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>



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

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

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



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

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

June 30, 2011

Ms. Maura D. Corrigan, Director  
Department of Human Services  
and  
Ms. Lori Wertz, Chair  
State Child Abuse and Neglect Prevention Board  
Grand Tower  
Lansing, Michigan

Dear Ms. Corrigan and Ms. Wertz:

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, 2008 through September 30, 2010.

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 that could have a direct and material effect on 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 plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

AUDITOR GENERAL



## TABLE OF CONTENTS

### DEPARTMENT OF HUMAN SERVICES

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
INDEPENDENT AUDITOR'S REPORTS, FINANCIAL SCHEDULES, AND FINANCIAL STATEMENTS	
Independent Auditor's Report on the Financial Schedules	10
Independent Auditor's Report on the Financial Statements	12
Department of Human Services Financial Schedules	
Schedule of General Fund Revenues and Other Financing Sources	14
Schedule of Sources and Disposition of General Fund Authorizations	15
Children's Trust Fund Financial Statements	
Balance Sheet	16
Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	18
Notes to the Financial Schedules and Financial Statements	20

SUPPLEMENTAL FINANCIAL SCHEDULE

Schedule of Expenditures of Federal Awards	36
Notes to the Schedule of Expenditures of Federal Awards	44

INDEPENDENT AUDITOR'S REPORTS ON  
INTERNAL CONTROL AND COMPLIANCE

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	48
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	50

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results	53
Section II: Findings Related to the Financial Schedules and Financial Statements	55
1. Schedule of Expenditures of Federal Awards (SEFA)	55
2. Children's Trust Fund (CTF)	57
Section III: Findings and Questioned Costs Related to Federal Awards	59
3. SNAP Cluster, Including ARRA - Supplemental Nutrition Assistance Program (Administrative Costs), <i>CFDA</i> 10.551 and 10.561	60
4. TANF Cluster, Including ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program, <i>CFDA</i> 93.558 and 93.714	65
5. Refugee and Entrant Assistance - State Administered Programs, <i>CFDA</i> 93.566	82
6. Low-Income Home Energy Assistance, <i>CFDA</i> 93.568	87
7. CCDF Cluster, Including ARRA - Child Care and Development Block Grant, <i>CFDA</i> 93.575, 93.596, and 93.713	93
8. Child Welfare Services - State Grants, <i>CFDA</i> 93.645	96

9. Foster Care - Title IV-E and ARRA - Foster Care - Title IV-E, <i>CFDA 93.658</i>	98
10. Adoption Assistance and ARRA - Adoption Assistance, <i>CFDA 93.659</i>	108
11. Social Services Block Grant, <i>CFDA 93.667</i>	112
12. Chafee Foster Care Independence Program, <i>CFDA 93.674</i>	114
13. Medicaid Cluster, Including ARRA - Medical Assistance Program, <i>CFDA 93.778</i>	118

#### OTHER SCHEDULES

Summary Schedule of Prior Audit Findings	125
Corrective Action Plan	134

#### GLOSSARY

Glossary of Acronyms and Terms	186
--------------------------------	-----



INDEPENDENT AUDITOR'S REPORTS,  
FINANCIAL SCHEDULES,  
AND FINANCIAL STATEMENTS



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

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

## Independent Auditor's Report on the Financial Schedules

Ms. Maura D. Corrigan, Director  
Department of Human Services  
Grand Tower  
Lansing, Michigan

Dear Ms. Corrigan:

We have audited the accompanying financial schedules of the Department of Human Services for the fiscal years ended September 30, 2010 and September 30, 2009, 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 other financing sources 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 other financing sources and the sources and disposition of authorizations of the Department of Human Services for the fiscal years ended September 30, 2010 and September 30, 2009 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2011 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. The information in the General Fund section of the schedule of expenditures of federal awards 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

June 23, 2011



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

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

## Independent Auditor's Report on the Financial Statements

Ms. Lori Wortz, Chair  
State Child Abuse and Neglect Prevention Board  
and  
Ms. Maura D. Corrigan, Director  
Department of Human Services  
Grand Tower  
Lansing, Michigan

Dear Ms. Wortz and Ms. Corrigan:

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, 2010 and September 30, 2009, 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, 2010 and September 30, 2009 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, 2010 and September 30, 2009 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 June 23, 2011 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. The information in the Children's Trust Fund section of the schedule of expenditures of federal awards 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

June 23, 2011

DEPARTMENT OF HUMAN SERVICES  
Schedule of General Fund Revenues and Other Financing Sources  
Fiscal Year Ended September 30  
(In Thousands)

	<u>2010</u>	<u>2009</u>
REVENUES		
From federal agencies (Note 2c)	\$ 5,048,748	\$ 3,946,673
From local agencies	36,410	45,605
From services	4	4
From licenses and permits	71	66
Miscellaneous:		
Child support recovery of grants	32,085	36,470
Other sources	40,622	42,933
Total revenues	<u>\$ 5,157,940</u>	<u>\$ 4,071,750</u>
OTHER FINANCING SOURCES		
Transfers from other funds	<u>1,040</u>	<u>1,040</u>
Total revenue and other financing sources	<u><u>\$ 5,158,980</u></u>	<u><u>\$ 4,072,790</u></u>

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)

	<u>2010</u>	<u>2009</u>
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 897,413	\$ 1,197,528
Budgetary transfers in		
Budgetary adjustment		
Balances carried forward (Note 2b)	17,019	30,768
Restricted financing sources	5,157,710	4,063,298
Less: Intrafund expenditure reimbursements	<u>(1,850)</u>	<u>(1,558)</u>
 Total	 <u>\$ 6,070,292</u>	 <u>\$ 5,290,036</u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Gross expenditures and transfers	\$ 6,014,273	\$ 5,250,343
Less: Intrafund expenditure reimbursements	<u>(1,850)</u>	<u>(1,558)</u>
Net expenditures and transfers	<u>\$ 6,012,423</u>	<u>\$ 5,248,785</u>
Balances carried forward:		
Encumbrances	\$ 7,528	\$ 11,863
Multi-year projects	6,140	
Restricted revenues - not authorized or used	<u>10,465</u>	<u>6,093</u>
Total balances carried forward	<u>\$ 24,133</u>	<u>\$ 17,956</u>
Balances lapsed	<u>\$ 33,736</u>	<u>\$ 24,876</u>
Overexpended	<u>\$</u>	<u>\$ (1,581)</u>
 Total	 <u>\$ 6,070,292</u>	 <u>\$ 5,290,036</u>

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)

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$	\$ 17
Equity in common cash (Notes 4a and 4b)	531	1,770
Other current assets	727	358
Total current assets	<u>\$ 1,258</u>	<u>\$ 2,145</u>
Investments (Notes 4a and 4c)	<u>22,465</u>	<u>20,529</u>
Total assets	<u><u>\$ 23,723</u></u>	<u><u>\$ 22,674</u></u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Warrants outstanding	\$ 16	\$ 12
Accounts payable and other liabilities	364	591
Amounts due to other funds	2	7
Deferred revenue - current		
Total liabilities	<u>\$ 382</u>	<u>\$ 610</u>
Fund balance:		
Reserved for funds held as permanent investments (Note 4e)	\$ 22,231	\$ 20,789
Encumbrances	12	
Unreserved	1,098	1,275
Total fund balance	<u>\$ 23,341</u>	<u>\$ 22,064</u>
Total liabilities and fund balance	<u><u>\$ 23,723</u></u>	<u><u>\$ 22,674</u></u>

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)

	<u>2010</u>	<u>2009</u>
<b>REVENUES</b>		
Investment income (Notes 4c and 4e)	\$ 2,218	\$ 1,704
From federal agencies	964	999
Income tax checkoff	193	324
Other donations	560	502
Total revenues	<u>\$ 3,935</u>	<u>\$ 3,529</u>
<b>EXPENDITURES</b>		
Grants	\$ 1,703	\$ 1,940
Administration	948	1,028
Total expenditures	<u>\$ 2,651</u>	<u>\$ 2,968</u>
Excess of revenues over (under) expenditures	<u>\$ 1,284</u>	<u>\$ 561</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from other funds		
Transfers to other funds	\$ (7)	\$ 0
Total other financing sources (uses)	<u>\$ (7)</u>	<u>\$ 0</u>
Excess of revenues and other sources over (under) expenditures and other uses	\$ 1,277	\$ 561
Fund balance - Beginning of fiscal year	<u>22,064</u>	<u>21,503</u>
Fund balance - End of fiscal year	<u><u>\$ 23,341</u></u>	<u><u>\$ 22,064</u></u>

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 2009-10		
	Budget	Actual	Variance
<b>REVENUES AND OTHER SOURCES:</b>			
From federal agencies	\$ 964	\$ 964	\$
Miscellaneous	2,972	2,972	
Total revenues and other sources	\$ 3,935	\$ 3,935	\$ 0
<b>EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES:</b>			
Grants	\$	\$ 1,703	\$
Administration		948	
Transfers out		7	
Encumbrances		12	
Total expenditures, transfers out, and encumbrances	\$ 4,786	\$ 2,670	\$ 2,116
Revenues and other sources over (under) expenditures, encumbrances, and other uses (statutory/budgetary basis)	\$ (851)	\$ 1,265	\$ 2,116
<b>Reconciling items:</b>			
Encumbrances at September 30		\$ 12	
Funds not annually budgeted		_____	
Net reconciling items		\$ 12	
Excess of revenues and other sources over (under) expenditures and other uses (GAAP basis)		\$ 1,277	
<b>FUND BALANCE (GAAP BASIS)</b>			
Beginning balance		22,064	
Ending balance		\$ 23,341	

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

Amounts may not foot due to rounding.

Fiscal Year 2008-09

<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
\$ 999	\$ 999	\$
2,530	2,530	
<u>\$ 3,529</u>	<u>\$ 3,529</u>	<u>\$ 0</u>
\$	\$ 1,940	\$
	1,028	
<u>\$ 4,794</u>	<u>\$ 2,968</u>	<u>\$ 1,826</u>
<u>\$ (1,265)</u>	<u>\$ 561</u>	<u>\$ 1,826</u>
	\$	
	<u>\$ 0</u>	
	\$ 561	
	<u>21,503</u>	
	<u>\$ 22,064</u>	

## 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, 2010 and September 30, 2009. 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, 2010 and September 30, 2009. 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

\* See glossary at end of report for definition.

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 other financing sources 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 revenues - not authorized or used. Significant balances carried forward consisted of \$10.4 million of Information Technology Services & Projects for fiscal year 2009-10. Significant balances carried forward consisted of \$20.8 million of Information Technology Services & Projects, \$1.1 million of IT Child

Support Automation, \$4.3 million of Food Stamp Reinvestment, and \$1.9 million of State Disability Assistance Payments appropriations for fiscal year 2008-09.

The ending balance carried forward for fiscal year 2008-09 was not carried into fiscal year 2009-10 because in fiscal year 2008-09 DHS overexpended its public assistance recoupment authorization by \$937,000. Also, in fiscal year 2008-09 the public assistance recoupment had \$955,000 of restricted revenues - not authorized or used; as a result, the overexpenditure was applied to that amount and the remaining restricted revenues - not authorized or used was carried into fiscal year 2009-10.

- 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. Significant restricted financing sources included federal revenues of \$2.9 billion for the SNAP Cluster, \$865.0 million for the TANF Cluster, and \$263.1 million for various American Recovery and Reinvestment Act of 2009\* (ARRA) programs for fiscal year 2009-10. Significant restricted financing sources included federal revenues of \$2.2 billion for the SNAP Cluster, \$662.5 million for the TANF Cluster, and \$84.1 million for various ARRA programs for fiscal year 2008-09.
- 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

\* See glossary at end of report for definition.

Administration expenditures incurred on behalf of the Department of Community Health (DCH).

- 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 \$5.2 million and \$10.4 million in appropriations for information technology services and projects for fiscal year 2009-10 and fiscal year 2008-09, respectively.
- 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 \$5.5 million in appropriations for demonstration projects and needs assessments related to the children's rights settlement for fiscal year 2009-10. There were no significant carry-forwards of this type for fiscal year 2008-09.
- 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 \$4.0 million in appropriations for donated funds positions, \$3.5 million for Domestic Violence Prevention and Treatment, and \$2.9 million in appropriations for legal support contracts for fiscal year 2009-10. Significant carry-forwards of this type were \$2.0 million in appropriations for donated funds positions, \$1.2 million for Domestic Violence Prevention and Treatment, and \$1.5 million in appropriations for legal support contracts for fiscal year 2008-09.
- 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 2009-10. Overexpenditures occurring in fiscal year 2008-09 totaled \$1.6 million in appropriations for Adult Foster Care, children's welfare/day care licensing, and Food Assistance Program benefits. Authorizations for the line items in total, including all funding sources, were not overexpended; rather, overexpenditures occurred in individual sources of financing after book closing adjustments were made. DHS incurred the overexpenditures in anticipation of earned federal revenues and restricted revenues that were found to be less than expected. DHS sought to request a budgetary adjustment for fiscal year 2008-09, which was denied as there was insufficient time required for legislative action.

### 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 \$3.4 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 mispayment 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 \$12.1 million of previous sanctions and will waive deferred amounts if DHS achieves specified targets for reduction in the mispayment rates. As of September 30, 2010, federal Food Stamps Program sanctions that may result in a loss to DHS totaled \$6.4 million (remaining reinvestment of \$4.7 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, 2010  
(In Thousands)

<u>Fiscal Year</u>	<u>Initial Sanction</u>	<u>Reinvestment Plan</u>	<u>Reinvestment Plan Amount</u>	<u>Reinvestment Expenditures</u>	<u>Remaining Reinvestment</u>	<u>FNS Waiver of Sanction</u>	<u>Deferred Payment at Risk</u>	<u>Penalty Payments Expended</u>
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
								103
		Plan IIIA	4,000	4,000				
		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		3,480		4,641
						1,160		
		Plan VC	1,160	1,160				
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	3,419	Plan VI	1,710	997	712		1,709	
	<u>\$92,717</u>		<u>\$ 72,401</u>	<u>\$ 67,695</u>	<u>\$ 4,706</u>	<u>\$ 10,345</u>	<u>\$ 1,709</u>	<u>\$ 8,261</u>

(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. HHS has accepted a corrective action plan submitted by DHS with an extension deadline of December 31, 2010. If DHS implements the plan and successfully reduces its sanction application errors to an acceptable level, 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.

(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. DHS does not agree with the final determination and plans to appeal the audit.

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 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 redetermination 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, 2008 identified questioned costs\* of \$163.8 million. As of June 13, 2011, DHS had repaid HHS disallowed costs of \$51,743 and \$3,842 related to the Refugee and Entrant Assistance and Low-Income Home Energy Assistance Programs, respectively. HHS had issued management decisions indicating that it will not seek repayment of the \$4.4 million and \$0.2 million of questioned costs for the Social Services Block Grant and

\* See glossary at end of report for definition.

Community Services Block Grant Programs, respectively. HHS had not issued management decisions on the remaining programs.

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	
	2010	2009
Cash		\$ 16,281
Equity in common cash	\$ 531,292	\$ 1,770,235

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

\* See glossary at end of report for definition.

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, 2010, the average maturities of investments were as follows:

	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
<u>Investment Type</u>					
Mutual funds	\$ 6,159,910	\$	\$	\$	\$
Corporate bonds	15,263,839		4,279,872	10,983,967	
Government securities	1,040,967			1,040,967	
Total investments	<u>\$22,464,716</u>	<u>\$ 0</u>	<u>\$ 4,279,872</u>	<u>\$ 12,024,934</u>	<u>\$ 0</u>

As of September 30, 2009, the average maturities of investments were as follows:

<u>Investment Type</u>	Fair Value	Investment Maturities			More Than 10 Years
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	
Mutual funds	\$ 5,595,036	\$	\$	\$	\$
Corporate bonds	14,933,629		5,198,232	9,735,397	
Government securities					
Total investments	<u>\$20,528,665</u>	<u>\$ 0</u>	<u>\$ 5,198,232</u>	<u>\$9,735,397</u>	<u>\$ 0</u>

- (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, Inc. (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, 2010, 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	\$ 3,299,625	AA+	\$ 3,299,625	Aa2
Corporate bonds	1,083,409	AA	1,083,409	Aa1
Corporate bonds	4,973,237	A	4,973,237	A2
Corporate bonds	603,145	A+	603,145	A2
Corporate bonds	3,186,719	A-	3,186,719	Aa3, A1 & A2
Corporate bonds	2,117,704	BBB+	2,117,704	A1
Governmental securities - U.S. agencies	1,040,967	AAA	1,040,967	Aaa
<b>Total investments</b>	<b>\$16,304,806</b>		<b>\$16,304,806</b>	

As of September 30, 2009, 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	\$ 3,029,422	AA+	\$ 3,029,422	Aa2
Corporate bonds	1,566,947	AA	1,566,947	Aa1
Corporate bonds	1,627,351	A+	1,627,351	Aa2 & A2
Corporate bonds	7,120,942	A	7,120,942	A1 & 2
Corporate bonds	1,083,017	A-	1,083,017	A1
Corporate bonds	505,950	AA-	505,950	Aa3
<b>Total investments</b>	<b>\$14,933,629</b>		<b>\$14,933,629</b>	

(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, 2010 and September 30, 2009, 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, 2010 and September 30, 2009, the

CTF held more than 4.5% and 0%, 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, 2010, the CTF had the following investments that represent 5% or more of total investments:

Name of Issuer	Amount	Percent of Investments
Progress Energy CA	\$ 1,162,105	5%
General Electric Capital	\$ 3,299,625	15%
Pepsico	\$ 1,145,745	5%
Public Service Col	\$ 1,151,265	5%

As of September 30, 2009, the CTF had the following investments that represent 5% or more of total investments:

Name of Issuer	Amount	Percent of Investments
Campbell Soup Co	\$ 1,026,094	5%
Pepsico	\$ 1,064,044	5%
Public Service Col	\$ 1,072,009	5%
Pitney Bowes, Inc	\$ 2,115,692	10%
Shell International Fin BV	\$ 1,050,416	5%
Progress Energy CA	\$ 1,083,017	5%
John Deere Capital	\$ 1,057,264	5%
General Electric Capital	\$ 3,029,423	15%
Honeywell International Inc	\$ 1,040,895	5%

d. 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.

e. Unrealized Investment Gain/(Loss)

DHS recorded an unrealized gain of \$1.3 million in fiscal year 2009-10 and an unrealized gain of \$0.9 million in fiscal year 2008-09 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 Plan's 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 Plan's 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 a rate of 33.26% and 30.64% of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2010-09 and 2008-09, respectively. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Technology, Management & Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.



# SUPPLEMENTAL FINANCIAL SCHEDULE

DEPARTMENT OF HUMAN SERVICES  
Schedule of Expenditures of Federal Awards (Notes 1 and 2)  
For the Period October 1, 2008 through September 30, 2010  
(In Thousands)

For the Fiscal Year Ended September 30, 2009

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b><u>GENERAL FUND</u></b>					
<b><u>U.S. Department of Agriculture</u></b>					
SNAP Cluster:					
Direct Programs:					
Supplemental Nutrition Assistance Program (Note 3)	10.551		\$ 2,088,938	\$	\$ 2,088,938
Supplemental Nutrition Assistance Program (Administrative Costs) (Note 4)	10.561		106,396	23,835	130,231
ARRA - Supplemental Nutrition Assistance Program (Administrative Costs)	10.561		4,964		4,964
Total SNAP Cluster			<u>\$ 2,200,298</u>	<u>\$ 23,835</u>	<u>\$ 2,224,133</u>
Child Nutrition Cluster:					
Pass-Through Programs:					
Michigan Department of Education School Breakfast Program	10.553	197 BREAKFAST	\$ 95	\$	\$ 95
National School Lunch Program	10.555	USDA 195 SECT 4, USDA 196, SECT 11, USDA 198 SNACKS	152		152
Total Child Nutrition Cluster			<u>\$ 247</u>	<u>\$ 0</u>	<u>\$ 247</u>
Direct Program:					
Supplemental Nutrition Assistance Program, Outreach/Participation Program	10.580		\$	\$	\$ 0
Total Direct Program			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>\$ 2,200,545</u></b>	<b><u>\$ 23,835</u></b>	<b><u>\$ 2,224,380</u></b>
<b><u>U.S. Department of Housing and Urban Development</u></b>					
Direct Program:					
Supportive Housing Program	14.235		\$ 648	\$ 1,115	\$ 1,763
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>\$ 648</u></b>	<b><u>\$ 1,115</u></b>	<b><u>\$ 1,763</u></b>
<b><u>U.S. Department of Justice</u></b>					
Direct Programs:					
Sexual Assault Services Formula Program	16.017		\$	\$	\$ 0
Juvenile Accountability Block Grants	16.523		10	704	714
Supervised Visitation, Safe Havens for Children	16.527		22	357	379
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		1,646	481	2,127
Title V - Delinquency Prevention Program	16.548		1	71	72
Violence Against Women Formula Grants	16.588		\$ 206	\$ 1,718	\$ 1,924
ARRA - Violence Against Women Formula Grants	16.588		111	253	364
Total Violence Against Women Formula Grants			<u>\$ 317</u>	<u>\$ 1,971</u>	<u>\$ 2,288</u>
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589		1	334	335
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		65	1	66
Juvenile Mentoring Program	16.726				0
ARRA - Recovery Act Transitional Housing	16.805				0
<b>Total U.S. Department of Justice</b>			<b><u>\$ 2,062</u></b>	<b><u>\$ 3,919</u></b>	<b><u>\$ 5,981</u></b>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2010				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
	\$ 2,791,951	\$	\$ 2,791,951	\$ 4,880,889
	123,983	18,711	142,694	272,925
	7,274	200	7,474	12,438
	<u>\$ 2,923,208</u>	<u>\$ 18,911</u>	<u>\$ 2,942,119</u>	<u>\$ 5,166,252</u>
197 BREAKFAST USDA 195 SECT 4, USDA 196, SECT 11, USDA 198 SNACKS	\$ 74	\$	\$ 74	\$ 169
	121		121	273
	<u>\$ 195</u>	<u>\$ 0</u>	<u>\$ 195</u>	<u>\$ 442</u>
	\$ 116	\$ 18	\$ 134	\$ 134
	<u>\$ 116</u>	<u>\$ 18</u>	<u>\$ 134</u>	<u>\$ 134</u>
	<u>\$ 2,923,519</u>	<u>\$ 18,929</u>	<u>\$ 2,942,448</u>	<u>\$ 5,166,828</u>
	\$ 647	\$ 1,237	\$ 1,884	\$ 3,647
	<u>\$ 647</u>	<u>\$ 1,237</u>	<u>\$ 1,884</u>	<u>\$ 3,647</u>
	\$ 103	\$ 114	\$ 114	\$ 114
	4	895	998	1,712
		207	211	590
	1,419	414	1,833	3,960
	2	40	42	114
	\$ 296	\$ 3,147	\$ 3,443	\$ 5,367
	202	1,324	1,526	1,890
	<u>\$ 498</u>	<u>\$ 4,471</u>	<u>\$ 4,969</u>	<u>\$ 7,257</u>
	5	333	338	673
	367	42	409	475
	32		32	32
	2	449	451	451
	<u>\$ 2,432</u>	<u>\$ 6,965</u>	<u>\$ 9,397</u>	<u>\$ 15,378</u>

DEPARTMENT OF HUMAN SERVICES  
Schedule of Expenditures of Federal Awards  
For the Period October 1, 2008 through September 30, 2010  
(In Thousands)  
Continued

For the Fiscal Year Ended September 30, 2009

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b><u>U.S. Department of Energy</u></b>					
Direct Programs:					
Weatherization Assistance for Low-Income Persons	81.042		\$ 1,131	\$ 19,691	\$ 20,822
ARRA - Weatherization Assistance for Low-Income Persons	81.042		475	4,844	5,319
<b>Total U.S. Department of Energy</b>			<b>\$ 1,606</b>	<b>\$ 24,535</b>	<b>\$ 26,141</b>
<b><u>U.S. Department of Education</u></b>					
Special Education Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
Special Education - Grants to States	84.027	090450/0708; 090450/0809; 090480/EOSD	\$ 160	\$	\$ 160
Wayne County Regional Educational Service Agency					
Special Education - Grants to States	84.027	Wayne County Part H	14		14
Total Special Education Cluster			\$ 174	\$ 0	\$ 174
Early Intervention Services (IDEA) Cluster:					
Pass-Through Program:					
Michigan Department of Education					
Special Education - Grants for Infants and Families	84.181	091330/IACDHS	\$ 75	\$	\$ 75
Total Early Intervention Services (IDEA) Cluster			\$ 75	\$ 0	\$ 75
Pass-Through Programs:					
Michigan Department of Energy, Labor & Economic Growth					
Adult Education - Basic Grants to States	84.002	091190/711037	\$ 35	\$	\$ 35
Michigan Department of Education					
Title I State Agency Program for Neglected and Delinquent Children	84.013	081590/0708; 091590/0809	571		571
Career and Technical Education - Basic Grants to States	84.048	093320	94		94
Total Pass-Through Programs			\$ 700	\$ 0	\$ 700
<b>Total U.S. Department of Education</b>			<b>\$ 949</b>	<b>\$ 0</b>	<b>\$ 949</b>
<b><u>U.S. Department of Health and Human Services</u></b>					
TANF Cluster:					
Direct Programs:					
Temporary Assistance for Needy Families (TANF) (Note 4)	93.558		\$ 331,245	\$ 331,298	\$ 662,543
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714				
Total TANF Cluster			\$ 331,245	\$ 331,298	\$ 662,543
CSBG Cluster:					
Direct Programs:					
Community Services Block Grant	93.569		\$ 125	\$ 24,498	\$ 24,623
ARRA - Community Services Block Grant	93.710			2,339	2,339
Total CSBG Cluster			\$ 125	\$ 26,837	\$ 26,962
CCDF Cluster:					
Direct Programs:					
Child Care and Development Block Grant	93.575		\$ 150,307	\$ 15,558	\$ 165,865
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		85,543	628	86,171
ARRA - Child Care and Development Block Grant	93.713		1,602		1,602
Total CCDF Cluster			\$ 237,452	\$ 16,186	\$ 253,638

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2010				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
	\$ (1,233)	\$ 10,595	\$ 9,362	\$ 30,184
	2,188	62,264	64,452	69,771
	<b>\$ 955</b>	<b>\$ 72,859</b>	<b>\$ 73,814</b>	<b>\$ 99,955</b>
100450/0910; 100480/EOSD	\$ 90	\$	\$ 90	\$ 250
Wayne County Part H	1		1	15
	<u>\$ 91</u>	<u>\$ 0</u>	<u>\$ 91</u>	<u>\$ 265</u>
101330/IACDHS	\$ 75	\$	\$ 75	\$ 150
	<u>\$ 75</u>	<u>\$ 0</u>	<u>\$ 75</u>	<u>\$ 150</u>
101190	\$ 21	\$	\$ 21	\$ 56
091590/0809; 101590/0910 103320	312		312	883
	97		97	191
	<u>\$ 430</u>	<u>\$ 0</u>	<u>\$ 430</u>	<u>\$ 1,130</u>
	<b>\$ 596</b>	<b>\$ 0</b>	<b>\$ 596</b>	<b>\$ 1,545</b>
	\$ 649,758	\$ 215,259	\$ 865,017	\$ 1,527,560
	42,869		42,869	42,869
	<u>\$ 692,627</u>	<u>\$ 215,259</u>	<u>\$ 907,886</u>	<u>\$ 1,570,429</u>
	\$ 297	\$ 24,347	\$ 24,644	\$ 49,267
	(987)	34,343	33,356	35,695
	<u>\$ (690)</u>	<u>\$ 58,690</u>	<u>\$ 58,000</u>	<u>\$ 84,962</u>
	\$ 36,659	\$ 5,144	\$ 41,803	\$ 207,668
	74,313	10,427	84,740	170,911
	49,419		49,419	51,021
	<u>\$ 160,391</u>	<u>\$ 15,571</u>	<u>\$ 175,962</u>	<u>\$ 429,600</u>

DEPARTMENT OF HUMAN SERVICES  
Schedule of Expenditures of Federal Awards  
For the Period October 1, 2008 through September 30, 2010  
(In Thousands)  
Continued

For the Fiscal Year Ended September 30, 2009

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Head Start Cluster:					
Direct Program:					
Head Start	93.600		\$ 189	\$ 13	\$ 202
Total Head Start Cluster			<u>\$ 189</u>	<u>\$ 13</u>	<u>\$ 202</u>
Medicaid Cluster:					
Pass-Through Programs:					
Michigan Department of Community Health Medical Assistance Program	93.778	09 05 MI 5048; 09 05 MI 5028	\$ 115,838	\$ 28	\$ 115,866
ARRA - Medical Assistance Program	93.778	09 05 MI ARRA	2,185		2,185
Total Medicaid Cluster			<u>\$ 118,023</u>	<u>\$ 28</u>	<u>\$ 118,051</u>
Direct Programs:					
Guardianship Assistance	93.090		\$	\$	\$ 0
ARRA - Guardianship Assistance	93.090				0
Total Guardianship Assistance			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Promoting Safe and Stable Families	93.556		4,461	4,523	8,984
Child Support Enforcement	93.563		\$ 37,798	\$ 100,303	\$ 138,101
ARRA - Child Support Enforcement	93.563		41,726	10,686	52,412
Total Child Support Enforcement			<u>\$ 79,524</u>	<u>\$ 110,989</u>	<u>\$ 190,513</u>
Child Support Enforcement Research	93.564				0
Refugee and Entrant Assistance - State Administered Programs	93.566		5,970	8,480	14,450
Low-Income Home Energy Assistance	93.568		225,586	6,296	231,882
Refugee and Entrant Assistance - Discretionary Grants	93.576		(13)	898	885
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584		(8)	949	941
Empowerment Zones Program (Social Services in Empowerment Zones and Enterprise Communities)	93.585			91	91
Grants to States for Access and Visitation Programs	93.597			273	273
Chafee Education and Training Vouchers Program (ETV)	93.599		73	1,649	1,722
Adoption Incentive Payments	93.603				0
Children's Justice Grants to States	93.643		728		728
Child Welfare Services - State Grants (Note 4)	93.645		9,117		9,117
Foster Care - Title IV-E	93.658		\$ 96,966	\$ 755	\$ 97,721
ARRA - Foster Care - Title IV-E	93.658		3,644		3,644
Total Foster Care - Title IV-E			<u>\$ 100,610</u>	<u>\$ 755</u>	<u>\$ 101,365</u>
Adoption Assistance	93.659		\$ 113,299	\$ 238	\$ 113,537
ARRA - Adoption Assistance	93.659		10,769		10,769
Total Adoption Assistance			<u>\$ 124,068</u>	<u>\$ 238</u>	<u>\$ 124,306</u>
Social Services Block Grant (Note 4)	93.667		131,985	2,259	134,244
Child Abuse and Neglect State Grants	93.669		599	475	1,074
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		2,080	2,024	4,104
Chafee Foster Care Independence Program	93.674		4,866	1,011	5,877
ARRA - Strengthening Communities Fund	93.711				0
Total Direct Programs			<u>\$ 689,646</u>	<u>\$ 140,910</u>	<u>\$ 830,556</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2010				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
	\$ 196	\$ 23	\$ 219	\$ 421
	\$ 196	\$ 23	\$ 219	\$ 421
10 05 MI 5048;	\$ 109,580	\$ 22	\$ 109,602	\$ 225,468
10 05 MI 5028	1,985	1	1,986	4,171
10 05 MI ARRA	\$ 111,565	\$ 23	\$ 111,588	\$ 229,639
	\$ 121	\$	\$ 121	\$ 121
	12		12	12
	\$ 133	\$ 0	\$ 133	\$ 133
	7,403	3,878	11,281	20,265
	\$ 24,449	\$ 91,205	\$ 115,654	\$ 253,755
	12,608	34,138	46,746	99,158
	\$ 37,057	\$ 125,343	\$ 162,400	\$ 352,913
	88		88	88
	5,021	12,107	17,128	31,578
	255,823	11,145	266,968	498,850
	(11)	722	711	1,596
	(9)	390	381	1,322
		159	159	250
		269	269	542
	(3)	1,775	1,772	3,494
	57		57	57
	566		566	1,294
	8,910		8,910	18,027
	\$ 91,021	\$ 867	\$ 91,888	\$ 189,609
	2,812		2,812	6,456
	\$ 93,833	\$ 867	\$ 94,700	\$ 196,065
	\$ 112,395	\$ 261	\$ 112,656	\$ 226,193
	10,212		10,212	20,981
	\$ 122,607	\$ 261	\$ 122,868	\$ 247,174
	130,511	2,614	133,125	267,369
	510	574	1,084	2,158
	305	2,059	2,364	6,468
	4,460	230	4,690	10,567
	72		72	72
	\$ 667,333	\$ 162,393	\$ 829,726	\$ 1,660,282

DEPARTMENT OF HUMAN SERVICES  
Schedule of Expenditures of Federal Awards  
For the Period October 1, 2008 through September 30, 2010  
(In Thousands)  
Continued

For the Fiscal Year Ended September 30, 2009

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Pass-Through Programs:					
Michigan Department of Community Health					
Injury Prevention and Control Research and State and Community Based Programs	93.136	5VF1/CE001110	\$	\$ 495	\$ 495
Preventive Health and Health Services Block Grant	93.991	3B01DP009028-09		243	243
Total Pass-Through Programs			\$ 0	\$ 738	\$ 738
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 1,376,680</b>	<b>\$ 516,010</b>	<b>\$ 1,892,690</b>
<b><u>Corporation for National and Community Service</u></b>					
Direct Programs:					
State Commissions	94.003		\$ 353	\$	\$ 353
Learn and Serve America - School and Community Based Programs	94.004		11	477	488
AmeriCorps	94.006		\$ (7)	\$ 4,108	\$ 4,101
ARRA - AmeriCorps	94.006			500	500
Total AmeriCorps			\$ (7)	\$ 4,608	\$ 4,601
Program Development and Innovation Grants	94.007		\$ 56	\$ 33	\$ 89
Training and Technical Assistance	94.009		120		120
Volunteers in Service to America	94.013				0
Total Direct Programs			\$ 533	\$ 5,118	\$ 5,651
Pass-Through Program:					
Michigan Department of Education					
Learn and Serve America - School and Community Based Programs	94.004	06KSNMI001; 09KSNMI001	\$ 223	\$ 378	\$ 601
Total Pass-Through Program			\$ 223	\$ 378	\$ 601
<b>Total Corporation for National and Community Service</b>			<b>\$ 756</b>	<b>\$ 5,496</b>	<b>\$ 6,252</b>
<b><u>Social Security Administration</u></b>					
Disability Insurance/SSI Cluster:					
Direct Program:					
Social Security - Disability Insurance	96.001		\$ 75,096	\$	\$ 75,096
<b>Total Social Security Administration</b>			<b>\$ 75,096</b>	<b>\$ 0</b>	<b>\$ 75,096</b>
TOTAL GENERAL FUND			\$ 3,658,342	\$ 574,910	\$ 4,233,252
<b><u>CHILDREN'S TRUST FUND</u></b>					
<b><u>U.S. Department of Health and Human Services</u></b>					
Direct Program:					
Community-Based Child Abuse Prevention Grants (Note 4)	93.590		\$ 235	\$ 764	\$ 999
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 235</b>	<b>\$ 764</b>	<b>\$ 999</b>
TOTAL CHILDREN'S TRUST FUND			\$ 235	\$ 764	\$ 999
Total Expenditures of Federal Awards			\$ 3,658,577	\$ 575,674	\$ 4,234,251

\* 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, 2010				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
5VF1/CE001110-04	\$	\$ 502	\$ 502	\$ 997
3B01DP009028-09		234	234	477
	\$ 0	\$ 736	\$ 736	\$ 1,474
	<b>\$ 1,631,422</b>	<b>\$ 452,695</b>	<b>\$ 2,084,117</b>	<b>\$ 3,976,807</b>
	\$ 408	\$	\$ 408	\$ 761
	(0)	85	85	573
	\$ 934	\$ 4,544	\$ 5,478	\$ 9,579
	(5)	1,744	1,739	2,239
	\$ 929	\$ 6,288	\$ 7,217	\$ 11,818
	\$ 49	\$	\$ 49	\$ 138
	112		112	232
	14		14	14
	\$ 1,512	\$ 6,373	\$ 7,885	\$ 13,536
06KSNMI001; 09KSNMI001	\$ 199	\$ 336	\$ 535	\$ 1,136
	\$ 199	\$ 336	\$ 535	\$ 1,136
	<b>\$ 1,711</b>	<b>\$ 6,709</b>	<b>\$ 8,420</b>	<b>\$ 14,672</b>
	\$ 82,634	\$	\$ 82,634	\$ 157,730
	<b>\$ 82,634</b>	<b>\$ 0</b>	<b>\$ 82,634</b>	<b>\$ 157,730</b>
	\$ 4,643,916	\$ 559,394	\$ 5,203,310	\$ 9,436,562
	\$ 83	\$ 880	\$ 963	\$ 1,962
	<b>\$ 83</b>	<b>\$ 880</b>	<b>\$ 963</b>	<b>\$ 1,962</b>
	\$ 83	\$ 880	\$ 963	\$ 1,962
	<b>\$ 4,643,999</b>	<b>\$ 560,274</b>	<b>\$ 5,204,273</b>	<b>\$ 9,438,524</b>

## 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 Supplemental Nutrition Assistance Program (SNAP) Benefits

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (CFDA 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009 (ARRA). The portion of total expenditures for SNAP benefits that is supported by ARRA funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents the U.S. Department of Agriculture (USDA) from obtaining the regular and ARRA components of SNAP benefits expenditures through normal program reporting processes. As an alternative, the USDA has computed a weighted-average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof of ARRA funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and ARRA components of our reported expenditures for SNAP benefits. At the national aggregate level, however, ARRA funds account for approximately 16.38% of the USDA's total

expenditures for SNAP benefits in the federal fiscal year ended September 30, 2010 and approximately 15% of the USDA's total expenditures for SNAP benefits in the federal fiscal year ended September 30, 2009.

Note 4 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	
	2009-10	2008-09
Supplemental Nutrition Assistance Program (Administrative Costs) (CFDA 10.561)	\$ 0	\$ 1,034
Community-Based Child Abuse Prevention Grants (CFDA 93.590)	\$ 1,345	\$ 1,675
Child Welfare Services - State Grants (CFDA 93.645)	\$ 65,746	\$ 74,765
Social Services Block Grant (CFDA 93.667)	\$ 7,322	\$ 10,143

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

	Fiscal Year	
	2009-10	2008-09
From: Temporary Assistance for Needy Families (TANF) (CFDA 93.558)	\$ (77,535)	\$ (181,061)
To: Child Care and Development Block Grant (CFDA 93.575)	\$ 0	\$ 103,526
Social Services Block Grant (CFDA 93.667)	\$ 77,535	\$ 77,535

Note 5 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	
	2009-10	2008-09
(1) Federal revenue (net) established through write-off of prior year decreasing claims per Section 212 of Act 129, P.A. 2009, and Act 248, P.A. 2008.	\$ 13,307	\$ 5,311
(2) Federal share of miscellaneous general purpose revenue recognized as federal revenue to offset prior year decreasing claims.	\$ 14,490	\$ 1,920
(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.	\$ 178,251	\$ 281,310
(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 Operation Appropriation Unit per Section 213 of Act 129, P.A. 2009, and Act 248, P.A. 2008. Total food stamp overissuance collections are:	\$ 1,231	\$ 1,313

- b. Federal revenue related to prior year federal increasing claims was transferred to the general purpose appropriation in the amount of \$1.3 million and \$0.6 million for fiscal years 2009-10 and 2008-09, respectively.

# INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

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

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

Ms. Maura D. Corrigan, Director  
Department of Human Services  
and  
Ms. Lori Wortz, Chair  
State Child Abuse and Neglect Prevention Board  
Grand Tower  
Lansing, Michigan

Dear Ms. Corrigan and Ms. Wortz:

We have audited the financial schedules of the Department of Human Services and financial statements of the Children's Trust Fund as of and for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents, and have issued our reports thereon dated June 23, 2011. 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 opinions 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.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs in Findings 1 and 2, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial schedules and the Children's Trust Fund's 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 instances of other noncompliance as described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

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

June 23, 2011



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

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

Independent Auditor's Report on Compliance With  
Requirements That Could Have a Direct and Material Effect on  
Each Major Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

Ms. Maura D. Corrigan, Director  
Department of Human Services  
and  
Ms. Lori Wortz, Chair  
State Child Abuse and Neglect Prevention Board  
Grand Tower  
Lansing, Michigan

Dear Ms. Corrigan and Ms. Wortz:

Compliance

We have audited the Department of Human Services' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the two-year period ended September 30, 2010. 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 of its major federal programs 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 4 through 7, 9, and 10 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; procurement and suspension and debarment; reporting; and special tests and provisions that are applicable to its TANF Cluster, Refugee and Entrant Assistance: State Administered Programs, 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 could have a direct and material effect on the TANF Cluster 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 compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its other major federal programs for the two-year period ended September 30, 2010. 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 in Findings 3 through 13.

#### Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 4 through 7, 9, 10, and 12 to contain material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 3 through 13 to be significant deficiencies.

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

June 23, 2011

# 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\*? 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? Yes

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

Unqualified for all major programs except:

#### Adverse\*

TANF Cluster

CCDF Cluster

#### Qualified\*

Refugee and Entrant Assistance - State Administered Programs

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 or Cluster*</u>
	<u>SNAP Cluster:</u>
10.551	• Supplemental Nutrition Assistance Program
10.561	• Supplemental Nutrition Assistance Program (Administrative Costs)
10.561	• ARRA - Supplemental Nutrition Assistance Program (Administrative Costs)
81.042	Weatherization Assistance for Low-Income Persons
81.042	ARRA - Weatherization Assistance for Low-Income Persons
	<u>TANF Cluster:</u>
93.558	• Temporary Assistance for Needy Families (TANF)
93.714	• ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program
93.563	Child Support Enforcement
93.563	ARRA - Child Support Enforcement
93.566	Refugee and Entrant Assistance - State Administered Programs
93.568	Low-Income Home Energy Assistance
	<u>CSBG Cluster:</u>
93.569	• Community Services Block Grant
93.710	• ARRA - Community Services Block Grant

\* See glossary at end of report for definition.

	<u>CCDF Cluster:</u>
93.575	• Child Care and Development Block Grant
93.596	• Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.713	• ARRA - Child Care and Development Block Grant
93.658	Foster Care - Title IV-E
93.658	ARRA - Foster Care - Title IV-E
93.659	Adoption Assistance
93.659	ARRA - Adoption Assistance
93.667	Social Services Block Grant
	<u>Medicaid Cluster:</u>
93.778	• Medical Assistance Program
93.778	• ARRA - Medical Assistance Program
	<u>Disability Insurance/SSI Cluster:</u>
96.001	• Social Security - Disability Insurance

Dollar threshold used to distinguish between type A and type B programs: \$28,366,840

Auditee qualified as a low-risk auditee\*? No

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

### **FINDING (4311101)**

#### **1. Schedule of Expenditures of Federal Awards (SEFA)**

The Department of Human Services (DHS) did not correctly classify payments made to the Michigan Department of Treasury on the SEFA. As a result, DHS

\* See glossary at end of report for definition.

overstated amounts distributed to subrecipients\* and understated amounts directly expended by \$172.9 million and \$78.3 million for the fiscal years ended September 30, 2009 and September 30, 2010, respectively.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires each recipient of federal awards to prepare a SEFA for the period covered by the recipient's financial schedule 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 years 2009-10 and 2008-09, the Department of Treasury provided State competitive scholarships, tuition grants, Tuition Incentive Program grants, Michigan Promise Grants, and Nursing Scholarships and Grants totaling \$78.3 million and \$172.9 million, respectively, to students attending colleges or universities in Michigan. During both fiscal years, these scholarships and grants were funded by the Michigan Merit Award Trust Fund and General Fund/general purpose appropriations.

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 the Department of Treasury scholarships and grants as potentially being able to be funded with TANF funds. Based on the consultant's advice, DHS worked with the State Budget Office to request a supplemental appropriation bill in each fiscal year to exchange funding between DHS and the Department of Treasury. Supplemental appropriation bills for fiscal years 2009-10 and 2008-09 were approved on September 9, 2010 and November 6, 2009, respectively, that moved TANF federal funds to the Department of Treasury 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

\* See glossary at end of report for definition.

activities that could be used as additional maintenance of effort (MOE) and matching funds needed to obtain the TANF contingency funds.

In our review of the substance of the transactions between DHS and the Department of Treasury, we noted:

- a. The Department of Treasury 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 Department of Treasury programs was an allowable use of the TANF funding.
- b. The Department of Treasury did and continues to operate the scholarship and grant programs under State statute. The Department of Treasury 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 and grant programs was made by DHS, it is our opinion that DHS is directly responsible for program compliance. Accordingly, the amount transferred to the Department of Treasury should be reported as directly expended by DHS.

We reported this condition in our prior single audit. DHS indicated in its December 2009 corrective action plan that DHS disagreed with our opinion and would continue to classify TANF payments made to the Department of Treasury for scholarships and grants as amounts distributed to subrecipients on the SEFA in subsequent fiscal years.

## **RECOMMENDATION**

We again recommend that DHS correctly classify payments made to the Department of Treasury on the SEFA.

## **FINDING (4311102)**

### **2. Children's Trust Fund (CTF)**

DHS needs to improve its internal control over inventorying 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 \$296,558 (8%) and \$292,180 (8%) of revenue in fiscal years 2009-10 and 2008-09, respectively. Of these revenue amounts, \$78,325 and \$80,626 were generated directly from the sale of donated items in fiscal years 2009-10 and 2008-09, respectively. The donated items sold at these auctions included, but were not limited to, sporting event tickets, vacation packages, furniture, and toys. DHS employees, Child Abuse and Neglect Prevention Board members, and other volunteers solicited and collected donated items for the 2010 and 2009 CTF auctions.

DHS recorded each donated item collected on a commitment form. Prior to the annual auction, DHS combined some donated items together in packages to be sold as a single item at the auction and prepared an inventory list of items to be sold. At the annual auction, DHS prepared a sales receipt for each item sold and recorded the sale amount in the inventory list. DHS procedures indicated that DHS would reconcile donated items collected to donated items sold to ensure that all auction items were accounted for. However, DHS did not complete the reconciliation in either fiscal year.

For both fiscal years, we were unable to determine if all donated items collected were sold because DHS's records did not identify which donated items were combined into packages to reconcile to the donated items sold. In fiscal year 2009-10, DHS implemented auction software to track donated items collected and annual CTF auction fundraiser sales. After our review, DHS prepared a list to identify all of the donated items combined into packages and a reconciliation to account for the sale of all donated items for the fiscal year 2009-10 auction.

Section 18.1485 of the *Michigan Compiled Laws* requires that DHS establish and maintain recordkeeping procedures to control assets and revenues and that DHS develop internal control techniques that are effective and efficient.

## **RECOMMENDATION**

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

**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**

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, Circular A-133 requires the auditor to report in this section of the audit report known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program and known questioned costs that are less than \$10,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed \$10,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

**FINDING (4311103)**

**3. SNAP Cluster, Including ARRA - Supplemental Nutritional Assistance Program (Administrative Costs), CFDA 10.551 and 10.561**

U.S. Department of Agriculture	SNAP Cluster: CFDA 10.551: Supplemental Nutrition Assistance Program CFDA 10.561: Supplemental Nutrition Assistance Program (Administrative Costs) CFDA 10.561: ARRA - Supplemental Nutrition Assistance Program (Administrative Costs)
Award Number: 2MI400100 (2008) 2MI400100 (2009) 2MI420122 (2008) 2MI430122 (2009) 2MI430100 (2009) 2MI440100 (2009) 2MI400100 (2010) 2MI420122 (2010) 2MI430100 (2010) EBT-08 EBT-09 EBT-10 SNAP Benefits (ARRA) SNAP Benefits (ARRA) 2010	Award Period: 10/01/2007 - 09/30/2008 10/01/2008 - 09/30/2009 10/01/2007 - 09/30/2008 10/01/2008 - 09/30/2009 10/01/2008 - 09/30/2009 03/01/2009 - 09/30/2009 10/01/2009 - 09/30/2010 10/01/2009 - 09/30/2010 02/12/2010 - 09/30/2010 10/01/2007 - 09/30/2008 10/01/2008 - 09/30/2009 10/01/2009 - 09/30/2010 10/01/2008 - 09/30/2009 10/01/2009 - 09/30/2010
	Known Questioned Costs: \$416,363

DHS's internal control over the Supplemental Nutrition Assistance Program (SNAP) Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, reporting, and special tests and provisions (electronic benefits transfer [EBT] card security).

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

Federal expenditures for the SNAP Cluster totaled \$5.2 billion, including \$12.4 million of ARRA funding, for the two-year period ended September 30, 2010.

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 SNAP Cluster expenditures totaling \$416,363 met the allowable cost principles of Appendix A of OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, (Title 2, Part 225 of the *Code of Federal Regulations*\* [CFR]).

DHS contracted with two vendors to provide information, referral, and advocacy services to individuals with limited English proficiency. The vendors billed DHS for these services and their billing forms allocated the costs among six federal programs.

Appendix A of OMB Circular A-87 (federal regulation 2 CFR 225) indicates that costs allocated to a federal program are allowable in accordance with the relative benefits received by the program. DHS could not document how the vendor determined the benefits received by each federal program and the corresponding costs charged to each federal program. As a result, we questioned all costs allocated to the SNAP Cluster, which totaled \$416,363.

- (2) DHS did not submit a cost allocation plan amendment to HHS's Division of Cost Allocation (DCA) for changes to the allocation basis and procedures. We identified the following three changes to the approved cost allocation plan:

- (a) Beginning in fiscal year 2007-08, DHS revised its approved methodology for allocation of the costs of the first-line supervisors and managers. DHS removed first-line supervisors' and managers' costs from the "Social Services Related - Program Administration" and "Financial Assistance Program Related" cost pools and included the costs in the "Local Office Management and Support" cost pool because the methodology for this cost pool already included other local office management costs.

\* See glossary at end of report for definition.

We reported this condition in our prior single audit. DHS indicated in its December 2009 corrective action plan that it would update its cost pool descriptions in its next submission to DCA. DHS had not amended the methodologies or submitted an amendment to DCA for the cost pools affected by the removal of costs as of the end of our audit period.

- (b) In the second quarter of fiscal year 2008-09, DHS revised its approved methodology for performing time studies from physical observations of first-line DHS staff by data collectors to random moment sampling e-mail surveys of first-line DHS staff.
- (c) Beginning with our audit period, DHS discontinued using the "Bridges Planning" cost pool to allocate Bridges Integrated Automated Eligibility Determination System\* (Bridges) planning costs at a fixed rate to each major benefiting federal program and began using the cost pool to allocate Bridges operation and maintenance costs to federal programs based on the number of recipients in Bridges that received benefits in each federal program.

Federal regulation 45 *CFR* 95 states that the State shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if changes occur which make the approved allocation basis or procedures invalid.

b. Reporting

DHS's internal control did not ensure the reliability of significant information it used in its quarterly status of claims against households report (FNS-209) to the Food and Nutrition Service (FNS), U.S. Department of Agriculture.

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

\* See glossary at end of report for definition.

quarterly basis. In addition, DHS procedures require local fiscal offices to reconcile the recoupment activity report (GH-280) on a monthly basis.

Our review of DHS reporting procedures disclosed:

- (1) DHS did not ensure that 1 (9%) of 11 local fiscal offices reviewed in our testing reconciled their detailed GH-280 to source documents. The local office staff indicated that they were not aware of the DHS procedure requiring the monthly reconciliation. DHS used the GH-280 to prepare the quarterly FNS-209. As a result, DHS did not verify the accuracy of the amounts presented on the FNS-209.

We reported similar conditions in our three prior single audits. DHS indicated in its December 2009 corrective action plan that it would remind local offices to reconcile the GH-280 reports as outlined per policy.

- (2) DHS did not ensure that the amounts on the FNS-209 were supported by the underlying recoupment activity reports for the two fiscal quarters tested. The amounts reported on the FNS-209 are obtained from the quarterly report of status of claims against households report (GH-490). The GH-490 summarizes the monthly recoupment activity summary reports (GH-290). DHS generates the GH-290 and the GH-490 reports through an automated process in Bridges. For the 2 quarters tested, the GH-490 amounts did not equal the totals from the monthly GH-290 reports. As a result, the FNS-209 was understated by \$49,454 (2%) in fiscal year 2009-10 and overstated by \$58,255 (4%) in fiscal year 2008-09.

c. Special Tests and Provisions

DHS's internal control did not ensure that it accounted for all EBT bridge cards\* through the local office reconciliation process.

Federal regulation 7 *CFR* 274.12(h)(3) requires the State to ensure that EBT security requirements are established, including security and control measures to control blank unissued EBT bridge cards.

\* See glossary at end of report for definition.

The local offices maintain an inventory of blank EBT bridge cards. When DHS determines that waiting for the EBT contractor to mail an EBT bridge card would cause a client undue hardship, DHS authorizes an EBT bridge card from the local office inventory and issues it to the client. DHS policy requires that the local offices maintain records of the issuances and also requires the local offices periodically inventory and reconcile the number of EBT bridge cards on hand.

DHS indicated that it did not believe that reports from the EBT contractor showing EBT bridge cards authorized through the local offices were accurate. As a result, during the physical inventories, local offices were unable to compare the number of EBT bridge cards shown as issued on its records to the number reported as authorized by the EBT contractor. DHS informed us that it continues to work with the EBT contractor to develop a reliable report to use in the reconciliation process.

We reported similar conditions in our three prior single audits. DHS indicated in its December 2009 corrective action plan that the changes were made to the EBT contractor's system in July 2009 and that the first month's data was found to be accurate.

### **RECOMMENDATION**

We again recommend that DHS improve its internal control over the SNAP Cluster to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, reporting, and special tests and provisions.

**FINDING (4311104)**

4. TANF Cluster, Including ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program, CFDA 93.558 and 93.714

U.S. Department of Health and Human Services	TANF Cluster: CFDA 93.558: Temporary Assistance for Needy Families (TANF) CFDA 93.714: ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program
Award Number: G 08 02 MI TANF G 09 02 MI TANF G 09 01 MI TAN2 G 10 02 MI TANF	Award Period: 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2008 - Until expended 10/01/2009 - Until expended
	Known Questioned Costs: \$366,636,609

DHS's internal control over the Temporary Assistance for Needy Families (TANF) Cluster did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; reporting; 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], and penalty for refusal to work). As a result, we issued an adverse opinion on compliance with federal laws and regulations for the TANF Cluster.

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

Federal expenditures for the TANF Cluster totaled \$1.6 billion, including \$42.9 million of ARRA funding, for the two-year period ended September 30, 2010. We identified known questioned costs of \$366,636,609.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

Our review disclosed:

- (1) DHS could not support that TANF Cluster expenditures claimed to prevent and reduce the incidence of out-of-wedlock pregnancies met the requirements for the third purpose of TANF. As a result, we questioned costs of \$251,247,843. We reported this condition in our prior single audit. DHS indicated in its December 2009 corrective action plan that it disagreed with our finding and that it would not implement corrective action. HHS had not issued a management decision on the allowability of these expenditures as of the date of our report.

In an effort to maximize State recovery of TANF Cluster funds, 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 Cluster funds. The contract indicated that the amount DHS would pay the private consulting group would be paid from the attainment of increased revenue, cost recovery, or quantifiable cost avoidance. DHS paid the private consulting group \$11.8 million with State funds during our audit period of October 1, 2008 through September 30, 2010. The contract did not have a financial penalty requirement if any of the private consulting group's advice resulted in disallowances.

We reviewed DHS's implementation of the recommendations made by the private consulting group and noted that 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 Cluster funds for \$251,247,843 of higher education scholarship and grant expenditures. DHS reported to the federal cognizant agency \$78,327,582 and \$172,920,261 of federal higher education scholarship and grant expenditures as "Prevention of Out of Wedlock Pregnancies" in the TANF Financial Report (ACF-196) for fiscal years 2009-10 and 2008-09, respectively.

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's internal control did not ensure that it maintained documentation to support the recipients' need and eligibility for job access reverse commute expenditures in the TANF Cluster. We questioned costs of \$550,000.

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 Cluster. 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.

DHS established an interagency agreement with the Michigan Department of Transportation to provide needy individuals with public transportation to commute to work or job-related activities. The interagency agreement required the Michigan Department of Transportation to have individuals using public transportation complete surveys to help ensure that assistance was provided only to needy individuals. We noted during our review that the survey did not ask needy recipients the purpose for the commute to ensure that the transportation was used to commute to work or job-related activities.

b. Allowable Costs/Cost Principles

Our review disclosed:

- (1) DHS's internal control did not ensure that TANF Cluster 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 \$114,827,845. Our review disclosed:
  - (a) DHS claimed foster care expenditures in the TANF Cluster that the State did not incur. As a result, we questioned costs of \$113,831,059. We reported this condition in our two prior single audits. DHS indicated in its December 2009 corrective active plan that it disagreed with our finding and that it would not implement corrective action. HHS had not issued a management decision on the allowability of these expenditures as of the date of our report.

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 Cluster funds, the State Budget Office sought advice from a private attorney regarding the State's ability to draw TANF Cluster funds based on county foster care program expenditures. The private attorney advised the State Budget Office that this would be allowable; consequently, DHS drew down the TANF Cluster 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 maintenance of effort (MOE) funds that a state expends, spends, pays out, or disburses consistent with the requirements of parts 260 through 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 Cluster funds for these expenditures.

- (b) DHS contracted with two vendors to provide information, referral, and advocacy services to individuals with limited English proficiency. The vendors billed DHS for these services and their billing forms allocated the costs among six federal programs. DHS could not document how the vendor determined the benefits received by each federal program and the corresponding costs charged to each federal program. As a result, we questioned all costs allocated to the TANF Cluster, which totaled \$559,364.
  
- (c) DHS provided Family Independence Program (FIP) families benefits that were not consistent with the TANF State Plan. DHS revised its FIP monthly benefit policy October 1, 2008 with amounts that were more than those listed in the TANF State Plan. DHS claimed and subsequently drew down federal TANF funds based on these benefit amounts in the first quarter of fiscal year 2009-10. DHS did not amend the TANF State Plan for the increased monthly benefits until January 1, 2010. We identified 174,364 families in the first quarter of fiscal year 2009-10 that received a larger monthly benefit amount than the monthly benefit amount they should have received according to the TANF State Plan. As a result, we questioned costs of \$437,420.
  
- (d) DHS did not calculate benefits correctly or maintain case file documentation to support client eligibility for 17 (27%) of 62 TANF Cluster expenditures reviewed. We questioned costs totaling \$1,017, of which \$1,015 was reported in the Eligibility section (part c.(1)) of this finding.

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, be in accordance with the relative benefits received by the program, 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 in the 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, except for the benefit status or benefit level that are produced in Bridges. Because DHS did not maintain required case file documentation, it could not ensure or demonstrate compliance with federal requirements related to allowable costs/cost principles and eligibility for TANF.

(2) DHS did not amend its cost allocation plan and did not submit amendments to HHS's DCA, in accordance with federal requirements. We identified the following changes to the approved cost allocation plan:

(a) Beginning in fiscal year 2007-08, DHS revised its approved methodology for allocation of the costs of the first-line supervisors and managers. DHS removed first-line supervisors' and managers' costs from the "Social Services Related - Program Administration" and "Financial Assistance Program Related" cost pools and included the costs in the "Local Office Management and Support" cost pool because the methodology for this cost pool already included other local office management costs.

We reported this condition in our prior single audit. DHS indicated in its December 2009 corrective action plan that it would update its cost pool descriptions in its next submission to DCA. DHS had not amended the methodologies or submitted an amendment to DCA for the cost pools affected by the removal of costs as of the end of our audit period.

(b) In the second quarter of fiscal year 2008-09, DHS revised its approved methodology for performing time studies from physical observations of first-line DHS staff by data collectors to random moment sampling e-mail surveys of first-line DHS staff.

- (c) Beginning with our audit period, DHS discontinued using the "Bridges Planning" cost pool to allocate Bridges planning costs at a fixed rate to each major benefiting federal program and began using the cost pool to allocate Bridges operation and maintenance costs to federal programs based on the number of recipients in Bridges that received benefits in each federal program.

Federal regulation 45 *CFR* 95 states that the State shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if changes occur which make the approved allocation basis or procedures invalid.

In our four prior single audits, we disclosed material weaknesses in DHS's internal control over TANF Cluster 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. Eligibility

Our review disclosed:

- (1) DHS did not maintain case file documentation to support client eligibility, authorization for client services, or the amount of the assistance provided for 38 (61%) of 62 expenditures reviewed. We questioned costs of \$6,966.

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 budget.

Federal regulation 45 *CFR* 260.20 requires that a family be needy in order to be eligible for TANF Cluster 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 Cluster federal

funds will be used only for eligible families and purposes. DHS's TANF State Plan states that TANF Cluster assistance recipients are referred to the Jobs, Education, and Training Program for job preparation services.

- (2) 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 129, P.A. 2009, and Act 248, P.A. 2008, 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.

- (3) 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 our four prior single audits, we disclosed material weaknesses in DHS's internal control over TANF Cluster 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.

d. Matching, Level of Effort, and Earmarking

DHS's internal control did not ensure that TANF's MOE expenditures met federal laws and regulations. Our review disclosed:

- (1) DHS did not apply the new spending test to \$162,815,739 and \$52,696,700 of Michigan Department of Education (MDE) expenditures used to meet the State's MOE requirement in fiscal years 2009-10 and 2008-09, respectively.

As discussed in part a.(1) of this finding, 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 Cluster funds. The private consulting group advised DHS that MDE's Great Start Readiness Program and Section 31a At-Risk Pupils Program would qualify as new programs that would be exempt from the TANF Cluster statutory limitation for programs in operation prior to fiscal year 1994-95. In prior audits, DHS had limited the amount of MDE's Great Start Readiness Program and Section 31a At-Risk Pupils Program expenditures it counted towards TANF Cluster MOE because both of these programs were in operation prior to fiscal year 1994-95. The private consulting group advised DHS that these two programs had legislative changes after fiscal year 1994-95 that would classify these programs as new programs that would be exempt from the statutory limitation. Consequently, DHS counted \$162,815,739 and \$52,696,700 of TANF eligible State expenditures for these programs towards the State's MOE requirement in fiscal years 2009-10 and 2008-09, respectively. We do not consider these State expenditures exempt from the statutory limitation because the programs were both in operation prior to fiscal year 1994-95.

Federal regulation 45 *CFR* 263.5 states that a state program, that was also operated in fiscal year 1994-95 and was not authorized under prior Aid to Families with Dependent Children law, could only have the current year state expenditures on behalf of eligible families in excess of the state expenditures in fiscal year 1994-95 counted towards the state's MOE requirement.

- (2) DHS could not support that TANF Cluster expenditures claimed to provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives and to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage met the requirements for the first and second purposes of TANF, respectively. DHS counted \$858,369 of third party expenditures to meet the State's MOE requirement.
- (3) DHS did not maintain documentation to support the recipients' need and eligibility for TANF Cluster assistance for 5 (63%) of 8 MOE expenditures. We reported the federal share of questioned costs for these expenditures in the Eligibility section (part c.(1)) of this finding.
- (4) DHS had not established interagency agreements with the Michigan Public Service Commission (MPSC) from October 1, 2008 through September 30, 2009 or with the Michigan Department of Community Health (DCH) from October 1, 2008 through September 30, 2010 for MPSC's and DCH's Transitional Medicaid Plus expenditures claimed as TANF's MOE. An interagency agreement would help define eligibility requirements and reduce the risk of MPSC and DCH reporting improper expenditures that do not meet TANF Cluster 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 Cluster federal funds will be used only for eligible families and purposes.

We reported similar conditions in our two prior single audits. DHS indicated in its December 2009 corrective action plan that DHS would develop a desk aid for workers regarding the proper documentation and forms necessary to support client eligibility. DHS also indicated that DHS would pursue interagency agreements for sources of MOE.

e. Reporting

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

- (1) DHS's internal control did not ensure that federal and State MOE expenditures, as reported in its quarterly TANF Financial Report (ACF-196) for fiscal years 2009-10 and 2008-09, were accurate. We reviewed the fourth quarter ACF-196 for both fiscal years 2009-10 and 2008-09 and noted:
  - (a) In the fourth quarter ACF-196 for fiscal year 2009-10, DHS understated total federal expenditures by \$100,000 and overstated total State MOE expenditures by \$100,000.
  - (b) In the fourth quarter ACF-196 for fiscal year 2009-10, DHS overstated State MOE expenditures for child care by \$3,518,561 and understated the State MOE expenditures for prevention of out-of-wedlock pregnancies by \$3,518,561.
  - (c) In the fourth quarter ACF-196 for fiscal year 2008-09, DHS overstated total federal expenditures by \$3,676,635 and understated total State MOE expenditures by \$3,876,652.
  - (d) In the fourth quarter ACF-196 for fiscal year 2008-09, DHS did not maintain adequate documentation to support \$96,412 of reported State MOE work subsidies expenditures.
- (2) DHS's internal control did not ensure that State MOE expenditures and information, as reported in the Annual Report on State Maintenance of Effort Programs (ACF-204) for fiscal years 2009-10 and 2008-09, were accurate. We noted:
  - (a) In the ACF-204 for fiscal year 2009-10, DHS did not accurately report the total annual State MOE expenditures counted for 8 (47%) of 17

State MOE programs. For example, we noted that DHS overstated the United Way Programs by \$2,879,764; understated case management by \$2,839,830; understated the Great Parents, Great Start Program by \$360,000; overstated the Jobs, Employment, and Training Program by \$279,247; and overstated administration by \$40,406. In aggregate, the total State MOE expenditures were reasonable.

- (b) In the ACF-204 for fiscal year 2008-09, DHS did not accurately report the total annual State MOE expenditures counted for 8 (47%) of 17 programs. For example, we noted that DHS understated State MOE for FIP by \$32,364,694; overstated State MOE for case management by \$28,506,149; understated State MOE for the Private Foundations Programs by \$148,951; overstated State MOE for the Jobs, Employment, and Training Program by \$105,623; understated State MOE for the United Way Programs by \$97,066; overstated State MOE for administration by \$76,284; and overstated State MOE for the Wayne County Youth Programs by \$46,001. In aggregate, the total State MOE was understated by \$3,876,652.
- (c) In the ACF-204 for fiscal year 2008-09, DHS did not accurately report or maintain documentation to support the total number of families served for 12 (71%) of 17 State MOE programs. For example, we noted that DHS overstated the At-Risk Section 31(a) Pupils Program by 113,949 families; overstated the State Emergency Services Program by 26,078 families; overstated the Wayne County Youth Programs by 5,999 families; and overstated the Earned Income Tax Credit Program by 1,146 families.
- (d) In the ACF-204 for fiscal year 2008-09, DHS did not accurately report the TANF purpose for 6 (35%) of the 17 State MOE programs. We noted that the TANF purpose reported on the ACF-204 disagreed with DHS interagency agreements and the TANF State Plan.

- (e) In the ACF-204 for fiscal year 2008-09, DHS did not report in the State MOE program descriptions all major activities included in the State MOE expenditures counted in the TANF Cluster for 3 (18%) of the 17 the State MOE programs.

The report preparer's supervisor did not review these reports for accuracy prior to submission to HHS.

Federal regulation 45 *CFR* 265.3 requires states to file an ACF-196 on a quarterly basis. This report is to include expenditure data on the State's use of federal TANF funds, State TANF expenditures, and State expenditures of MOE funds in separate State programs.

In addition to the quarterly ACF-196, federal regulation 45 *CFR* 265.9 requires states to file an annual report containing information on the State's MOE programs for that year. This report is to include information such as the name of each program and a description of the major activities provided to eligible families under each program; each program's statement of purpose; each program's total annual state expenditures and total annual state expenditures claimed as MOE; and each program's average monthly total number of families served for which the state claims MOE expenditures as of the end of the fiscal year.

We reported similar conditions in our prior single audit. DHS indicated in its December 2009 corrective action plan that DHS would improve its reconciliation processes of the ACF-196 and the ACF-204 for MOE expenditures counted in the TANF Cluster.

f. Special Tests and Provisions

DHS's internal control did not ensure that it complied with TANF Cluster federal laws and regulations regarding special tests and provisions requirements for child support noncooperation, IEVS, and penalty for refusal to work. As a result, we questioned costs totaling \$3,955. In addition, we

identified State expenditures that could not be counted as State MOE totaling \$7,498. Our review disclosed:

- (1) DHS's internal control did not ensure that TANF Cluster 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 \$3,089. In addition, we identified State expenditures that could not be counted as State MOE totaling \$4,524.

We reviewed 60 case files of TANF Cluster families identified as not cooperating with paternity and child support order establishment procedures and noted that DHS did not appropriately sanction the family in 17 (28%) of the 60 cases. In addition, in 1 (2%) of the 60 cases reviewed, DHS could not document that the caseworkers had followed up on Michigan Child Support Enforcement System notices of clients not cooperating with paternity and child support to determine if the clients should be sanctioned.

Federal regulation 45 *CFR* 264.30 states that DHS must deduct an amount equal to not less than 25% from the TANF Cluster assistance that would otherwise be provided to the family of the individual or may deny the family any TANF Cluster 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 Cluster ineligibility for a one-month minimum.

In our four prior single audits, we disclosed material weaknesses in DHS's internal control over TANF Cluster 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 or uses electronic notifications to disseminate IEVS information from various data matches to the recipients' caseworkers to be used in determining the recipients' need and eligibility for TANF Cluster assistance. We noted:

- (a) DHS did not retain IEVS information to support that data was received or reports were prepared for caseworkers during the audit period.
- (b) DHS did not use the Social Security Administration's beneficiary earnings exchange record of federal tax return information to determine the recipients' need and eligibility for TANF Cluster assistance.
- (c) DHS did not include all of the recipients of TANF-funded adoption subsidies in the IEVS data matches conducted during the audit period.
- (d) DHS did not run quarterly wage matches after recipients' eligibility information was converted to Bridges. DHS informed us that the wage matches were not performed because of performance issues such as the inability to accurately match recipients converted from the old eligibility system to Bridges; complexity of programming Bridges to ensure the wages were used in benefit calculations for all programs affected; and an ineffective notification method to inform the caseworkers and their supervisors of wage match results.

DHS indicated that the caseworkers could look up a recipient's wages using Bridges consolidated inquiry. However, DHS policy does not require caseworkers to verify the wages in consolidated inquiry every quarter.

- (e) DHS had not established a process to allow the caseworkers to document in Bridges the actions that they used to verify recipient employment information from the Michigan Department of Treasury income tax withholding forms (W-4s). DHS informed caseworkers through an electronic notification in Bridges if the IEVS data match indicated an employer filed a W-4 for a recipient. However, DHS had not established a location in Bridges for caseworkers to record how the W-4 information was used to determine the recipient's eligibility. DHS procedures did not require caseworkers to document this information in the recipient's case file located outside of Bridges.

Federal regulation 45 *CFR* 205.55 requires states to request information through IEVS for wages, unemployment compensation, Social Security Administration information, and unearned income from the Internal Revenue Service at the first opportunity following receipt of an application for assistance and for all recipients on a quarterly basis. Federal regulation 45 *CFR* 205.55(a)(1) also requires states to request wage information for all recipients on a quarterly basis. In addition, 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 our two prior single audits, we disclosed material weaknesses in DHS's internal control over TANF Cluster 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 Cluster recipients who refuse to engage in work and are not subject to exceptions established by DHS. We questioned costs totaling \$866. In addition, we identified State expenditures that could not be counted as State MOE totaling \$2,974.

We reviewed 52 case files of TANF Cluster families in which a recipient was identified as not cooperating in work programs. In 9 (17%) of the 52 case files, DHS did not provide evidence that assistance had been terminated as required by federal regulation.

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 our four prior single audits, we disclosed material weaknesses in DHS's internal control over TANF Cluster 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).

### **RECOMMENDATION**

We again recommend that DHS improve its internal control over the TANF Cluster to ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; reporting; and special tests and provisions.

## **FINDING (4311105)**

### **5. Refugee and Entrant Assistance - State Administered Programs, CFDA 93.566**

U.S. Department of Health and Human Services	CFDA 93.566: Refugee and Entrant Assistance - State Administered Programs
Award Number: G07AAMI5100 G08AAMI5100 G09AAMI5100 G07AAMI5110 G08AAMI5110 G09AAMI5110	Award Period: 10/01/2006 - 09/30/2007 10/01/2007 - 09/30/2008 10/01/2008 - 09/30/2009 10/01/2006 - 09/30/2008 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2010
	Known Questioned Costs: \$137,647

DHS's internal control over the Refugee and Entrant Assistance - State Administered Programs (REAP) did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, and reporting. Our review disclosed material weaknesses in internal control and material noncompliance related to eligibility, procurement and suspension and debarment, and reporting. As a result, we issued a qualified opinion on compliance with federal laws and regulations for REAP.

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 \$31.6 million for the two-year period ended September 30, 2010. We identified known questioned costs of \$137,647.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS's internal control did not ensure that REAP expenditures incurred were for activities allowed. As a result, we questioned costs of \$657.

Federal regulation 45 *CFR* 400.112(b) requires REAP to provide child welfare services to refugee children according to the State's child welfare standards, practices, and procedures. DHS's Children's Foster Care Manual procedures

FOM 903-9 and FOM 950 provide guidance for special need items covered through the nonscheduled payments process.

Our review disclosed:

- (1) DHS issued nonscheduled payments for items that appeared to be unreasonable for 1 (4%) of 24 Unaccompanied Refugee Minors Program (UMP) expenditures reviewed. The payment reviewed was for graduation party items. FOM 903-9 provides specific guidance regarding allowable graduation costs that can be covered by nonscheduled payments, and this item is not included.
- (2) DHS issued a nonscheduled payment for a dental procedure covered under Medicaid for 1 (4%) of 24 UMP expenditures reviewed. FOM 903-9 requires Medicaid funds to be used for procedures covered by Medicaid, and nonscheduled payments should not be issued for these costs.

b. 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). DHS did not maintain adequate documentation to support payment for refugee vaccinations in 1 (50%) of the 2 refugee health screening expenditures reviewed. As a result, we questioned costs totaling \$66,806.

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. In addition, federal regulation 2 *CFR* 225 requires DHS to be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other DHS activities.

We reported similar conditions in our prior single audits. DHS indicated in its December 2009 corrective action plan that it limited funding for some services to an allowable maximum and makes payment only after the service has been provided.

(2) DHS did not submit a cost allocation plan amendment to HHS's DCA for changes to the allocation basis and procedures. We identified the following three changes to the approved cost allocation plan:

(a) Beginning in fiscal year 2007-08, DHS revised its approved methodology for allocation of the costs of the first-line supervisors and managers. DHS removed first-line supervisors' and managers' costs from the "Social Services Related - Program Administration" and "Financial Assistance Program Related" cost pools and included the costs in the "Local Office Management and Support" cost pool because the methodology for this cost pool already included other local office management costs.

We reported this condition in our prior single audit. DHS indicated in its December 2009 corrective action plan that it would update its cost pool descriptions in its next submission to DCA. DHS had not amended the methodologies or submitted an amendment to DCA for the cost pools affected by the removal of costs as of the end of our audit period.

(b) In the second quarter of fiscal year 2008-09, DHS revised its approved methodology for performing time studies from physical observations of first-line DHS staff by data collectors to random moment sampling e-mail surveys of first-line DHS staff.

(c) Beginning with our audit period, DHS discontinued using the "Bridges Planning" cost pool to allocate Bridges planning costs at a fixed rate to each major benefiting federal program and began using the cost pool to allocate Bridges operation and maintenance costs to federal programs based on the number of recipients in Bridges that received benefits in each federal program.

Federal regulation 45 *CFR* 95 states that the State shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if changes occur which make the approved allocation basis or procedures invalid.

c. Eligibility

DHS's internal control did not ensure that refugee medical assistance and refugee cash assistance were provided only on behalf of or to eligible clients. As a result, we questioned costs of \$70,184.

DHS did not maintain documentation to support client eligibility for 10 (24%) of 41 REAP expenditures reviewed. DHS's case files were missing assistance applications, evidence that clients were not enrolled in an institution of higher learning, evidence that clients were not receiving other financial assistance, and evidence of compliance with work registry requirements.

Federal regulations 45 *CFR* 400.53, 45 *CFR* 400.75(a), and 45 *CFR* 400.100 require refugees to meet general eligibility requirements for refugee medical assistance and refugee cash assistance, including requirements that eligible refugees cannot be a full-time student in an institution of higher learning; be eligible for other federally funded cash assistance; and, without good cause, fail or refuse to meet the work registry requirements. In addition, 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 reported similar conditions in our prior single audits. DHS indicated in its December 2009 corrective action plan that the finding was an isolated incident and that procedures are in place to ensure that documentation is retained to support payments.

d. 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.

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. The Department of Technology, Management & Budget (DTMB) 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.

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

- (1) DHS's internal control did not ensure that 2 (40%) of 5 contracts were signed by authorized representatives of all parties before services began. The service periods for the payments tested began 158 to 193 days before the contracts were signed by all parties.
- (2) DHS's internal control did not prevent 1 (20%) of 5 contracts from incurring expenditures for services provided after the contract's expiration date. The service period for the payment tested began 32 days after the contract's expiration date. DHS signed an amendment to extend the contract period prior to issuing payments to the contractor.

We reported similar conditions in our prior single audits. DHS indicated in its December 2009 corrective action plan that it would evaluate its contract payment processes to determine that controls are in place so contract expenditures are within the contract period and no payments are made to the contractor until the contract has been signed. DHS 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.

e. Reporting

DHS's internal control over REAP did not ensure its compliance with federal laws and regulations regarding reporting. As a result, DHS's REAP quarterly performance reports (ORR-6 reports) were not prepared in accordance with federal regulation 45 *CFR* 400.28 and the terms and conditions of DHS's REAP grant awards for fiscal years 2008-09 and 2009-10.

Our review of REAP's fiscal year 2009-10 and 2008-09 third trimester ORR-6 reports disclosed that DHS did not apply a consistent methodology to compile the ORR-6 reports and it did not maintain documentation to support the information included in the reports.

Federal regulation 45 *CFR* 400.28 requires DHS to maintain and submit statistical information required by HHS's Office of Refugee Resettlement (ORR). The terms and conditions of DHS's REAP grant awards for fiscal years 2009-10 and 2008-09 required DHS to submit an ORR-6 report each trimester.

**RECOMMENDATIONS**

We recommend that DHS improve its internal control over REAP to ensure compliance with federal laws and regulations regarding activities allowed or unallowed and reporting.

We again recommend that DHS improve internal control over REAP to ensure its compliance with allowable costs/cost principles, eligibility, and procurement and suspension and debarment.

**FINDING (4311106)**

6. Low-Income Home Energy Assistance, *CFDA* 93.568

U.S. Department of Health and Human Services	<i>CFDA</i> 93.568: Low-Income Home Energy Assistance
Award Number: G 07 01 MI LIE5 G 08 B1 MI LIEA G 09 B1 MI LIEA G 09 B1 MI LIE2 G 10 B1 MI LIEA	Award Period: 10/01/2006 - 09/30/2008 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010 10/01/2009 - 09/30/2011
	Known Questioned Costs: \$24,542,217

DHS's internal control over the Low-Income Home Energy Assistance Program (LIHEAP) did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles 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 \$498.9 million for the two-year period ended September 30, 2010. We identified known questioned costs of \$24,542,217.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS's internal control did not ensure the propriety of LIHEAP expenditures. As a result, we questioned costs of \$24,541,917. 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 \$530.

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 the energy related emergency and the payment amount issued for 1 (3%) of 36 State Emergency Relief (SER) energy payments reviewed.
- (b) DHS did not ensure that total client benefits were below the fiscal year cap for 1 (3%) of 36 clients reviewed. The LIHEAP State Plan

limits the amount of emergency energy assistance that can be provided to a client during a fiscal year. System controls were intended to identify and prevent the processing of payments that exceeded the fiscal year cap. However, DHS converted its data to a new payment system during the audit period and those controls were not always effective during the conversion process.

- (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. We questioned costs of \$76.

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 \$173.4 million for HHC transactions during the two-year period ended September 30, 2010. Our review disclosed:

- (a) The Department of Treasury did not correctly process 2 (7%) of 28 HHC claims reviewed. In both instances, the Department of Treasury did not correctly calculate the HHC.

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 detailed electronic data to the summary data provided with the reimbursement billings.

The detailed claim information in the electronic file did not support the Department of Treasury reimbursement billings for 4 (14%) of the 28 HHC processing runs reviewed. For these 28 HHC processing runs, the detailed information in the electronic file was \$31,480 less than the summary total paid.

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's internal control did not ensure that payments were in compliance with the requirements of Title 42, section 8624 of the *United States Code (USC)*. We questioned costs of \$24,541,311.

Federal law 42 *USC* 8624 requires that the State expend funds in accordance with the LIHEAP State Plan or in accordance with revisions applicable to such plan. As part of the annual application for funding, DHS submits a plan that describes the eligibility requirements and benefit levels for each type of assistance that it expects to provide throughout the fiscal year. DHS also submits an amendment to the plan to describe any revisions to the benefit levels or eligibility requirements that occurred subsequent to the submission of the initial plan. Our review disclosed the

following inconsistencies between the benefit levels paid by DHS and the benefit levels disclosed in the LIHEAP State Plan:

- (a) DHS did not ensure that the payment amount for energy related emergencies was the minimum amount necessary to prevent shut-off or restore service for 6 (17%) of 36 energy payments tested. The excess amount paid for these 6 payments totaled \$327. DHS indicated in the LIHEAP State Plan that when payment was necessary to resolve an energy related emergency, the payment would be the minimum amount necessary to prevent shut-off or restore service. However, during the period November 2009 through September 2010, DHS revised its internal policy to allow for payment of current energy charges. Payment of current energy charges is not required to prevent shut-off or restore service.
- (b) DHS did not ensure that HHC payments were for a benefit type and level authorized in the LIHEAP State Plan. In September 2009, DHS authorized the Department of Treasury, through an amendment to its interagency agreement, to issue a special energy allowance. The special energy allowance was designed to provide all individuals who had previously applied for and received a 2008 tax year HHC, an additional energy supplement. However, the special energy allowance was not a benefit type and level authorized in the LIHEAP State Plan. The special energy allowance payments totaled \$19,953,900.
- (c) DHS did not ensure that all payments issued through the Arrearage Payment Program were for benefit types and levels authorized in the LIHEAP State Plan. DHS indicated in the LIHEAP State Plan that the Arrearage Payment Program was designed to provide energy assistance to eligible households participating in a Winter Protection Plan. A Winter Protection Plan allows for eligible low-income customers to make monthly payments of a specified percentage of their estimated annual bill, along with a portion of the past due amount, to avoid shut-off during winter months.

In September 2010, DHS requested and received from energy providers electronic files of customers with arrearage balances. However, the electronic files received from the providers were not limited to Winter Protection Plan participants and instead all LIHEAP eligible households were considered for payment. The Arrearage Payment Program was not a type of assistance authorized in the LIHEAP State Plan for households not participating in the Winter Protection Plan. The arrearage payments to energy providers in September 2010 totaled \$4,587,084.

In our four 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.

b. Eligibility

DHS needs to improve its internal control over eligibility for SER energy expenditures. We questioned costs of \$300.

Our audit tests disclosed:

- (1) DHS did not maintain applications to document that the client made accurate disclosures in 4 (11%) of 36 SER energy expenditures reviewed. Federal law 42 *USC* 8624(b) states that assistance can be provided to low income households. DHS policy requires a signed application to ensure that a client requested energy crisis intervention and that the client's income disclosures complied with federal eligibility requirements. We questioned costs for 2 of the 4 expenditures totaling \$300. The clients' electronic files for the other 2 expenditures contained information to support the clients' eligibility.
- (2) DHS did not ensure that all eligibility requirements of DHS's LIHEAP State Plan were met for 1 (20%) of 5 noncategorically eligible clients reviewed. If clients are not categorically eligible, the LIHEAP State Plan indicates that clients must demonstrate that they made required payments towards their energy bill before qualifying for a federally funded

benefit. In our review of 36 SER energy expenditures, 5 of the clients were not categorically eligible and should have been required to make required payments towards their energy costs or show good cause for not making the payments. However, 1 of the 5 clients did not make the payments or show good cause for not making the payments and still received the federally funded benefit. We questioned the cost for this \$99 expenditure in the Allowable Costs/Cost Principles section (part a. (3)) of this finding).

We reported similar conditions in our four prior single audits. DHS indicated in its December 2009 corrective action plan that a desk aid would be developed for documentation and forms needed to support eligibility.

**RECOMMENDATION**

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

**FINDING (4311107)**

7. CCDF Cluster, Including ARRA - Child Care and Development Block Grant, CFDA 93.575, 93.596, and 93.713

U.S. Department of Health and Human Services	CCDF Cluster: CFDA 93.575: Child Care and Development Block Grant CFDA 93.596: Child Care Mandatory and Matching Funds of the Child Care and Development Fund CFDA 93.713: ARRA - Child Care and Development Block Grant
Award Number: G 09 01 MI CCDF G 09 01 MI CCDF (Mandatory) G 09 01 MI CCDF (Matching) G 09 01 MI CCD7 (ARRA) G 10 01 MI CCDF G 10 01 MI CCDF (Mandatory) G 10 01 MI CCDF (Matching)	Award Period: 10/01/2008 - 09/30/2011 10/01/2008 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2011 10/01/2009 - 09/30/2012 10/01/2009 - 09/30/2010 10/01/2009 - 09/30/2011
	Known Questioned Costs: \$7,252

DHS's internal control over the Child Care and Development Fund (CCDF) Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and eligibility. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding 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 in CCDF Cluster awards.

Federal expenditures for the CCDF Cluster totaled \$429.6 million, including \$51.0 million of ARRA funding, for the two fiscal years ended September 30, 2010. We identified known questioned costs of \$7,252.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS's internal control did not ensure that CCDF Cluster expenditures met the fiscal control requirements of federal regulation 45 *CFR* 98.67. We questioned costs totaling \$4,085.

DHS contracted with two vendors to provide information, referral, and advocacy services to individuals with limited English proficiency. The vendors billed DHS for these services and their billing forms allocated these costs between six federal programs.

Federal regulation 45 *CFR* 98.67 requires that DHS expend and account for CCDF funds in accordance with State laws and procedures for expending and accounting for its funds. Section 18.1485 of the *Michigan Compiled Laws* requires DHS's internal accounting and administrative control system to include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures. DHS could not document how the vendor determined which services were provided to the CCDF Cluster and the corresponding costs charged to the CCDF Cluster. As a result, we questioned all costs allocated to the CCDF Cluster, which totaled \$4,085.

b. Eligibility

DHS's internal control did not ensure that child care benefits were issued to, or on behalf of, eligible clients and providers. As a result, we questioned costs totaling \$3,167. Our review disclosed:

- (1) DHS did not maintain documentation to support client or provider eligibility for child care benefits for 43 (72%) of 60 expenditures reviewed. We noted incomplete supporting documentation related to child's age and citizenship status, client's categorical or income eligibility, client's need reason verifications and authorized hours of child care, provider's service type, provider's background checks, and provider's age. As a result of payment calculation differences resulting from incomplete documentation needed to properly calculate benefits, miscalculated department pay percentages, and incorrectly applied hourly rates, we questioned costs of \$3,167.
- (2) DHS did not ensure that CCDF child care benefits based on FIP eligibility were made on behalf of FIP eligible clients or children. During our review of the TANF Program, we noted that 77% of the fiscal year 2009-10 federally funded FIP payments sampled did not meet the FIP eligibility requirements. We noted that 23% of fiscal year 2009-10 CCDF child care benefits were made on the basis of clients coded as FIP eligible. We were unable to determine the impact of likely questioned costs on CCDF child care benefits in regards to these FIP eligibility errors.

Federal regulation 45 *CFR* 98.20 provides eligibility requirements for child 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.

In our four prior single audits, we disclosed material weaknesses in DHS's internal control over CCDF Cluster eligibility. DHS indicated in its December 2009 corrective action plan that a case review project would help to improve case record documentation. 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.

**RECOMMENDATIONS**

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

We again recommend that DHS improve its internal control over the CCDF Cluster to ensure its compliance with federal laws and regulations regarding eligibility.

**FINDING (4311108)**

8. Child Welfare Services - State Grants, CFDA 93.645

U.S. Department of Health and Human Services	CFDA 93.645: Child Welfare Services - State Grants
Award Number: G 08 01 MI 1400 G 09 01 MI 1400	Award Period: 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2010
	Known Questioned Costs: \$0

DHS's internal control over the Child Welfare Services - State Grants (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 \$18.0 million for the two-year period ended September 30, 2010.

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. DTMB 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.

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 3 (13%) of 23 direct human services expenditures. DHS informed us that 2 of the 3 expenditures were for emergency child placements at child care institutions. DHS's policy allows for placement of youth in institutions with which DHS does not have a contract when all public and contracted private agency placement options have been exhausted. The placements for the 2 youth ranged from 21 to 404 days. DHS had placed youth at these institutions before and after the placements that we reviewed. The 2 institutions received CWSS payments of \$60,022 and \$688,163 during the audit period. The duration of the placements, the placement of other youth in these institutions, and the value of the payments made to these institutions all support the need for DHS to establish contracts with the institutions.
- b. DHS's internal control did not ensure that 2 (12%) of 17 contracts reviewed were signed by authorized representatives of all parties before services began. The service periods for the payments tested began 3 to 99 days before the contracts were signed by all parties.
- c. DHS's internal control did not prevent 2 (12%) of 17 contracts from incurring expenditures for services provided after the contracts' expiration date. The service periods for the payments tested began 13 days after the contracts' expiration date. In both instances, DHS signed an amendment to extend the contact period before issuing payments to the vendor.

We reported similar conditions in our two prior single audits. DHS indicated in its December 2009 correction plan that the State is statutorily obligated to provide care and supervision for youth in foster care and placement should not be disrupted when a contract renewal is delayed or overlooked. DHS also indicated that it works in good faith with the contractor until the contract or amendment has been signed.

**RECOMMENDATION**

We again 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 (4311109)**

9. Foster Care - Title IV-E and ARRA - Foster Care - Title IV-E, CFDA 93.658

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care - Title IV-E CFDA 93.658: ARRA - Foster Care - Title IV-E
Award Number: 09 01 MI 1401 09 01 MI 1402 10 01 MI 1401 10 01 MI 1402	Award Period: 10/01/2008 - 09/30/2009 10/01/2008 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010
	Known Questioned Costs: \$3,241,836

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 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 \$196.1 million, including \$6.5 million of ARRA funding, for the two-year period ended September 30, 2010. We identified known questioned costs of \$3,241,836.

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 \$175.

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.

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. However, DHS did not always apply the appropriate maintenance and treatment allocation rate to its payments. Based on the maintenance and treatment rates applied during the audit period, DHS inappropriately charged CCI treatment payments to the Foster Care - Title IV-E Program for 5 (14%) of 35 maintenance payments reviewed. We questioned costs totaling \$175.

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.

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 \$649.

Our audit tests disclosed that for 3 (43%) of 7 determination of care expenditures reviewed, DHS did not maintain support for the determination of care supplemental payment issued or for the approval of the determination of care need by the DHS monitor.

Appendix A of OMB Circular A-87 requires that costs charged to a federal award be adequately documented. DHS policy requires that the determination of care need be approved by the DHS monitor.

- (2) DHS did not submit a cost allocation plan amendment to HHS's DCA for changes to the allocation basis and procedures. We identified the following three changes to the approved cost allocation plan:

- (a) Beginning in fiscal year 2007-08, DHS revised its approved methodology for allocation of the costs of the first-line supervisors and managers. DHS removed first-line supervisors' and managers' costs from the "Social Services Related - Program Administration" and "Financial Assistance Program Related" cost pools and included the costs in the "Local Office Management and Support" cost pool because the methodology for this cost pool already included other local office management costs.

We reported this condition in our prior single audit. DHS indicated in its December 2009 corrective action plan that it would update its cost pool descriptions in its next submission to DCA. DHS had not amended the methodologies or submitted an amendment to DCA for the cost pools affected by the removal of costs as of the end of our audit period.

- (b) In the second quarter of fiscal year 2008-09, DHS revised its approved methodology for performing time studies from physical observations of first-line DHS staff by data collectors to random moment sampling e-mail surveys of first-line DHS staff.
- (c) Beginning with our audit period, DHS discontinued using the "Bridges Planning" cost pool to allocate Bridges planning costs at a fixed rate to each major benefiting federal program and began using the cost pool to allocate Bridges operation and maintenance costs to federal programs based on the number of recipients in Bridges that received benefits in each federal program.

Federal regulation 45 *CFR* 95 states that the State shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if changes occur which make the approved allocation basis or procedures invalid.

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 (23%) of 35 maintenance payments reviewed. We questioned costs totaling \$4,331. Our audit tests disclosed:

- (1) For 3 (9%) of the 35 expenditures reviewed, DHS issued maintenance payments on behalf of children who were ineligible because DHS did not have documentation that a judicial determination of the reasonableness of the efforts to finalize a permanency plan had been made for the time period of the payment. We questioned costs totaling \$1,485.

Federal regulation 45 *CFR* 1356.21(b)(2) requires that a judicial determination of the reasonableness of efforts to finalize the permanency plan must be made within 12 months of the child entering foster care and every 12 months thereafter. 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.

- (2) For 1 (3%) of the 35 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. We questioned costs totaling \$1,334 in part c.(1) of this finding.

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.

- (3) For 1 (3%) of the 35 expenditures reviewed, DHS issued a maintenance payment on behalf of a child who was ineligible because DHS did not correctly determine or document that the child met the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) Program (i.e., met 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 [PRWORA]). For this expenditure, 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 \$120.

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.

- (4) For 1 (3%) of the 35 expenditures reviewed, DHS issued a maintenance payment on behalf of a child who was ineligible because the child was

placed with an out-of-State provider that had not undergone an on-site visit and review by DHS's Bureau of Child and Adult Licensing at the time of payment. We questioned costs totaling \$2,382.

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. DHS policy prohibits expending money to pay for placement of a child in an out-of-state facility unless the facility has undergone an on-site visit to the out-of-state facility, review of facility records and licensing records and reports on the facility, and determined to meet all of the licensing standards of this State for a comparable facility.

- (5) For 2 (6%) of the 35 expenditures reviewed, DHS issued maintenance payments on behalf of children without retaining case file documentation to support the children's eligibility. We questioned costs totaling \$344.

Federal regulation 45 *CFR* 1356.21 provides that in order to receive foster care maintenance payments, the child must meet eligibility requirements provided for under federal law 42 *USC* 672.

In our four prior single audits, we disclosed material weaknesses in DHS's internal control over Foster Care - Title IV-E Program eligibility. DHS indicated in its December 2009 corrective action plan that on April 1, 2009 it began requiring targeted case reads for all cases that authorize Foster Care - Title IV-E payments. However, 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 \$2,369,214, of which \$1,362,634 is questioned in the Subrecipient Monitoring section (part f.(1)) of this finding. Our review disclosed:

- (1) DHS contracts with county prosecuting attorney 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 prosecuting attorney offices. However, DHS inappropriately claimed the full expenditure amount in its administrative expenditures and obtained federal reimbursement at 50% federal financial participation (FFP) instead of obtaining reimbursement for only the 50% the State paid. As a result, we questioned costs totaling \$1,006,580.

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%. 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 Program funds for these expenditures.

- (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 \$1,362,634 in part f.(1) 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 Program funds for these expenditures.

In our prior single audit, we disclosed reportable conditions for matching expenditures in the Foster Care - Title IV-E Program. DHS indicated in its December 2009 corrective action plan that it disagreed with the finding. Thus, we determined that DHS did not implement sufficient corrective action during our audit period to eliminate this noncompliance. HHS had not issued a management decision on the allowability of these expenditures as of the date of our report.

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.

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. DTMB 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.

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 (5%) of 20 procurements that required a contractual relationship. Our audit tests disclosed that DHS could not locate one contract file to support that DHS entered 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 prevent 2 (10%) of 20 contracts from incurring expenditures for services provided after the contracts' expiration date.

We reported similar conditions in our three prior single audits. DHS indicated in its December 2009 corrective action plan that generally, DHS and the contractor are serving a vulnerable population (foster care children, vulnerable adults, etc.) and DHS believes that 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.

f. Subrecipient Monitoring

Our review disclosed:

- (1) DHS's internal control did not ensure that it maintained supporting documentation regarding Wayne County's eligibility determinations for juvenile justice children. As a result, we questioned costs totaling \$2,230,101.

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 that lists the Wayne County juvenile justice children for whom it is requesting reimbursement. The contract between Wayne County and DHS was silent on who was responsible for the continued determination. DHS indicated that it established procedures to monitor Wayne County in October 2009. However, DHS did not maintain documentation to verify the eligibility of the children for whom it is paying.

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 DHS could not document that it had monitored Wayne County, we questioned costs totaling \$2,230,101 for fiscal year 2008-09. DHS did not provide Foster Care - Title IV-E Program funding to Wayne County for juvenile justice children in fiscal year 2009-10.

We reported a similar condition in our two prior single audits. DHS indicated in its December 2009 corrective action plan that it believed that by October 1, 2009, all cases receiving services under the Title IV-E contract with Wayne County would be appropriately monitored and in compliance with federal regulations.

- (2) DHS did not always obtain and review subrecipient single audit reports.

OMB Circular A-133, Section 400(d), requires DHS to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and 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.

Our review of DHS's subrecipient monitoring efforts for a sample of 5 subrecipients disclosed that DHS did not obtain 1 (10%) of 10 single audit reports from subrecipients that were required to have single audits performed. Our review of the subrecipient's single audit report on the State of Michigan/Department of Treasury Web site disclosed that the subrecipient had not reported the Foster Care - Title IV-E Program expenditures on its schedule of expenditures of federal awards and, as a result, the Foster Care - Title IV-E Program would not have been subjected to testing in the subrecipient's single audit.

## **RECOMMENDATIONS**

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.

We again 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 allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; and subrecipient monitoring.

## **FINDING (4311110)**

### 10. Adoption Assistance and ARRA - Adoption Assistance, CFDA 93.659

U.S. Department of Health and Human Services	CFDA 93.659: Adoption Assistance CFDA 93.659: ARRA - Adoption Assistance
Award Number: G 09 01 MI 1403 G 09 01 MI 1407 G 10 01 MI 1403 G 10 01 MI 1407	Award Period: 10/01/2008 - 09/30/2009 10/01/2008 - 09/30/2009 10/01/2009 - 09/30/2010 10/01/2009 - 09/30/2010
	Known Questioned Costs: \$0

DHS's internal control over the Adoption Assistance Program did not ensure its compliance with federal laws and regulations regarding eligibility and procurement and suspension and debarment. Our review disclosed material weaknesses in internal control and material noncompliance related to eligibility. Also, DHS did not comply with federal laws and regulations regarding allowable costs/cost principles. 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 \$247.2 million, including \$21.0 million of ARRA funding, for the two-year period ended September 30, 2010.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS did not submit a cost allocation plan amendment to HHS's DCA for changes to the allocation basis and procedures. We identified the following two changes to the approved cost allocation plan:

- (1) Beginning in fiscal year 2007-08, DHS revised its approved methodology for allocation of the costs of the first-line supervisors and managers. DHS

removed first-line supervisors' and managers' costs from the "Social Services Related - Program Administration" and "Financial Assistance Program Related" cost pools and included the costs in the "Local Office Management and Support" cost pool because the methodology for this cost pool already included other local office management costs.

We reported this condition in our prior single audit. DHS indicated in its December 2009 corrective action plan that it would update its cost pool descriptions in its next submission to DCA. DHS had not amended the methodologies or submitted an amendment to DCA for the cost pools affected by the removal of costs as of the end of our audit period.

- (2) In the second quarter of fiscal year 2008-09, DHS revised its approved methodology for performing time studies from physical observations of first-line DHS staff by data collectors to random moment sampling e-mail surveys of first-line DHS staff.

Federal regulation 45 *CFR* 95 states that the State shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if changes occur which make the approved allocation basis or procedures invalid.

b. Eligibility

DHS did not ensure that adoption subsidy payments based on AFDC eligibility were made on behalf of AFDC eligible children.

Prior to July 2009, DHS relied on the Foster Care - Title IV-E Program eligibility determinations recorded within the Services Worker Support System for Foster Care, Adoption, and Juvenile Justice (SWSS-FAJ) to determine if an adoption subsidy qualified for payment under the Adoption Assistance Program.

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 criterion used for at least 91% of the Adoption Assistance Program's participants is that the child was, or would have been, eligible for the former

AFDC Program. This included a requirement that the child's removal from the home must have been 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 relied on the Foster Care - Title IV-E Program eligibility information for the former AFDC Program and the judicial determination information recorded in SWSS-FAJ, prior to July 2009, to determine eligibility for the Adoption Assistance Program. Our review of the Foster Care - Title IV-E Program for the period October 1, 2000 through September 30, 2008 determined that, on average, 12% of the Title IV-E funded foster care payments reviewed 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. As a result, we estimate that it is likely that an average of 12% of the adoption subsidy payments made for the period October 1, 2008 through July 31, 2009 were made for children not eligible for the subsidy.

In July 2009, DHS Adoption Assistance Program staff began determining and documenting eligibility for new adoption subsidy cases and discontinued relying upon the eligibility determinations recorded within SWSS-FAJ. Our review of their eligibility determinations did not disclose any errors.

c. 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.

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. DTMB 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.

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

- (1) DHS's internal control did not ensure that 1 (10%) of 10 contracts reviewed was signed by authorized representatives of all parties before services began. The service period for the payment tested began 20 days before the contract was signed by all parties.
- (2) DHS's internal control did not prevent 1 (10%) of 10 contracts from incurring expenditures for services provided after the contract's expiration date. The service period for the payment tested began 10 days after the contract's expiration date. DHS signed an amendment to extend the contact period 128 days after the payment was made to the vendor.

## **RECOMMENDATIONS**

We recommend that DHS comply with federal laws and regulations regarding allowable costs/cost principles.

We also recommend that DHS improve its internal control over the Adoption Assistance Program by performing eligibility determinations for children adopted prior to July 2009 for which DHS had previously relied upon the eligibility determinations recorded within SWSS-FAJ.

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

## **FINDING (4311111)**

### 11. Social Services Block Grant, 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 08 01 MI SOSR G 09 01 MI SOSR G 10 01 MI SOSR	Award Period: 10/01/2005 - 09/30/2009 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2009 - 09/30/2011
	Known Questioned Costs: \$1,182,863

DHS's internal control over the Social Services Block Grant (SSBG) Program 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 in SSBG Program awards.

Federal expenditures for the SSBG Program totaled \$267.4 million for the two-year period ended September 30, 2010. We identified known questioned costs of \$1,182,863.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Costs Principles

DHS's internal control did not ensure the propriety of SSBG Program expenditures and that expenditure documentation met the fiscal control requirements of federal regulation 45 *CFR* 96.30. As a result, we questioned costs totaling \$1,181,850. Our review disclosed:

- (1) DHS contracted with two vendors to provide information, referral, and advocacy services to individuals with limited English proficiency. The vendors billed DHS for these services and their billing forms allocated these costs among six federal programs.

DHS could not document how the vendor determined which services were provided to the SSBG Program and the corresponding costs charged to the SSBG Program. As a result, we questioned all costs allocated to the SSBG Program, which totaled \$1,181,753.

- (2) DHS did not properly approve 2 (18%) of 11 medical evaluation/diagnostic examination expenditures reviewed. As a result, we questioned costs of \$97.

We reported a similar condition in our two prior single audits. DHS indicated in its December 2009 corrective action plan that it had notified its local offices of the importance of case documentation.

Federal regulation 45 *CFR* 96.30 requires that DHS have fiscal controls and accounting procedures that 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.

b. Eligibility

DHS's internal control did not ensure that assistance was provided only to or on behalf of eligible clients and providers. DHS did not maintain documentation to support client eligibility for child care payments for 7 (32%) of 22 expenditures reviewed. As a result, DHS could not ensure that clients who received child care assistance were eligible. We questioned costs totaling \$1,013.

We reported similar conditions in our two prior single audits. DHS indicated in its December 2009 corrective action plan it had provided staff training on child care eligibility and documentation and that it implemented a case file review project in May 2008 to help improve case record documentation.

## **RECOMMENDATION**

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

## **FINDING (4311112)**

### **12. Chafee Foster Care Independence Program, CFDA 93.674**

U.S. Department of Health and Human Services	CFDA 93.674: Chafee Foster Care Independence Program
Award Number: G 08 01 MI 1420 G 09 01 MI 1420 G 10 01 MI 1420	Award Period: 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2009 - 09/30/2011
	Known Questioned Costs: \$53,529

DHS's internal control over the Chafee Foster Care Independence Program (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 regarding allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment. We identified material noncompliance with federal laws and regulations regarding allowable costs/cost principles 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 CFCIP awards.

Federal expenditures for the CFCIP Program totaled \$10.6 million for the two-year period ended September 30, 2010. We identified known questioned costs of \$53,529.

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 \$2,609.

DHS issued payments for services that did not appear to be a reasonable use of CFCIP federal awards for 2 (3%) of 66 expenditures reviewed. DHS purchased a car for a youth and paid for a school trip abroad for another youth, which do not appear to be reasonable services for the youth to accomplish self-sufficiency. We questioned costs of \$2,609.

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.

We reported similar conditions in our four prior single audits. DHS indicated in its December 2009 corrective action plan that it would add language to the service youth profile report to ensure that public and private agency staff 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.

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 \$772.

DHS did not maintain adequate documentation to support 4 (6%) of 66 expenditures reviewed. We questioned costs of \$772. We found that DHS did not maintain:

- (1) Service plans for youth 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).
- (2) Invoices or receipts to support the amount of the payment made.
- (3) Documentation of supervisory approvals.

In our four prior single audits, we disclosed material weaknesses in DHS's internal control over CFCIP allowable costs/cost principles. DHS indicated in its December 2009 corrective action plan that it would monitor CFCIP expenditures through random documentation/file requests of local offices and contractor expenditures. 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 \$50,148.

Our review disclosed that DHS did not maintain adequate documentation to support a youth's eligibility to receive CFCIP funded services in 1 (2%) of 66 expenditures reviewed.

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 years of age who are or have been in foster care placement based on abuse or neglect after their 14th birthday.

In our four prior single audits, we disclosed material weaknesses in DHS's internal control over CFCIP eligibility. DHS indicated in its December 2009 corrective action plan that it would create a checklist for youth eligibility that must be completed prior to using CFCIP funds.

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, federal law 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 documented services provided to youth on the service youth profile report (DHS-4713). Program staff instructed all outstate\* local offices to submit the DHS-4713 to the central office after completion. Central office staff then entered the services from each DHS-4713 into a tracking database. The Youth in Transition (YIT) Program coordinator was then able to use the database to monitor the amount of CFCIP funds expended on room and board. However, our review disclosed that DHS discontinued this process in fiscal year 2009-10. As a result, DHS could not ensure that it did not exceed the 30% maximum for room and board.

We summarized total expenditures in the accounts that 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.

We reported similar conditions in our four prior single audits. DHS indicated in its December 2009 corrective action plan that it was in the process of implementing a process to receive and record all DHS-4713 reports.

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. Our review disclosed that DHS did not prevent 7 (35%) of 20 contracts from incurring expenditures for services provided after the contract's expiration date. Our review determined that DHS incurred expenditures on each of the contracts for services provided during our audit period; however, the 7 contracts expired on dates ranging from September 30, 2001 to September 30, 2007.

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. DTMB 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

\* See glossary at end of report for definition.

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

In our two prior single audits, we disclosed material weaknesses in DHS's internal control over CFCIP procurement and suspension and debarment. DHS indicated in its December 2009 correction plan that the State is statutorily obligated to provide care and supervision for youth in foster care and placement should not be disrupted when a contract renewal is delayed or overlooked. DHS also indicated that it works in good faith with the contractor until the contract or amendment has been signed.

**RECOMMENDATION**

We again 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; and procurement and suspension and debarment.

**FINDING (4311113)**

13. Medicaid Cluster, Including ARRA - Medical Assistance Program, CFDA 93.778

U.S. Department of Health and Human Services	Medicaid Cluster: CFDA 93.778: Medical Assistance Program CFDA 93.778: ARRA - Medical Assistance Program
Award Number: 09 05 MI 5048 09 05 MI 5028 09 05 MI ARRA 10 05 MI 5048 10 05 MI 5028 10 05 MI ARRA	Award Period: 10/01/2007 - 09/30/2009 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010 10/01/2009 - 09/30/2010
Pass-Through Entity*: Michigan Department of Community Health	Known Questioned Costs: \$492,457

\* See glossary at end of report for definition.

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. Also, DHS did not comply with federal regulations regarding 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 \$229.6 million, including \$4.2 million of ARRA funding, for the two-year period ended September 30, 2010. We questioned costs totaling \$492,457.

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 Medicaid Cluster expenditures totaling \$492,457 met the allowable cost principles of Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225).

DHS contracted with two vendors to provide information, referral, and advocacy services to individuals with limited English proficiency. The vendors billed DHS for these services and their billing forms allocated the costs among six federal programs.

Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) indicates that costs allocated to a federal program are allowable in accordance with the relative benefits received by the program. DHS could not document how the vendor determined the benefits received by each federal program and the corresponding costs charged to each federal program. As a result, we questioned all costs allocated to the Medicaid Cluster, which totaled \$492,457.

(2) DHS did not submit a cost allocation amendment to the HHS's DCA for changes to the allocation basis and procedures. We identified the following three changes to the approved cost allocation plan:

(a) Beginning in fiscal year 2007-08, DHS revised its approved methodology for allocation of the costs of the first-line supervisors and managers. DHS removed first-line supervisors' and managers' costs from the "Social Services Related - Program Administration" and "Financial Assistance Program Related" cost pools and included the costs in the "Local Office Management and Support" cost pool because the methodology for this cost pool already included other local office management costs.

We reported this condition in our prior single audit. DHS indicated in its December 2009 corrective action plan that it would update its cost pool descriptions in its next submission to DCA. DHS had not amended the methodologies or submitted an amendment to DCA for the cost pools affected by the removal of costs as of the end of our audit period.

(b) In the second quarter of fiscal year 2008-09, DHS revised its approved methodology for performing time studies from physical observations of first-line DHS staff by data collectors to random moment sampling e-mail surveys of first-line DHS staff.

(c) Beginning with our audit period, DHS discontinued using the "Bridges Planning" cost pool to allocate Bridges planning costs at a fixed rate to each major benefiting federal program and began using the cost pool to allocate Bridges operation and maintenance costs to federal programs based on the number of recipients in Bridges that received benefits in each federal program.

Federal regulation 45 *CFR* 95 states the State shall promptly amend the cost allocation plan and submit the amended plan to the DCA director if changes occur which make the approved allocation basis or procedures invalid.

b. Eligibility

Federal regulations require states to determine client eligibility for Medicaid services and to operate a Medicaid Eligibility Quality Control (MEQC) System to help ensure the propriety of eligibility determinations using requirements established by the Centers for Medicare and Medicaid Services (CMS). The Department of Community Health (DCH) and DHS entered into an interagency agreement, which specified that DHS would determine individual client eligibility 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's internal control did not ensure that its MEQC System correctly reported sample results to HHS's CMS. DHS did not report MEQC error results based on final eligibility conclusions. As a result, DHS reported errors in the incorrect error categories.

Federal regulation 42 *CFR* 431.816(b)(1) and DHS's interagency agreement with DCH 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 periods comprising the annual assessment period.

DHS's 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 1 of 4 error categories in the annual federal MEQC report. The 4 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 2008-09 annual federal MEQC report using the ICES, rather than the FCES. In some instances, DHS may change an ICES error category for a sampled case based on the final payment review (FCES). Because the fiscal year 2008-09 annual federal MEQC report was prepared using the ICES, cases that had an FCES different from the ICES may have been reported as an "eligible recipients but understated liability" error instead of as an "ineligible recipient" error. We have determined that using the ICES did not impact the overall mispayment rate reported by DHS in the fiscal year 2008-09 annual federal MEQC report.

We reported this condition in our prior DHS single audit. DHS indicated in its December 2009 corrective action plan that DHS, in conjunction with DCH, would continue to prepare the annual federal MEQC report using the ICES and would submit a request to CMS to clarify if preparing the annual federal MEQC report with the ICES, instead of the FCES, was appropriate. DHS submitted the request for clarification to CMS in February 2011.

- (2) DHS did not sample and test cases from October 2009 through March 2010. As a result, DHS, in conjunction with DCH, did not comply with the CMS approved sampling plan for fiscal year 2009-10.

Federal regulation 42 *CFR* 431.814(f) states that the State must use six-month sampling periods of April through September and October through March.

In June 2010, DHS submitted a waiver request to DCH to modify the State's approved sampling plan in order to estimate an annual error rate based on the MEQC sample results from the second 6-month sampling period of April through September 2010 instead of sampling and testing the first 6-month sampling period of October 2009 through March 2010. In September 2010, DHC submitted the waiver request to CMS. In February 2011, CMS denied the States request because it failed to comply with federal MEQC sampling requirements. As a result, in February 2011, DHS, in conjunction with DCH, submitted a revised sampling plan to select and review a sample of active cases from October 2009 through March 2010.

### **RECOMMENDATIONS**

We again 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.

We also recommend that DHS comply with federal regulations regarding eligibility.

**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 June 23, 2011

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

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310902

**Finding Title:** Backup and Disaster Recovery Plans

**Finding:** The Department of Human Services (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 worked with the Department of Technology, Management & Budget (DTMB) to implement corrective action.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310904

**Finding Title:** Child Placing Agency (CPA) Unit Rates

**Finding:** 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.

**Agency Comments:** DHS disagreed with the finding. The finding issue was unique to fiscal year 2007-08 and did not occur during fiscal years 2009-10 and 2008-09.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 4310901  
**Finding Title:** Schedule of Expenditures of Federal Awards (SEFA)

**Finding:** DHS did not correctly classify payments made to the Michigan Higher Education Assistance Authority (MHEAA) on the SEFA.

**Agency Comments:** DHS disagreed with the finding. No action has been taken.

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 4310903  
**Finding Title:** Children's Trust Fund (CTF)

**Finding:** DHS needs to improve its internal control over soliciting, collecting, and inventorying the donated items to be sold at the annual CTF auction fundraiser.

**Agency Comments:** DHS continues to improve internal control to ensure compliance.

**PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 4310907  
**Finding Title:** Weatherization Assistance for Low-Income Persons (Weatherization), *CFDA* 81.042

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

**Agency Comments:** DHS implemented corrective action to address the deficiencies cited in the audit finding.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310908

**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:** DHS implemented corrective actions to address the deficiencies cited in the audit finding.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310910

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

**Finding:** 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.

**Agency Comments:** DHS implemented corrective actions to address the deficiencies cited in the audit finding.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310913

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

**Finding:** 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.

**Agency Comments:** DHS implemented corrective actions to address the deficiencies cited in the audit finding.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310921

**Finding Title:** Disability Insurance/Supplemental Security Income (SSI) Cluster, *CFDA* 96.001

**Finding:** DHS's internal control over the Disability Insurance/SSI Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

**Agency Comments:** DHS implemented corrective actions to address the deficiencies cited in the audit finding.

Audit Findings Not Fully Corrected or Partially Corrected:

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310905

**Finding Title:** Internal Control Over Federal Programs

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

**Agency Comments:** DHS continues to emphasize the importance of internal control through the internal control evaluation process and providing management with the tools and skills necessary to identify and evaluate risks in the areas it is responsible for. DHS utilizes an audit tracking system to monitor the status of corrective action

implementation. The tracking system is available to management to review and monitor the status of corrective action implementation.

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 4310906  
**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, procurement and suspension and debarment, reporting, and special tests and provisions (issuance document security).

**Agency Comments:** DHS disagreed with the finding in part and did not implement corrective action for that part. DHS continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 4310909  
**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; procurement and suspension and debarment; reporting; subrecipient monitoring; and special tests and provisions.

**Agency Comments:** DHS disagreed with the finding in part and did not implement corrective action for that part. DHS continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 4310911  
**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 allowable costs/cost principles; eligibility; and procurement and suspension and debarment.

**Agency Comments:** DHS continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 4310912  
**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, and eligibility.

**Agency Comments:** DHS continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 4310914  
**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 continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310915

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

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

**Agency Comments:** DHS continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310916

**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. Also, DHS did not comply with federal laws and regulations regarding matching, level of effort, and earmarking.

**Agency Comments:** DHS disagreed with the finding in part and did not implement corrective action for that part. DHS continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310917

**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; eligibility; and matching, level of effort, and earmarking.

**Agency Comments:** DHS continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310918

**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, eligibility, procurement and suspension and debarment, and subrecipient monitoring.

**Agency Comments:** DHS disagreed with the finding in part and did not implement corrective action for that part. DHS continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008

**Finding Number:** 4310919

**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, 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.

**Agency Comments:** DHS continues to improve internal control to ensure compliance.

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 4310920  
**Finding Title:** Medicaid Cluster, *CFDA* 93.778

**Finding:** 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.

**Agency Comments:** DHS disagreed with the finding in part and did not implement corrective action for that part. DHS continues to improve internal controls to ensure compliance.

DEPARTMENT OF HUMAN SERVICES

Corrective Action Plan

As of June 20, 2011

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 4311101

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

**Management Views:** The Department of Human Services (DHS) disagrees with the finding.

It is important to note that the U.S. Office of Management and Budget (OMB) Circular which requires DHS to characterize the Department of Treasury as a vendor or subrecipient also recognizes that making that distinction requires judgment and may be difficult. OMB Circular A-133, Section .210(d), states:

*There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor.*

DHS disagrees with the Office of the Auditor General's (OAG's) conclusion that the relationship with the Department of Treasury constitutes a vendor relationship. DHS believes that it correctly classified the Department of Treasury as a subrecipient of a federal award.

OMB Circular A-133, Section .210(b), states:

*Characteristics indicative of a Federal award received by a subrecipient are when the organization:*

- (1) *Determines who is eligible to receive what Federal financial assistance;*
- (2) *Has its performance measured against whether the objectives of the Federal program are met;*
- (3) *Has responsibility for programmatic decision making;*
- (4) *Has responsibility for adherence to applicable Federal program compliance requirements; and*
- (5) *Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.*

OMB Circular A-133, Section .210(c), states:

*Characteristics indicative of a payment for goods and services received by a vendor are when the organization:*

- (1) *Provides the goods or services within normal business operations;*
- (2) *Provides similar goods or services to many different purchasers;*
- (3) *Operates in a competitive environment;*

*(4) Provides goods or services that are ancillary to the operation of the Federal program; and*

*(5) Is not subject to the compliance requirements of the Federal program.*

DHS believes that the relationship with the Michigan Higher Education Assistance Authority (MHEAA) is that of a subrecipient because:

- (1) The Department of Treasury determines the individuals who will receive the scholarships.
- (2) The scholarships each contain an eligibility criteria component based on need.
- (3) The Department of Treasury makes the decisions related to the scholarship program.
- (4) The scholarship program is not considered a good or service which is provided to many purchasers.
- (5) The Department of Treasury does not operate in a competitive environment.
- (6) The Department of Treasury used the federal funds to carry out its own programs as opposed to providing goods and services to DHS.

The use of Temporary Assistance for Needy Families (TANF) funds to finance the Family Support Subsidy Program in the Department of Community Health (DCH) is an analogous situation. The Support Subsidy Program already existed when the Personal

Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) was passed. The Governor and Legislature in office at the time decided that it would be appropriate to use TANF funds to finance a portion of that program's cost and TANF revenues were, and continue to be, appropriated directly to DCH to finance the cost of that program. Those revenues flow through DHS because DHS has been designated as the lead State agency for the TANF Program. DHS does not, however, have any direct control over any aspect of the DCH program. The interagency agreements entered into by DHS and DCH to implement the intent of those appropriations over the years have always characterized DCH as a subrecipient with regard to its receipt of federal TANF revenues from DHS. The designation of DCH as a subrecipient has never been questioned.

DHS believes that it correctly identified MHEAA as a subrecipient based on the requirements identified in OMB Circular A-133.

**Planned Corrective Action:** Not applicable.

**Anticipated Completion Date:** Not applicable.

**Responsible Individuals:** Susan Kangas, Deputy Director, Financial Services  
Margo Yaklin, Director, Division of Accounting

---

**Finding Number:** 4311102

**Finding Title:** Children's Trust Fund (CTF)

**Management Views:** DHS agrees in part with the finding.

DHS agrees it was not able to provide a reconciliation for packaged items for the fiscal year 2008-09, and it prepared a spreadsheet for the fiscal year 2009-10. DHS, however, did not provide the Basket Report generated from the auction software for the fiscal year 2009-10 (the first year the auction software was implemented) to the auditor. The Basket Report shows each item that has been donated and assigned a basket number item. Each basket has an assigned master/container number which shows if an item was auctioned as a stand-alone item or packaged with others. For those items packaged in a basket, the report clearly shows which basket the items were assigned to.

**Planned Corrective Action:** None. The Children's Trust Fund began using the event software in January 2010.

**Anticipated Completion Date:** Not applicable.

**Responsible Individuals:** Mike Foley, Executive Director, Children's Trust Fund  
Steve Yager, Acting Deputy Director, Children's Services

---

#### FINDINGS RELATED TO FEDERAL AWARDS

**Finding Number:** 4311103

**Finding Title:** SNAP Cluster, Including ARRA - Supplemental Nutritional Assistance Program (Administrative Costs), *CFDA* 10.551 and 10.561

**Management Views:**

DHS agrees with parts b.(1), b.(2), and c. of the finding. DHS agrees in part with parts a.(1) and a.(2).

Regarding part a.(1), DHS disagrees that it could not document how the vendor determined allocated costs to the programs. DHS requires the vendors to submit a two-page supplemental report with its monthly statement of expenditures (DHS-3469). Page 1 of the supplemental report summarizes the units of service by program and activity. The vendors retain detailed personnel activity sheets which show the client(s) for which services are provided to; the activity provided to the client (intake application assistance, completion of the DHS client application, assistance/translation with DHS interviews, etc.); and the units of service provided. Page 1 of the supplemental report calculates the percentage of each programs' units of service to the total units of service. These percentages are then applied to the monthly expenditures on page 2 of the supplemental report so the costs are allocated to the benefitting programs. The total amount of monthly expenditures on page 2 of the supplemental report agrees with the amount on the statement of expenditures. DHS relied on this information to reimburse the vendor and to make claims to the federal funding sources. DHS does acknowledge that the units of service shown on the supplemental reports did not always agree with the units of service reported on the statement of expenditures.

Regarding part a.(2), DHS agrees that it did not amend the cost allocation plan or submit it to Division of Cost Allocation (DCA). However, it believes that the methodologies used during the audit period represent

a fair allocation of expenses to the benefitting programs.

- a. DHS did move the first-line supervisors and managers to a different cost pool but that cost pool was part of the approved cost allocation plan.
- b. DHS believes that the methodology represents a fair allocation of the Bridges Integrated Automated Eligibility Determination System (Bridges) operating and maintenance expenses to the benefitting programs.
- c. The new procedure and old procedure are random moment sampling methodologies which are acceptable methods of allocating expenditures.

Regarding part c., DHS would like to emphasize that the local offices have processes to account for the EBT cards they receive and issue. In the event that the vendor could send cards that the local office does not receive, it should be noted that these cards are not active. The cards can be activated only with specific equipment and a worker must authorize benefits to be assigned to a card for use through the Bridges application. These processes mitigate the risk that in the event cards are not received by a local office benefits could be accessed by unauthorized individuals.

**Planned Corrective Action:**

Regarding part a.(1), DHS is working with the vendors to determine if corrections to its reports will impact previously reported federal claims that will necessitate revisions to 2009 and 2010 federal reports.

Regarding part a.(2), DHS will submit cost allocation plan amendments to DCA.

Regarding part b.(1), DHS will increase its monitoring efforts by randomly selecting local offices to submit the reconciliation to Central Office on a periodic basis.

Regarding part b.(2), the reports for the cited periods were corrected and the updates are reflected in Bridges. The reports are working properly.

Regarding part c., the error is in the report DHS received from the vendor and it is in a system it uses to account for card activity. A new system build is in process to correct the system error and provide accurate information from the vendor so the local office can complete its reconciliation.

**Anticipated Completion Date:** October 1, 2011

**Responsible Individuals:** Terry Beurer, Acting Deputy Director, Field Services  
Jane Goetschy, Manager, Public Assistance  
Susan Kangas, Deputy Director, Financial Services  
Janet Kurnick-Ziegler, Manager, Office of Project and Management Technology  
Local Office Directors  
Larry Matecki Fields, Manager, Revenue and Federal Reporting  
Jim McCreight, State EBT Coordinator  
Jean Ramsey, Manager, Financial Management Division  
Teresa Spalding, Director, Office of Project and Management Technology  
Margo Yaklin, Director, Accounting Division

---

**Finding Number:** 4311104  
**Finding Title:** TANF Cluster, Including ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program, *CFDA* 93.558 and 93.714

**Management Views:** DHS agrees with parts c.(2), c.(3), d.(4), f.(1), f.(2), and f.(3) of the finding.

DHS agrees in part with parts a.(2), b.(1)(b), b.(1)(c), b.(1)(d), b.(2), c.(1), d.(3), and e. of the finding.

Regarding part a.(2), DHS agrees that the survey did not ask the purpose of the trip. Michigan Department of Transportation officials indicated that the design of the commute was established to take people to and from the City of Flint to the Great Lakes Crossing Mall for employment purposes and the route continues for that purpose. This is a 70-mile, round-trip commute which averages approximately \$0.11 per mile. TANF policy guidance allows for a reasonable estimate of the TANF eligibles benefitting from the transportation project. Further, a State may use any sound reasonable basis for estimating the TANF eligibles from the project. DHS believes that the costs are allowable.

Regarding b.(1)(b), DHS disagrees that it could not document how the vendor determined allocated costs to the programs. DHS requires the vendors to submit a two-page supplemental report with its monthly statement of expenditures (DHS-3469). Page 1 of the supplemental report summarizes the units of service by program and activity. The vendors retain detailed personnel activity sheets which show the client(s) for which services are provided to; the activity provided to

the client (intake application assistance, completion of the DHS client application, assistance/translation with DHS interviews, etc.); and the units of service provided. Page 1 of the supplemental report calculates the percentage of each programs' units of service to the total units of service. These percentages are then applied to the monthly expenditures on page 2 of the supplemental report so the costs are allocated to the benefitting programs. The total amount of monthly expenditures on page 2 of the supplemental report agrees with the amount on the statement of expenditures. DHS relied on this information to reimburse the vendor and to make claims to the federal funding sources. DHS does acknowledge that the units of service shown on the supplemental reports did not always agree with the units of service reported on the statement of expenditures.

Regarding part b.(1)(c), DHS acknowledges that, due to its oversight, the State Plan amendment did not include all changes. However, benefits were issued to eligible clients, and in accordance with its policy, DHS believes that the costs are allowable.

Regarding parts b.(1)(d), c.(1), and d.(3), DHS agrees that in some cases it was unable to provide documentation to support client or provider eligibility for the audit. Missing case or provider documentation does not mean the documentation was not collected and reviewed at the time of eligibility determination or that an improper payment was made. DHS has other processes which aid its staff with validating or updating information for a client or provider. For example, DHS conducts data matches to identify invalid social

security numbers, identify unreported client/household income, and verify citizenship or alien status and conducts monthly criminal matches and daily matches with the Central Registry. These additional processes help minimize the risk of someone inappropriately receiving benefits.

Regarding part b.(2), DHS agrees that it did not amend the cost allocation plan or submit it to DCA. However, it believes that the methodologies used during the audit period represent a fair allocation of expenses to the benefitting programs.

- a. DHS did move the first-line supervisors and managers to a different cost pool but that cost pool was part of the approved cost allocation plan.
- b. DHS believes that the methodology represents a fair allocation of the Bridges operating and maintenance expenses to the benefitting programs.
- c. The new procedure and old procedure are random moment sampling methodologies which are acceptable methods of allocating expenditures.

Regarding part e., DHS records show amounts which differ from those shown in the finding. It should be noted that for part (1)(d), this is the documentation on the break out of employment costs and not the total of employment costs.

DHS disagrees with a.(1), b.(1)(a), d.(1), and d.(2) of the finding.

Regarding part a.(1), it should be noted that this is a TANF Program allowable activity and the disagreement is which TANF purpose the costs are reported under.

The private consulting group, which advised DHS that the scholarship expenditures are allowable under TANF Purpose 3, is a national consulting group with experience in working with States to maximize their federal funding.

The U.S. Department of Health and Human Services (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 likelihood 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.*

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.

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 (MOE) 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 MOE spending because of other state budget changes. The rationale for these successful claims is the same as Michigan's as articulated above.

Regarding part b.(1)(a), the State Budget Office 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 4, Part 263, section 2(e) of the *Code of Federal Regulations (CFR)*, regarding what kinds of State expenditures count towards meeting a state's basic MOE expenditures. The regulation states:

*Expenditures for the 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, 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 that it is correct in its application of the TANF funds.

Regarding part d.(1), HHS Administration for Children and Families has indicated that the new spending test applies where an "apples to apples" comparison can be made between current expenditures and fiscal year 1994-95 expenditures. If a State or local program has undergone *any* changes to its mission, purpose, costs, procedures, etc., then an "apples to apples" comparison is not possible. If a State or local program operated since fiscal year 1994-95 has undergone any changes in its operational components, it is unreasonable to apply the new spending test to the program.

The legislation and funding allocation of Michigan School Aid Act Section 31a has continuously changed since 1995 in regards to activities that constitute allowable use of funds. For example, there is expanded flexibility for the districts to use Section 31a funds which greatly increases the scope of services that could be supported under the program funding, introduction of early childhood and reading programming, as well as others.

Current Section 31a expenditures do not reflect an "apples to apples" comparison to those expenditures in fiscal year 1994-95. Therefore, the new spending test described in 45 *CFR* 263.5 does not apply.

Regarding part d.(2), TANF guidance states that TANF regulations do not require individual determinations of need and family compensation when the purpose of an entity is to serve those in need. It further states that it is reasonable that a State make use of a reasonable estimation methodology to determine the share of overall expenditures attributable to needy families.

**Planned Corrective Action:** Regarding part a.(2), DHS does not plan to implement corrective action.

Regarding part b.(1)(b), DHS is working with the vendors to determine if corrections to its reports will impact previously reported federal claims that will necessitate revisions to 2009 and 2010 federal reports.

Regarding part b.(1)(c), DHS will submit TANF State Plan amendments in accordance with federal requirements.

Regarding parts b.(1)(d), c.(1), and d.(3), Field Services-Central Office will take actions to ensure that each local office establishes a procedure to ensure requested documentation is provided in response to an audit or program review request. In addition, each local office will be responsible for ensuring that required documents are in the case file as part of the case-read process. Any documents or files that are missing will require actions to be taken to ensure that the case record is complete or appropriate actions are taken with the case. Case-read results will be provided to Field Services-Central Office which, at a minimum, identifies the number of cases read, missing documentation, and other case file deficiencies. The results will be analyzed to determine trends so resources can be allocated to the areas which are problematic.

DHS will evaluate the effectiveness of making improvements to the case packeting guidance so workers know what documentation needs to be where in the case record and how long it must be retained. DHS is also evaluating a quarterly case file

reconciliation process. The case file reconciliation process will entail each worker evaluating what case records he or she has. If a worker has a case record that is not his or her case, the record is to be returned to the assigned worker. If a worker is missing a case record, he or she must locate it. Management will be required to ensure that the case reconciliations are completed on the scheduled date and perform tasks to ensure case records are located.

There will continue to be risks that documents are not placed in the case file or are separated from the case record and with the transfer of paper case files from one office to another as a client moves.

Regarding b.(2), DHS will submit cost allocation plan amendments to DCA.

Regarding part c.(2), there is an information technology project with DHS, the Michigan State Police, and the Department of Technology, Management & Budget, as part of HB 4721, to automatically link the Law Enforcement Information Network system with Bridges to identify people who are wanted on outstanding felony warrants or have convictions precluding their enrollment in public assistance.

Regarding part c.(3), the annual report to parents receiving TANF funded adoption assistance was re-established in August 2010. The mailing of the annual reports is based on the child's birth date. A Web-based application is in development which will allow parents to enter the information electronically and the adoption subsidy system will flag cases that are no longer eligible for TANF.

Regarding part d.(4), action was taken for the Michigan Public Service Commission reporting in fiscal year 2009-10. The TMA Plus Program with DCH ended in December 2010.

Regarding part e., DHS has added numerous text notes to the ACF-204 report to provide a trail to verify the data elements used to develop the report. DHS will develop a checklist of items needed to completely follow-through with requests from management to adjust funding between federal TANF and state MOE.

Regarding part f.(1), DHS implemented an automated interface between Bridges and Michigan Child Support Enforcement System in November 2010. This interface automatically processes child support sanctions for noncooperation without DHS specialist actions necessary.

Regarding part f.(2):

- a) The mainframe system that produced Income Eligibility and Verification System (IEVS) reports was decommissioned. The programs were written in a language that is not available on the current processor that would be used to recreate the reports. The logic would have to be duplicated in another language so some difference in appearance and processing might occur. The data cannot be validated from a separate source so accuracy cannot be guaranteed. The Bridges eligibility application retains the required IEVS data.

- b) The Social Security Administration (SSA) beneficiary earnings exchange record of federal tax return information has been implemented in the Bridges application. The exchange ran in August 2010 and will continue on an annual basis.
- c) Currently, there is no interface between Bridges and the Services Worker Support System for Foster Care, Adoption, and Juvenile Justice (SWSS-FAJ) so a data match can be made. An interface between Bridges and State Automated Child Welfare Information System will be evaluated to include the exchange of information for all households receiving TANF funded adoption subsidy payments. This will include families receiving and not receiving assistance from any program in the Bridges application.
- d) Wage match was implemented in the Bridges application in April 2011 with the data from the last quarter of 2010. The wage match process will continue to run on a quarterly basis.
- e) DHS implemented the revised New Hire interface to address new employment verifications. This was implemented with release 5.6 in June 2011. The revised Bridges screen "Employer New Hire Information Request/Details" tab allows for the caseworker to update the actions and results of his or her verification request/review.

Regarding part f.(3), Jobs, Employment and Training (JET) Program expectations were shared with the local offices in May 2011. The local office directors will work with the JET coordinators to monitor noncooperation reports and ensure that actions are taken to terminate assistance in accordance with regulations.

**Anticipated Completion Date:** July 1, 2013

**Responsible Individuals:** Terry Beurer, Acting Deputy Director, Field Services  
Gail Fournier, Policy Manager, Cash and Employment & Training Programs  
Jane Goetschy, Manager, Public Assistance  
Karen Iverson, Adoption Subsidy Manager  
JET Coordinators  
Susan Kangas, Deputy Director, Financial Services  
Kim Keilen, Director, Family Program Policy  
Janet Kurnick-Ziegler, Manager, Office of Project Management and Technology  
Local Office Directors  
Larry Matecki Fields, Manager, Revenue and Federal Reporting  
Brian Rooney, Deputy Director, Policy and Compliance  
Jane Schultz, Director, Budget Division  
Teresa Spalding, Director, Office of Project Management and Technology  
Suzanne Stiles Burke, Director, Bureau of Child Welfare  
Steve Yager, Acting Deputy Director, Children's Services  
Margo Yaklin, Director, Accounting Division

---

**Finding Number:**

4311105

**Finding Title:**

Refugee and Entrant Assistance - State Administered Programs, *CFDA* 93.566

**Management Views:**

DHS agrees with part e. of the finding.

DHS agrees in part with parts a., b.(1), b.(2), c., and d. of the finding.

Regarding part b.(1), the supporting documentation was not provided during the audit but has since been obtained. The documentation supports the questioned cost which was for three types of vaccines, a total of 1,050 dosages with a per dosage cost ranging from \$50-\$90.

Regarding b.(2), DHS agrees that it did not amend the cost allocation plan or submit it to DCA. However, it believes that the methodologies used during the audit period represent a fair allocation of expenses to the benefitting programs.

- a. DHS did move the first-line supervisors and managers to a different cost pool but that cost pool was part of the approved cost allocation plan.
- b. DHS believes that the methodology represents a fair allocation of the Bridges operating and maintenance expenses to the benefitting programs.
- c. The new procedure and old procedure are random moment sampling methodologies which are acceptable methods of allocating expenditures.

Regarding part c., DHS agrees that in some cases it was unable to provide documentation to support client or provider eligibility for the audit. Missing case or

provider documentation does not mean the documentation was not collected and reviewed at the time of eligibility determination or that an improper payment was made. DHS has other processes which aid its staff with validating or updating information for a client or provider. For example, DHS conducts data matches to identify invalid social security numbers, identify unreported client/household income, and verify citizenship or alien status and conducts monthly criminal matches and daily matches with the Central Registry. These additional processes help minimize the risk of someone inappropriately receiving benefits.

Regarding part d., DHS and the contractor are serving a vulnerable population (e.g., foster care children) and DHS believes that 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.

**Planned Corrective Action:**

Regarding part a., the program office is increasing its monitoring efforts which will include, in part, a new payment approval process, a reconciliation of the monthly billings to the payment requests, and random case reviews.

Regarding part b.(1), DHS has obtained the supporting documentation.

Regarding part b.(2), DHS will submit cost allocation plan amendments to DCA.

Regarding part c., Field Services-Central Office will take actions to ensure each local office establishes a procedure to ensure that requested documentation is provided in response to an audit or program review request. In addition, each local office will be

responsible for ensuring that required documents are in the case file as part of the case-read process. Any documents or files that are missing will require actions to be taken to ensure that the case record is complete or appropriate actions are taken with the case. Case-read results will be provided to Field Services-Central Office which, at a minimum, identifies the number of cases read, missing documentation, and other case file deficiencies. The results will be analyzed to determine trends so resources can be allocated to the areas which are problematic.

DHS will evaluate the effectiveness of making improvements to the case packeting guidance so workers know what documentation needs to be where in the case record and how long it must be retained. DHS is also evaluating a quarterly case file reconciliation process. The case file reconciliation process will entail each worker evaluating what case records he or she has. If a worker has a case record that is not his or her case, the record is to be returned to the assigned worker. If a worker is missing a case record, he or she must locate it. Management will be required to ensure that the case reconciliations are completed on the scheduled date and perform tasks to ensure case records are located.

There will continue to be risks that documents are not placed in the case file or are separated from the case record and with the transfer of paper case files from one office to another as a client moves.

Regarding part d., DHS will evaluate its contracting process to identify unnecessary processes which may slow the contract processing time and evaluate controls needed to ensure that a written contract is executed prior to any payment to a contractor.

Regarding part e., DHS found the error was with the employment/social services data. DHS reviewed the current process for the client data files and amendments will be made so the data is accurate. DHS will meet with the contract agencies to review the client data file formulas and submission process.

**Anticipated Completion Date:** January 1, 2012

**Responsible Individuals:** Terry Beurer, Acting Deputy Director, Field Services  
Deb Buchanan, Director, Division of Logistics and Rate Setting  
Jane Goetschy, Manager, Public Assistance  
Al Horn, Manager, Refugee Services  
Local Office Directors  
Larry Matecki Fields, Manager, Revenue and Federal Reporting  
Dudley Spade, Deputy Director, Strategic Services  
Jocelyn Vanda, Director, Interagency and Community Services

---

**Finding Number:** 4311106  
**Finding Title:** Low-Income Home Energy Assistance, *CFDA* 93.568

**Management Views:** DHS agrees with part a.(1)(b) of the finding.

DHS agrees in part with parts a.(1)(a), a.(2)(a), a.(2)(b), a.(3), b.(1), and b.(2) of the finding.

Regarding parts a.(1)(a) and b.(1), DHS agrees that in some cases it was unable to provide documentation to support client or provider eligibility for the audit. Missing case or provider documentation does not mean the documentation was not collected and reviewed at the time of eligibility determination or that an improper payment was made. DHS has other

processes which aid its staff with validating or updating information for a client or provider. For example, DHS conducts data matches to identify invalid social security numbers, identify unreported client/household income, and verify citizenship or alien status and conducts monthly criminal matches and daily matches with the Central Registry. These additional processes help minimize the risk of someone inappropriately receiving benefits.

Regarding part a.(2)(a), home heating credit (HHC) claims are processed accurately based upon established system business rules which contain specific tolerances. These systematic business rules and tolerances allow DHS to efficiently and accurately process the credits filed within the current program funding levels. All credit claims that do not pass the business rules are identified and manually worked by DHS staff. The systematic business rules are a cost effective means to monitor the HHC claims and the increased efficiencies allow the recipients to receive their heating assistance timely.

Regarding part a.(2)(b), DHS agrees the reports do not reconcile. DHS met with the Department of Treasury officials who stated the Michigan Department of Treasury Energy Assistance Provider Payments Report (222 Report) and the Draft Redemption Report (290 Report) were never intended to reconcile. DHS uses the 222 Report for authorizing payment and making federal claims.

Regarding parts a.(3) and b.(2), DHS made changes to the Low-Income Home Energy Assistance Program which were approved through the State Budget Office. Benefits were issued to eligible clients and in accordance with the approved program changes.

DHS does not agree with the questioned cost amount because benefits were provided to eligible families in need of energy assistance. DHS acknowledges that, due to its oversight, the State Plan amendment did not include these changes.

**Planned Corrective Action:**

Regarding parts a.(1)(a) and b.(1), Field Services-Central Office will take actions to ensure that each local office establishes a procedure to ensure requested documentation is provided in response to an audit or program review request. In addition, each local office will be responsible for ensuring that required documents are in the case file as part of the case-read process. Any documents or files that are missing will require actions to be taken to ensure that the case record is complete or appropriate actions are taken with the case. Case-read results will be provided to Field Services-Central Office which, at a minimum, identifies the number of cases read, missing documentation, and other case file deficiencies. The results will be analyzed to determine trends so resources can be allocated to the areas which are problematic.

DHS will evaluate the effectiveness of making improvements to the case packeting guidance so workers know what documentation needs to be where in the case record and how long it must be retained. DHS is also evaluating a quarterly case file reconciliation process. The case file reconciliation process will entail each worker evaluating what case records he or she has. If a worker has a case record that is not his or her case, the record is to be returned to the assigned worker. If a worker is missing a case record, he or she must locate it. Management will be required to ensure that the case reconciliations are

completed on the scheduled date and perform tasks to ensure case records are located.

There will continue to be risks that documents are not placed in the case file or are separated from the case record and with the transfer of paper case files from one office to another as a client moves.

Regarding part a.(1)(b), this appears to be limited to the conversion period. However, Field Services will request the Office of Project Management and Technology to review Bridges to ensure that it is not allowing State emergency relief (SER) payments above the fiscal year cap.

Regarding parts a.(2)(a) and a.(2)(b), DHS does not plan to implement corrective action.

Regarding parts a.(3) and b.(2), DHS will maintain a record of policy and program changes throughout the program year so they are included in the State Plan amendment. Per federal regulations, amendments are submitted only one time at the end of the year.

**Anticipated Completion Date:** January 1, 2012

**Responsible Individuals:** Terry Beurer, Acting Deputy Director, Field Services  
Jane Goetschy, Director, Public Assistance  
Kim Keilen, Director, Division of Family Program Policy  
Janet Kurnick-Ziegler, Manager, Office of Project Management and Technology  
Local Office Directors  
Brian Rooney, Deputy Director, Policy and Compliance  
Teresa Spalding, Director, Office of Project Management and Technology

---

**Finding Number:** 4311107  
**Finding Title:** CCDF Cluster, Including ARRA - Child Care and Development Block Grant, *CFDA* 93.575, 93.596, and 93.713

**Management Views:** DHS agrees in part with the finding.

Regarding part a., DHS disagrees it could not document how the vendor determined allocated costs to the programs. DHS requires the vendors to submit a two-page supplemental report with its monthly statement of expenditures (DHS-3469). Page 1 of the supplemental report summarizes the units of service by program and activity. The vendors retain detailed personnel activity sheets which show the client(s) for which services are provided to; the activity provided to the client (intake application assistance, completing the DHS client application, assistance/translation with DHS interviews, etc.); and the units of service provided. Page 1 of the supplemental report calculates the percentage of each programs' units of service to the total units of service. These percentages are then applied to the monthly expenditures on page 2 of the supplemental report so the costs are allocated to the benefitting programs. The total amount of monthly expenditures on page 2 of the supplemental report agrees with the amount on the statement of expenditures. DHS relied on this information to reimburse the vendor and to make claims to the federal funding sources. DHS does acknowledge that the units of service shown on the supplemental reports did not always agree with the units of service reported on the statement of expenditures.

Regarding parts b.(1) and b.(2), DHS agrees that in some cases it was unable to provide documentation to support client or provider eligibility for the audit. Missing case or provider documentation does not mean the documentation was not collected and reviewed at the time of eligibility determination or that an improper payment was made. DHS has other processes which aid its staff with validating or updating information for a client or provider. For example, DHS conducts data matches to identify invalid social security numbers, identify unreported client/household income, and verify citizenship or alien status and conducts monthly criminal matches and daily matches with the Central Registry. These additional processes help minimize the risk of someone inappropriately receiving benefits.

**Planned Corrective Action:**

Regarding part a., DHS is working with the vendors to determine if corrections to its reports will impact previously reported federal claims that will necessitate revisions to 2009 and 2010 federal reports.

Regarding parts b.(1) and b.(2), Field Services-Central Office will take actions to ensure that each local office establishes a procedure to ensure requested documentation is provided in response to an audit or program review request. In addition, each local office will be responsible for ensuring that required documents are in the case file as part of the case-read process. Any documents or files that are missing will require actions to be taken to ensure that the case record is complete or appropriate actions are taken with the case. Case-read results will be provided to Field Services-Central Office which, at a minimum, identifies the number of cases read, missing documentation, and other case file deficiencies. The

results will be analyzed to determine trends so resources can be allocated to the areas which are problematic.

DHS will evaluate the effectiveness of making improvements to the case packeting guidance so workers know what documentation needs to be where in the case record and how long it must be retained. DHS is also evaluating a quarterly case file reconciliation process. The case file reconciliation process will entail each worker evaluating what case records he or she has. If a worker has a case record that is not his or her case, the record is to be returned to the assigned worker. If a worker is missing a case record, he or she must locate it. Management will be required to ensure that the case reconciliations are completed on the scheduled date and perform tasks to ensure case records are located.

There will continue to be risks that documents are not placed in the case file or are separated from the case record and with the transfer of paper case files from one office to another as a client moves.

**Anticipated Completion Date:** January 1, 2012

**Responsible Individuals:** Terry Beurer, Acting Deputy Director, Field Services  
Jane Goetschy, Manager, Public Assistance  
Susan Kangas, Director, Financial Services  
Local Office Directors  
Larry Matecki Fields, Manager, Revenue and Federal Reporting  
Margo Yaklin, Director, Accounting Division

---

**Finding Number:** 4311108  
**Finding Title:** Child Welfare Services - State Grants, *CFDA* 93.645

**Management Views:** DHS agrees in part with the finding.

DHS and the contractor are serving a vulnerable population (e.g., foster care children), and DHS believes that 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.

**Planned Corrective Action:** DHS will evaluate its contracting process to identify unnecessary processes which may slow the contract processing time and evaluate controls needed to ensure that a written contract is executed prior to any payment to a contractor.

**Anticipated Completion Date:** October 1, 2011

**Responsible Individuals:** Deb Buchanan, Acting Manager, Logistics and Rate Setting  
John Evans, Director, Child Welfare Funding, Contracting and Juvenile Programs  
Dudley Spade, Deputy Director, Strategic Services  
Suzanne Stiles Burke, Director, Bureau of Child Welfare  
Steve Yager, Acting Deputy Director, Children's Services

---

**Finding Number:** 4311109  
**Finding Title:** Foster Care - Title IV-E and ARRA - Foster Care - Title IV-E, *CFDA* 93.658

**Management Views:**

DHS agrees with parts a. and f.(2) of the finding.

Regarding f.(2), this incident was isolated for the audit period because the database query contained an error. The audit report has been obtained and reviewed.

DHS agrees in part with parts b.(1), b.(2), c., e.(1), e.(2), and f.(1) of the finding.

Regarding part b.(1), DHS followed up on the cited cases and found that for two cases the determination of care did not require a DHS monitor approval because the foster homes were licensed through the local DHS office and, as a result, are direct service cases.

Regarding part b.(2), DHS agrees that it did not amend the cost allocation plan or submit it to DCA. However, it believes that the methodologies used during the audit period represent a fair allocation of expenses to the benefitting programs.

- a. DHS did move the first-line supervisors and managers to a different cost pool, but that cost pool was part of the approved cost allocation plan.
- b. DHS believes that the methodology represents a fair allocation of Bridges operating and maintenance expenses to the benefitting programs.
- c. The new procedure and old procedure are random moment sampling methodologies which are acceptable methods of allocating expenditures.

Regarding part c., DHS agrees it was unable to provide documentation at the time of the audit. DHS followed up on the cases cited in the finding and noted that documentation supported the case decision for parts (1) through (4). DHS agrees with part (5).

DHS agrees that in some cases it was unable to provide documentation to support client or provider eligibility for the audit. Missing case or provider documentation does not mean the documentation was not collected and reviewed at the time of eligibility determination or that an improper payment was made. DHS has other processes which aid its staff with validating or updating information for a client or provider. For example, DHS conducts data matches to identify invalid social security numbers, identify unreported client/household income, and verify citizenship or alien status and conducts monthly criminal matches and daily matches with the Central Registry. These additional processes help minimize the risk of someone inappropriately receiving benefits.

Regarding e.(1), there was a written contract; however, the incorrect contract number was identified for the review.

DHS and the contractor are serving a vulnerable population (e.g., foster care children) and DHS believes that 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 e.(2), DHS found that the contract numbers in SWSS-FAJ may not reflect a current contract number. DHS reviewed the contractors identified in

the finding and found that there was an executed contract for each of the contractors during the audit period.

Regarding f.(1), paper documentation was retained in the Wayne County juvenile justice files. Current Wayne County juvenile justice cases eligibility documentation is retained in SWSS-FAJ.

DHS disagrees with part d.(1) of the finding. DHS disagrees with the interpretation that the county contribution in this contract is "in-kind." 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."

DHS has mirrored other states with regard to Title IV-E funding for these contracts and has long-standing approval from the HHS Administration for Children and Families 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. Michigan initiated the contracts after protracted discussions with HHS Administration for Children and Families Region V and was instructed that contracts for legal services at the county level must follow the federal rules for interagency cooperative agreements. They were based on the federal Title IV-D child support regulations because there is a similar need for contracted legal services for the child support program. The child support regulations *CFR* 303.107, *CFR* 304.21, and

*CFR* 304.20 are the basis for developing Title IV-E legal services; the same principles apply to child welfare.

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 disagrees with part d.(2) of the finding. The terms of the Title IV-E contract specify the reimbursement amount to Wayne County, who is a subrecipient of DHS. To date, 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 Fund, 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 (FMAP) established for each fiscal year. Title IV-E imposes no restrictions on what the State of Michigan does with the resultant federal reimbursement of allowable costs.

The OAG's interpretation that federal regulations do not allow claiming Title IV-E funds for allowable costs incurred by Wayne County under legal contract with DHS would, perforce, mean that the State of Ohio, which is a county administered and state supervised child welfare system, would be ineligible for 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, including Maryland, where the state supervises and administers the child welfare program for all its counties except Montgomery County, which is supervised by the state agency but administers the Title IV-E program under agreement with the state.

**Planned Corrective Action:**

Regarding part a., DHS will evaluate the process by which maintenance charges are segregated from the treatment costs and make necessary changes to ensure the correct rates are applied.

Regarding part b.(1), DHS has drafted policy revisions for determination of care supplements which will lead to greater consistency in application, payment authorization, and the approval process.

Regarding part b.(2), DHS will submit cost allocation plan amendments to DCA.

Regarding part c., Field Services-Central Office will take actions to ensure that each local office establishes a procedure to ensure that requested documentation is provided in response to an audit or program review request. In addition, each local office will be responsible for ensuring that required documents are in the case file as part of the case-read process.

Regarding part e.(1), DHS will evaluate its contracting process to identify unnecessary processes which may slow the contract processing time and evaluate controls needed to ensure that a written contract is executed prior to any payment to a contractor.

Regarding part e.(2), DHS will evaluate the system error to determine which actions to take to correct the deficiency.

Regarding part f.(1), no corrective action is needed because DHS no longer contracts with Wayne County for juvenile justice children.

Regarding f.(2), this incident was isolated for the audit period because the database query contained an error. The audit report has been obtained and reviewed.

**Anticipated Completion Date:** January 1, 2012

**Responsible Individuals:** Terry Beurer, Acting Deputy Director, Field Services  
Deb Buchanan, Acting Manager, Logistics and Rate Setting  
John Evans, Director, Child Welfare Funding, Contracting and Juvenile Programs  
Laurie Johnson, Director, SACWIS Office  
Susan Kangas, Deputy Director, Financial Services  
Josh Larsen, Director, Office of Monitoring and Internal Control  
Local Office Directors  
Larry Matecki Fields, Manager, Revenue and Federal Reporting  
Mary Mehren, Director, Federal Compliance Division  
Dudley Spade, Deputy Director, Strategic Services  
Suzanne Stiles Burke, Director, Bureau of Child Welfare  
Steve Yager, Acting Deputy Director, Children's Service  
Margo Yaklin, Director, Accounting Division

---

**Finding Number:** 4311110  
**Finding Title:** Adoption Assistance and ARRA - Adoption Assistance, CFDA 93.659

**Management Views:** DHS agrees with part b. of the finding.

Regarding part b., the Adoption Subsidy Program was audited for Title IV-E compliance by the federal funding source in 2009. DHS was informed that there was a 3% error rate which is well below the 11.8% error rate cited in the finding. DHS was informed that the funding source has not issued a report because the error rate was below 6%. The cases determined to be Title IV-E eligible prior to July 2009 will decrease over time as a result of case closures.

DHS agrees in part with parts a., c.(1), and c.(2) of the finding.

Regarding part a., DHS agrees that it did not amend the cost allocation plan or submit it to DCA. However, it believes that the methodologies used during the audit period represent a fair allocation of expenses to the benefitting programs.

- a. DHS did move the first-line supervisors and managers a different cost pool but that cost pool was part of the approved cost allocation plan.
- b. DHS believes that the methodology represents a fair allocation of Bridges operating and maintenance expenses to the benefitting programs.

- c. The new procedure and old procedure are random sampling methodologies which are acceptable methods of allocating expenditures.

Regarding parts c.(1) and c.(2), DHS and the contractor are serving a vulnerable population (e.g., foster care children), and DHS believes that 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.

**Planned Corrective Action:** Regarding part a., DHS will submit cost allocation plan amendments to DCA.

Regarding parts c.(1) and c.(2), DHS will evaluate its contracting process to identify unnecessary processes which may slow the contract processing time and evaluate controls needed to ensure that a written contract is executed prior to any payment to a contractor.

**Anticipated Completion Date:** October 1, 2011

**Responsible Individuals:** Deb Buchanan, Acting Manager, Logistics and Rate Setting  
John Evans, Director, Child Welfare Funding, Contracting and Juvenile Programs  
Karen Iverson, Adoption Subsidy Manager  
Susan Kangas, Deputy Director, Financial Services  
Larry Matecki Fields, Manager, Revenue and Federal Reporting  
Dudley Spade, Deputy Director, Strategic Services  
Suzanne Stiles Burke, Director, Child Welfare Bureau  
Steve Yager, Acting Deputy Director, Children's Services  
Margo Yaklin, Director, Accounting Division

**Finding Number:** 4311111  
**Finding Title:** Social Services Block Grant, *CFDA* 93.667

**Management Views:** DHS agrees in part with the finding.

Regarding part a.(1), DHS disagrees that it could not document how the vendor determined allocated costs to the programs. DHS requires the vendors to submit a two-page supplemental report with its monthly statement of expenditures (DHS-3469). Page 1 of the supplemental report summarizes the units of service by program and activity. The vendors retain detailed personnel activity sheets which show the client(s) for which services are provided to; the activity provided to the client (intake application assistance, completion of the DHS client application, assistance/translation with DHS interviews, etc.); and the units of service provided. Page 1 of the supplemental report calculates the percentage of each programs' units of service to the total units of service. These percentages are then applied to the monthly expenditures on page 2 of the supplemental report so the costs are allocated to the benefitting programs. The total amount of monthly expenditures on page 2 of the supplemental report agrees with the amount on the statement of expenditures. DHS relied on this information to reimburse the vendor and to make claims to the federal funding sources. DHS does acknowledge that the units of service shown on the supplemental reports did not always agree with the units of service reported on the statement of expenditures.

Regarding parts a.(2) and b., DHS agrees that in some cases it was unable to provide documentation to support client or provider eligibility for the audit.

Missing case or provider documentation does not mean the documentation was not collected and reviewed at the time of eligibility determination or that an improper payment was made. DHS has other processes which aid its staff with validating or updating information for a client or provider. For example, DHS conducts data matches to identify invalid social security numbers, identify unreported client/household income, and verify citizenship or alien status and conducts monthly criminal matches and daily matches with the Central Registry. These additional processes help minimize the risk of someone inappropriately receiving benefits.

**Planned Corrective Action:**

Regarding part a.(1), DHS is working with the vendors to determine if corrections to its reports will impact previously reported federal claims that will necessitate revisions to 2009 and 2010 federal reports.

Regarding parts a.(2) and b., Field Services-Central Office will take actions to ensure that each local office establishes a procedure to ensure requested documentation is provided in response to an audit or program review request. In addition, each local office will be responsible for ensuring that required documents are in the case file as part of the case-read process. Any documents or files that are missing will require actions to be taken to ensure that the case record is complete or appropriate actions are taken with the case. Case-read results will be provided to Field Services-Central Office which, at a minimum, identifies the number of cases read, missing documentation, and other case file deficiencies. The results will be analyzed to determine trends so resources can be allocated to the areas which are problematic.

DHS will evaluate the effectiveness of making improvements to the case packeting guidance so workers know what documentation needs to be where in the case record and how long it must be retained. DHS is also evaluating a quarterly case file reconciliation process. The case file reconciliation process will entail each worker evaluating what case records he or she has. If a worker has a case record that is not his or her case, the record is to be returned to the assigned worker. If a worker is missing a case record, he or she must locate it. Management will be required to ensure the case reconciliations are completed on the scheduled date and perform tasks to ensure case records are located.

There will continue to be risks that documents are not placed in the case file or are separated from the case record and with the transfer of paper case files from one office to another as a client moves.

**Anticipated Completion Date:** January 1, 2012

**Responsible Individuals:** Terry Beurer, Acting Deputy Director, Field Services  
Jane Goetschy, Manager, Public Assistance  
Susan Kangas, Deputy Director, Financial Services  
Local Office Directors  
Larry Matecki Fields, Manager, Revenue and Federal Reporting  
Margo Yaklin, Director, Accounting Division

---

**Finding Number:** 4311112  
**Finding Title:** Chafee Foster Care Independence Program, CFDA 93.674

**Management Views:**

DHS agrees with part d. of the finding.

DHS agrees in part with parts a., b., c., and e. of the finding.

Regarding part a., DHS maintains that policy was followed; however, the expenditures should have been documented better in the youth's service plans. DHS followed up with the cited transactions and found (1) the car purchase was made on behalf of a youth as the primary means of transportation to support independent living goals and (2) the school trip was school/education related. DHS is revising its policy for vehicle purchases for the Youth In Transition (YIT) Program. The policy will include purchase maximum amounts, prior approval from the program office, and standard requirements the youth must meet.

Regarding part b., DHS agrees that in some cases it was unable to provide documentation to support eligibility for the audit. Missing documentation does not mean the documentation was not collected and reviewed at the time of eligibility determination or that an improper payment was made.

Regarding part c., DHS disagrees with the questioned cost amount. The audit citation makes reference to eligibility documentation for one youth; however, the entire billing amount from the provider for all youth was questioned.

DHS agrees that in some cases it was unable to provide documentation to support eligibility for the audit. Missing documentation does not mean that the documentation was not collected and reviewed at the time of eligibility determination or that an improper payment was made.

Regarding part e., DHS found that the contract numbers in SWSS may not reflect a current contract number. DHS reviewed the contractors identified in the finding and found there was an executed contract for each of the contractors during the audit period.

**Planned Corrective Action:**

Regarding part a., DHS is revising its policy for vehicle purchases for the YIT Program. The policy will include purchase maximum amounts, prior approval from the program office, and standard requirements the youth must meet.

Regarding, parts b. and c., enhancements were made to SWSS-FAJ in March 2011 which allows the worker to complete the Youth Service Profile Report (DHS-4713) and the YIT Eligibility Checklist (DHS-722) in the application so the information is in the case record.

Field Services-Central Office will take actions to ensure each local office establishes a procedure to ensure requested documentation is provided in response to an audit or program review request.

Field Services-Central Office will take actions to ensure each local office establishes a procedure to ensure requested documentation is provided in response to an audit or program review request.

Regarding part d., enhancements were made to SWSS-FAJ in March 2011 which allows the worker to complete the Youth Service Profile Report (DHS-4713) in the application. This allows the program office to monitor local office YIT Program spending as it relates to the percentage maximums.

Regarding part e., DHS will evaluate the system error to determine which actions to take to correct the deficiency.

**Anticipated Completion Date:** January 1, 2012

**Responsible Individuals:** Terry Beurer, Acting Deputy Director, Field Services  
Mary Chaliman, Manager, Medical, Education, and Youth Services  
Local Office Directors  
Suzanne Stiles Burke, Director, Bureau of Child Welfare  
Steve Yager, Acting Deputy Director, Children's Services

---

**Finding Number:** 4311113

**Finding Title:** Medicaid Cluster, Including ARRA - Medical Assistance Program, *CFDA 93.778*

**Management Views:** DHS agrees with part b.(2) of the finding.

DHS agrees in part with parts a.(1), and a.(2) of the finding.

Regarding part a.(1), DHS disagrees that it could not document how the vendor determined allocated costs to the programs. DHS requires the vendors to submit a two-page supplemental report with its monthly statement of expenditures (DHS-3469). Page 1 of the supplemental report summarizes the units of service by program and activity. The vendors retain detailed personnel activity sheets which show the client(s) for which services are provided to; the activity provided to the client (intake application assistance, completion of the DHS client application, assistance/translation with DHS interviews, etc.); and the units of service

provided. Page 1 of the supplemental report calculates the percentage of each programs' units of service to the total units of service. These percentages are then applied to the monthly expenditures on page 2 of the supplemental report so the costs are allocated to the benefitting programs. The total amount of monthly expenditures on page 2 of the supplemental report agrees with the amount on the statement of expenditures. DHS relied on this information to reimburse the vendor and to make claims to the federal funding sources. DHS does acknowledge that the units of service shown on the supplemental reports did not always agree with the units of service reported on the statement of expenditures.

Regarding part a.(2), DHS agrees that it did not amend the cost allocation plan or submit it to DCA. However, it believes that the methodologies used during the audit period represent a fair allocation of expenses to the benefitting programs.

- a. DHS did move the first-line supervisors and managers to a different cost pool but that cost pool was part of the approved cost allocation plan.
- b. DHS believes that the methodology represents a fair allocation of Bridges operating and maintenance expenses to the benefitting programs.
- c. The new procedure and old procedure are random moment sampling methodologies which are acceptable methods of allocating expenditures.

DHS disagrees with part b.(1) of the finding.

Federal regulation 42 *CFR* 431.865, Disallowance of Federal financial participation for erroneous State payments (for annual assessment periods ending after July 1, 1990), p.58, states "the *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 the DHS, Office of Quality Assurance'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 & Medicaid Services (CMS), have consistently been based on this interpretation of the federal regulation. This interpretation has never been questioned or challenged by CMS. Therefore, DCH and DHS's Office of Quality Assurance (OQA), conclude that the reports were done properly with the correct use of the *eligibility payment error* finding (the ICES) and that their 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 eligibility specialist. 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), DHS is working with the vendors to determine if corrections to its reports will impact previously reported federal claims that will necessitate revisions to 2009 and 2010 federal reports.

Regarding part a.(2), DHS will submit cost allocation plan amendments to DCA.

Regarding part b.(1), a corrective action plan will be developed, if necessary, after clarification is received from CMS.

Regarding part b.(2), no corrective action is necessary. DHS now complies with the six-month sampling periods.

**Anticipated Completion Date:**

October 1, 2011

Corrective action has been implemented for part b.(2).

**Responsible Individuals:**

Barbara Anders, Director, Quality and Adult Services

Terry Beurer, Acting Deputy Director, Field Services

Julie Horn Alexander, Director, Office of Quality Assurance

Susan Kangas, Deputy Director, Financial Services

Local Office Directors (Macomb, Oakland, and Wayne Counties)

Larry Matecki Fields, Manager, Revenue and Federal Reporting

Margo Yaklin, Director, Accounting Division

---

# GLOSSARY

## Glossary of Acronyms and Terms

ACF-196	TANF Financial 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.
American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
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.
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
CCDF	Child Care and Development Fund.
CCI	child care institution.
CFCIP	Chafee Foster Care Independence Program.

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.
CMS	Centers for Medicare and Medicaid Services.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
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.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
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 and correct, misstatements on a timely basis.

DHS	Department of Human Services.
DHS-1171	assistance application.
DHS-4713	service youth profile report.
DTMB	Department of Technology, Management & 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.
FCES	final case eligibility status.
FFP	federal financial participation.
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.
FNS	Food and Nutrition Service.
FNS-209	quarterly status of claims against households report.

generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
GH-280	recoupment activity report.
GH-290	recoupment activity summary report.
GH-490	quarterly report of status of claims against households report.
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
HHC	home heating credit.
HHS	U.S. Department of Health and Human Services.
ICES	initial case eligibility status.
IEVS	Income Eligibility and 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.
LIHEAP	Low-Income Home Energy Assistance Program.

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 deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.
MDE	Michigan Department of Education.
MEQC	Medicaid Eligibility Quality Control.
MOE	maintenance of effort.
MPSC	Michigan Public Service Commission.

OAG	Office of the Auditor General.
OQA	Office of Quality Assurance.
ORR-6 report	REAP quarterly performance report.
other noncompliance	Violations of contracts or grant 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.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
PSSF	Promoting Safe and Stable Families.
qualified opinion	An auditor's opinion in which the auditor: <ul style="list-style-type: none"> <li>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</li> </ul>

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.

SEFA

schedule of expenditures of federal awards.

SER

State Emergency Relief.

significant deficiency  
in internal control over  
federal program  
compliance

A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
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.
SNAP	Supplemental Nutrition Assistance Program.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SSBG	Social Services Block Grant.
SSI	Supplemental Security Income.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
SWSS-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.

U.S. Office of  
Management and  
Budget (OMB)

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

W-4

Michigan Department of Treasury income tax withholding form.

Weatherization

Weatherization Assistance for Low-Income Persons.

YIT

Youth in Transition.







