



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

Single Audit Report

State of Michigan

Fiscal Year Ended September 30, 2011

Report Number:
000-0100-12

Released:
June 2013

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 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 statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Statements:

Auditor's Report Issued

We issued unqualified opinions on the financial statements on the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan.

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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. These findings are reported in the State of Michigan Comprehensive Annual Financial Report Management Letter (071-0010-12).

We did not report any findings related to the schedule of expenditures of federal awards.

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**Noncompliance and Other Matters
Material to the Financial Statements**

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

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 20 programs as major programs and reported known questioned costs of \$6.4 million. The transitional agencies expended a total of \$7.6 billion in federal awards during the fiscal year ended September 30, 2011. We issued 10 unqualified opinions, 7 qualified opinions, and 3 adverse opinions. The opinions issued by major program are identified on the following pages.

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Internal Control Over Major Programs

We identified material weaknesses in internal control over federal program compliance. We also identified significant deficiencies in internal control over federal program compliance. The findings are identified by major program on the following pages.

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The findings are identified by major program on the following pages.

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Identification of Major Programs, Type of Auditor's Report Issued on Compliance, Questioned Costs, and Audit Finding Numbers:

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
10.551 and 10.561	SNAP Cluster, including ARRA	Qualified	Undeterminable	<u>2011-001</u> <u>2011-002</u> <u>2011-005</u>
14.228 and 14.255	CDBG - State Administered CDBG Cluster, including ARRA	Qualified	\$0	<u>2011-006</u> <u>2011-007</u> <u>2011-008</u>
17.207, 17.801, and 17.804	Employment Service Cluster, including ARRA	Unqualified	\$0	Not Applicable
17.245	Trade Adjustment Assistance	Unqualified	\$0	Not Applicable
17.258, 17.259, 17.260, and 17.278	WIA Cluster, including ARRA	Unqualified	\$0	Not Applicable
20.106	Airport Improvement Program	Qualified	\$988,733	<u>2011-003</u> <u>2011-009</u> <u>2011-010</u> <u>2011-011</u>
20.205	Highway Planning and Construction Cluster, including ARRA	Qualified	\$0	<u>2011-003</u> <u>2011-012</u>
81.041	State Energy Program, including ARRA	Unqualified	\$0	<u>2011-013</u>
81.042	Weatherization Assistance for Low-Income Persons, including ARRA	Unqualified	\$0	Not Applicable
84.007, 84.032G, 84.032L, and 84.063	Student Financial Assistance Cluster	Unqualified	\$0	Not Applicable
84.126 and 84.390	Vocational Rehabilitation Cluster, including ARRA	Unqualified	\$0	Not Applicable
93.558 and 93.714	TANF Cluster, including ARRA	Adverse	\$5,064,502	<u>2011-001</u> <u>2011-002</u> <u>2011-004</u> <u>2011-014</u> <u>2011-015</u> <u>2011-016</u> <u>2011-017</u> <u>2011-018</u> <u>2011-019</u> <u>2011-020</u> <u>2011-021</u> <u>2011-022</u> <u>2011-023</u> <u>2011-024</u> <u>2011-025</u> <u>2011-026</u>

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
93.575, 93.596, and 93.713	CCDF Cluster, including ARRA	Adverse	\$3,085	<u>2011-001</u> <u>2011-002</u> <u>2011-027</u> <u>2011-028</u> <u>2011-029</u>
93.775, 93.777 and 93.778	Medicaid Cluster, including ARRA	Unqualified	\$0	Not Applicable
93.563	Child Support Enforcement	Unqualified	\$0	<u>2011-004</u> <u>2011-030</u>
93.568	Low-Income Home Energy Assistance	Qualified	\$3,764	<u>2011-001</u> <u>2011-002</u> <u>2011-031</u> <u>2011-032</u> <u>2011-033</u>
93.658	Foster Care - Title IV-E, including ARRA	Qualified	\$76,996	<u>2011-034</u> <u>2011-035</u> <u>2011-036</u> <u>2011-037</u>
93.659	Adoption Assistance, including ARRA	Qualified	Undeterminable	<u>2011-038</u>
93.667	Social Services Block Grant	Unqualified	(\$99,086)	<u>2011-036</u> <u>2011-039</u> <u>2011-040</u>
93.674	Chafee Foster Care Independence Program	Adverse	\$340,476	<u>2011-004</u> <u>2011-041</u> <u>2011-042</u> <u>2011-043</u> <u>2011-044</u> <u>2011-045</u> <u>2011-046</u> <u>2011-047</u>

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



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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



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

June 27, 2013

John E. Nixon, C.P.A., State Budget Director
State Budget Office
Department of Technology, Management, and Budget
George W. Romney Building
Lansing, Michigan

Dear Mr. Nixon:

This is our single audit report for the State of Michigan for the fiscal year ended September 30, 2011. The departments and agencies included in the scope of this audit (transitional agencies) were not audited under the biennial departmental approach for the period October 1, 2010 through September 30, 2011. The transitional agencies include the Departments of Human Services, Transportation, Licensing and Regulatory Affairs, Attorney General, State, Agriculture and Rural Development, Civil Rights, Treasury, and Technology, Management, and Budget; the Judiciary; the Michigan Finance Authority; the Michigan Strategic Fund; the Michigan Economic Development Corporation; and the Land Bank Fast Track Authority.

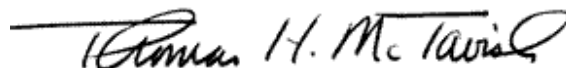
This audit did not include the operations of the Departments of Community Health, Corrections, Education, Environmental Quality, Military and Veterans Affairs, Natural Resources, and State Police; the Michigan State Housing Development Authority; the Unemployment Insurance Agency - Unemployment Compensation Fund; the Unemployment Insurance Agency - Administration Fund; and the Michigan Early Childhood Investment Corporation because these departments and agencies obtained separate audits under the biennial departmental approach for the period October 1, 2009 through September 30, 2011. This audit also did not include Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University because these universities engaged other auditors to perform audits in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 for the period October 1, 2010 through September 30, 2011.

This report contains our report summary, a description of the transition to an annual Statewide single audit, and our independent auditor's report on the State of Michigan Comprehensive Annual Financial Report for the fiscal year ended September 30, 2011. This report also contains the schedule of expenditures of federal awards; 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 OMB Circular A-133; and our schedule of findings and questioned costs, including the corrective action plan. In addition, this report contains the transitional agencies' summary schedule of prior audit findings 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 management views and corrective action plan follow each finding. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a plan to comply with 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 agencies to take additional steps to finalize the plan.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. McTavish", with a horizontal line extending to the left.

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

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Transition to an Annual Statewide Single Audit

Prior to fiscal year 2011-12, Section 18.1461 of the *Michigan Compiled Laws* required that the Office of the Auditor General (OAG) conduct single audits on a biennial departmental basis. Under this approach, the OAG was required to audit agencies every other year and to include an audit of departmental financial statements within the scope of the single audits. The OAG staggered the audits over the two-year periods by auditing approximately one half of the departments each year. Effective June 29, 2012, Section 18.1461 of the *Michigan Compiled Laws* was amended to require an annual Statewide single audit rather than biennial departmental single audits. As a result of this amendment, there were changes to the audit approach and methods of reporting. The most significant changes included:

- Some departments and agencies were due for a biennial audit covering both fiscal years 2010-11 and 2011-12 at the time of transition (transitional agencies). To ensure federal program audit coverage for these transitional agencies, we audited fiscal year 2010-11 as one Statewide single audit and then included the transitional agencies' fiscal year 2011-12 activity in the full Statewide single audit for fiscal year 2011-12. The transitional agencies that were due for a biennial audit included the Departments of Human Services, Transportation, Licensing and Regulatory Affairs, Attorney General, State, Agriculture and Rural Development, Civil Rights, Treasury, and Technology, Management, and Budget; the Judiciary; the Michigan Finance Authority; the Michigan Strategic Fund; the Michigan Economic Development Corporation; and the Land Bank Fast Track Authority.
- The *State of Michigan Comprehensive Annual Financial Report* is now considered the financial statement audit for the Statewide single audit rather than the departmental financial statements and schedules reported under the biennial departmental approach. A management letter was issued on May 11, 2012 reporting significant deficiencies in internal control over financial reporting.
- The threshold for identifying major programs Statewide is higher than when calculated based on individual department and agency federal program expenditures. Under the biennial departmental single audit approach, 24 State agencies were required to obtain a single audit in fiscal years 2009-10 and

2010-11. There were 69 major federal programs audited in fiscal year 2009-10 and 64 audited in fiscal year 2010-11 for an average of 66.5 major federal programs audited each year of the two-year period. The audits of these major federal programs covered \$23.7 billion (98%) of the State's \$24.1 billion in expenditures of federal awards. Under the annual Statewide single audit approach for the transitional agencies, there were 20 major programs requiring audit coverage for fiscal year 2010-11. The audit of these programs covered \$7.2 billion (95%) of the transitional agencies' \$7.6 billion in expenditures of federal awards.

- U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires that the auditor follow up all prior audit findings. Therefore, the OAG followed up the status of audit findings reported in each of the transitional agencies' prior biennial audits. The current status of these prior audit findings is reported in the summary schedule of prior audit findings. If the department or agency had not complied with the prior audit finding, and the OAG identified known questioned costs greater than \$10,000 or the department or agency materially misrepresented the status of the prior audit finding in the summary schedule of prior audit findings, the finding is also reported in the schedule of findings and questioned costs.
- At the request of the State's cognizant agency, the OAG changed the structure of the findings and recommendations from reporting one finding for each major program to reporting separate findings for each issue noted for a major program. While this new structure results in a higher number of findings, it is still comparable in relation to issues reported from prior audits of these programs.

INDEPENDENT AUDITOR'S REPORT



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

Independent Auditor's Report on the
State of Michigan Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2011

The Honorable Rick Snyder, Governor
Members of the Legislature

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, principally as of and for the year ended September 30, 2011, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the State Lottery Fund, Michigan Unemployment Compensation Funds, Michigan Employment Security Act - Administration Fund, Attorney Discipline System, Michigan Education Savings Program, Michigan State Housing Development Authority, Mackinac Island State Park Commission, Mackinac Bridge Authority, State Building Authority - Debt Service Fund, State Building Authority - Capital Projects Fund, State Sponsored Group Insurance Fund, State Bar of Michigan, Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University. Those financial statements reflect total assets and revenues or additions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as follows:

Opinion Unit	Percent of Total Assets	Percent of Total Revenues/Additions
Governmental activities	1.5%	1.9%
Business-type activities	98.0%	89.4%
Aggregate discretely presented component units	47.3%	79.8%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate remaining fund information	4.8%	13.7%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units and funds, are based solely upon the reports of the other auditors.

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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the basic financial statements, the State adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in Notes 6 and 23 to the basic financial statements, the State of Michigan replaced its Single Business Tax with the Michigan Business Tax. The State could not fully estimate the amount of future collections and refunds related to the Michigan Business Tax because the necessary data was not available.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2012 on our consideration of the State'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 management's discussion and analysis, budgetary comparison schedules and corresponding notes, and information about infrastructure assets reported using the modified approach are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Michigan's basic financial statements. The combining and individual fund statements and schedules - non-major funds listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, statistical, and other information sections listed in the table of contents have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. McTavish", with a stylized flourish at the end.

Thomas H. McTavish, C.P.A.

Auditor General

March 9, 2012

SUPPLEMENTAL FINANCIAL SCHEDULE

SELECT STATE OF MICHIGAN DEPARTMENTS AND AGENCIES (TRANSITIONAL AGENCIES)
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2011

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
<u>U.S. Department of Agriculture</u>		
SNAP Cluster:		
Direct Programs:		
Supplemental Nutrition Assistance Program (Note 7)	10.551	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	
Total SNAP Cluster		
Child Nutrition Cluster:		
Pass-Through Programs:		
Michigan Department of Education		
School Breakfast Program	10.553	197 BREAKFAST
National School Lunch Program	10.555	USDA 195, SECT 4; USDA 196, SECT 11; USDA 198 SNACKS
Total Child Nutrition Cluster		
Direct Programs:		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	
Wetlands Reserve Program	10.072	
2009 Aquaculture Grant Program	10.103	
Market Protection and Promotion	10.163	
Specialty Crop Block Grant Program - Farm Bill	10.170	
Supplemental Nutrition Assistance Program, Outreach/Participation Program	10.580	
Forest Health Protection	10.680	
ARRA - Recovery Act of 2009: Wildland Fire Management	10.688	
Soil and Water Conservation	10.902	
Environmental Quality Incentives Program	10.912	
Wildlife Habitat Incentive Program	10.914	
Total Direct Programs		
Pass-Through Program:		
The Gypsy Moth Slow the Spread Foundation, Inc.		
Forest Health Protection	10.680	307110, 307111
Total Pass-Through Program		
Total U.S. Department of Agriculture		
<u>U.S. Department of Commerce</u>		
Direct Programs:		
Geodetic Surveys and Services (Geodesy and Applications of the National Geodetic Reference System)	11.400	
Total U.S. Department of Commerce		
<u>U.S. Department of Housing and Urban Development</u>		
CDBG - State-Administered CDBG Cluster:		
Direct Programs:		
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	
ARRA - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)	14.255	
Pass-Through Program:		
Michigan State Housing Development Authority		
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	NSP-2008-6027-SLB
Total CDBG - State-Administered Small Cities Program Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
\$ 3,127,617,560	\$	\$ 3,127,617,560
120,374,065	22,961,174	143,335,239
<u>\$ 3,247,991,625</u>	<u>\$ 22,961,174</u>	<u>\$ 3,270,952,799</u>

\$ 61,819	\$	\$ 61,819
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101,749		101,749
<u>\$ 163,568</u>	<u>\$ 0</u>	<u>\$ 163,568</u>

\$ 2,666,397	\$ 15,980	\$ 2,682,377
	21,668	21,668
	12,764	12,764
1,849,914		1,849,914
172,438	989,239	1,161,677
138,271	26,602	164,873
21,845		21,845
466,409		466,409
	75,036	75,036
	398,951	398,951
	487	487
<u>\$ 5,315,274</u>	<u>\$ 1,540,727</u>	<u>\$ 6,856,001</u>

\$ 16,556	\$	\$ 16,556
<u>\$ 16,556</u>	<u>\$ 0</u>	<u>\$ 16,556</u>

\$ 3,253,487,023	\$ 24,501,901	\$ 3,277,988,924
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\$ 13,000	\$	\$ 13,000
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\$ 13,000	\$ 0	\$ 13,000
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\$ 957,740	\$ 55,285,722	\$ 56,243,462
6,043	6,964,748	6,970,791

2,775,669		2,775,669
<u>\$ 3,739,452</u>	<u>\$ 62,250,470</u>	<u>\$ 65,989,922</u>

SELECT STATE OF MICHIGAN DEPARTMENTS AND AGENCIES (TRANSITIONAL AGENCIES)

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2011

Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA *</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification Number</u>
Direct Programs:		
Supportive Housing Program	14.235	
Fair Housing Assistance Program - State and Local	14.401	
Total Direct Programs		
Pass-Through Program:		
Michigan State Housing Development Authority		
ARRA - Neighborhood Stabilization Program (Recovery Act)	14.256	NS2-2009-6027
Total Pass-Through Program		
Total U.S. Department of Housing and Urban Development		
<u>U.S. Department of Justice</u>		
JAG Program Cluster:		
Pass-Through Programs:		
Michigan State Police		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	201172384, 201172157
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	20100694
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	20093969
Total JAG Program Cluster		
Direct Programs:		
Sexual Assault Services Formula Program	16.017	
Juvenile Accountability Block Grants	16.523	
Supervised Visitation, Safe Havens for Children	16.527	
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	
Title V-Delinquency Prevention Program	16.548	
Violence Against Women Formula Grants	16.588	
ARRA - Violence Against Women Formula Grants	16.588	
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	
Juvenile Mentoring Program	16.726	
Capital Case Litigation	16.746	
Edward Byrne Memorial Competitive Grant Program	16.751	
ARRA - Recovery Act Transitional Housing	16.805	
John R. Justice Prosecutors and Defenders Incentive Act	16.816	
Total Direct Programs		
Pass-Through Program:		
Michigan Department of State Police		
National Criminal History Improvement Program (NCHIP)	16.554	2009-MU-BX-K038
Total Pass-Through Program		
Total U.S. Department of Justice		
<u>U.S. Department of Labor</u>		
Employment Service Cluster		
Direct Programs:		
Employment Service/Wagner-Peyser Funded Activities	17.207	
ARRA - Employment Service/Wagner-Peyser Funded Activities	17.207	
Disabled Veterans' Outreach Program (DVOP)	17.801	
Local Veterans' Employment Representative Program	17.804	
Total Employment Services Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
\$ 842,708	\$ 1,196,286	\$ 2,038,994
795,700		795,700
<u>\$ 1,638,408</u>	<u>\$ 1,196,286</u>	<u>\$ 2,834,694</u>

\$ 3,440,335	\$	\$ 3,440,335
<u>\$ 3,440,335</u>	<u>\$ 0</u>	<u>\$ 3,440,335</u>

\$ 8,818,195	\$ 63,446,756	\$ 72,264,951
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\$ 154,584	\$ 1,588,195	\$ 1,742,779
37,949	427,993	465,942
121,955		121,955
<u>\$ 314,488</u>	<u>\$ 2,016,188</u>	<u>\$ 2,330,676</u>

\$	\$ 224,113	\$ 224,113
55,166	1,214,312	1,269,478
5,278	216,088	221,366
1,452,348	1,338,667	2,791,015
	89,956	89,956
586,302	3,047,180	3,633,482
1,002,722	911,202	1,913,924
23,205	436,106	459,311
421,766	46,015	467,781
36,107	115,053	151,160
73,883		73,883
72,449		72,449
38	868,444	868,482
279,316		279,316
<u>\$ 4,008,580</u>	<u>\$ 8,507,136</u>	<u>\$ 12,515,716</u>

\$ 25,650	\$	\$ 25,650
<u>\$ 25,650</u>	<u>\$ 0</u>	<u>\$ 25,650</u>

\$ 4,348,718	\$ 10,523,324	\$ 14,872,042
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\$ 6,506,090	\$ 16,371,875	\$ 22,877,965
75,437	5,114,572	5,190,009
2,487,523		2,487,523
2,913,894		2,913,894
<u>\$ 11,982,944</u>	<u>\$ 21,486,447</u>	<u>\$ 33,469,391</u>

SELECT STATE OF MICHIGAN DEPARTMENTS AND AGENCIES (TRANSITIONAL AGENCIES)

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended September 30, 2011

Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
WIA Cluster:		
Direct Programs:		
WIA Adult Program	17.258	
ARRA - WIA Adult Program	17.258	
WIA Youth Activities	17.259	
ARRA - WIA Youth Activities	17.259	
WIA Dislocated Workers	17.260	
ARRA - WIA Dislocated Workers	17.260	
WIA Dislocated Worker Formula Grants	17.278	
Total WIA Cluster		
Direct Programs:		
Labor Force Statistics	17.002	
Compensation and Working Conditions	17.005	
Unemployment Insurance	17.225	
Trade Adjustment Assistance	17.245	
National Farmworker Jobs Program	17.264	
Temporary Labor Certification for Foreign Workers	17.273	
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	
Workforce Investment Act (WIA) National Emergency Grants	17.277	
Occupational Safety and Health - State Program	17.503	
Consultation Agreements	17.504	
OSHA Data Initiative	17.505	
Total Direct Programs		
Pass-Through Program:		
Indiana Department of Workforce Development		
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	MINOH-9-814
Total Pass-Through Program		
Total U.S. Department of Labor		
<u>U.S. Department of Transportation</u>		
Highway Planning and Construction Cluster:		
Direct Programs:		
Highway Planning and Construction	20.205	
ARRA - Highway Planning and Construction	20.205	
Total Highway Planning and Construction Cluster		
Federal Transit Cluster:		
Direct Programs:		
Federal Transit - Capital Investment Grants	20.500	
ARRA - Federal Transit - Formula Grants	20.507	
Total Federal Transit Cluster		
Transit Services Programs Cluster:		
Direct Programs:		
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	
Job Access - Reverse Commute	20.516	
New Freedom Program	20.521	
Total Transit Services Programs Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
\$ 813,110	\$ 37,895,273	\$ 38,708,383
34,439	9,270,865	9,305,304
5,381,653	47,581,354	52,963,007
82,539	9,705,193	9,787,732
392,727	18,398,688	18,791,415
101,943	30,703,947	30,805,890
1,862,138	35,581,890	37,444,028
<u>\$ 8,668,549</u>	<u>\$ 189,137,210</u>	<u>\$ 197,805,759</u>
\$ 2,494,706	\$	\$ 2,494,706
219,497		219,497
1,930,183		1,930,183
1,589,285	67,839,813	69,429,098
56,210	380,573	436,783
95,937		95,937
245,464	1,583,333	1,828,797
8,193	117,796	125,989
10,291,600		10,291,600
1,641,000		1,641,000
76,498		76,498
<u>\$ 18,648,573</u>	<u>\$ 69,921,515</u>	<u>\$ 88,570,088</u>
\$ 276,335	\$ 356,408	\$ 632,743
<u>\$ 276,335</u>	<u>\$ 356,408</u>	<u>\$ 632,743</u>
\$ 39,576,401	\$ 280,901,580	\$ 320,477,981
\$ 1,071,148,776	\$ 47,756,039	\$ 1,118,904,815
152,079,087	10,080,901	162,159,988
<u>\$ 1,223,227,863</u>	<u>\$ 57,836,940</u>	<u>\$ 1,281,064,803</u>
\$	\$ 5,154,000	\$ 5,154,000
	299,000	299,000
<u>\$ 0</u>	<u>\$ 5,453,000</u>	<u>\$ 5,453,000</u>
\$	\$ 4,410,000	\$ 4,410,000
	1,944,000	1,944,000
	1,060,000	1,060,000
<u>\$ 0</u>	<u>\$ 7,414,000</u>	<u>\$ 7,414,000</u>

SELECT STATE OF MICHIGAN DEPARTMENTS AND AGENCIES (TRANSITIONAL AGENCIES)

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended September 30, 2011

Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA *</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification Number</u>
Highway Safety Cluster:		
Pass-Through Programs:		
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL-11-37; AL-11-38; AL-11-42
Incentive Grant Program to Increase Motorcyclist Safety	20.612	MC-11-01
Total Highway Safety Cluster		
Direct Programs:		
Airport Improvement Program (Note 9)	20.106	
Highway Training and Education	20.215	
Commercial Driver's License Program Improvement Grant	20.232	
Commercial Drivers License Information System (CDLIS) Modernization Grant	20.238	
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	20.319	
Metropolitan Transportation Planning	20.505	
Formula Grants for Other Than Urbanized Areas	20.509	
ARRA - Formula Grants for Other Than Urbanized Areas	20.509	
State Planning and Research	20.515	
Paul S. Sarbanes Transit in the Parks	20.520	
ARRA - Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523	
Pipeline Safety Program Base Grants	20.700	
State Damage Prevention Program Grants	20.720	
PHMSA Pipeline Safety Program One Call Grant	20.721	
ARRA - Surface Transportation - Discretionary Grants for Capital Investments	20.932	
Total Direct Programs		
Pass-Through Program:		
Michigan Department of State Police		
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HM-HMP-0189-10-01-00
Total Pass-Through Program		
Total U.S. Department of Transportation		
<u>Equal Employment Opportunity Commission</u>		
Direct Program:		
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	
Total Direct Program		
Total Equal Employment Opportunity Commission		
<u>General Services Administration</u>		
Direct Program:		
Donation of Federal Surplus Personal Property (Note 10)	39.003	
Total Direct Program		
Total General Services Administration		
<u>National Endowment for the Arts</u>		
Direct Program:		
Promotion of the Arts - Partnership Agreements	45.025	
Total Direct Program		
Total National Endowment for the Arts		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
\$ 54,216	\$ 520,654	\$ 574,870
	122,729	122,729
<u>\$ 54,216</u>	<u>\$ 643,383</u>	<u>\$ 697,599</u>

\$ 30,824,000	\$	\$ 30,824,000
709,152		709,152
1,193,388		1,193,388
14,034		14,034
	87,000	87,000
	736,000	736,000
	2,963,000	2,963,000
1,779,000	17,879,000	19,658,000
2,356,000	5,903,000	8,259,000
11,000	570,000	581,000
	3,000	3,000
	121,000	121,000
368,344		368,344
	137,620	137,620
	8,114	8,114
13,258,903		13,258,903
<u>\$ 50,513,821</u>	<u>\$ 28,407,734</u>	<u>\$ 78,921,555</u>

\$ 31,388	\$	\$ 31,388
<u>\$ 31,388</u>	<u>\$ 0</u>	<u>\$ 31,388</u>
\$ 1,273,827,288	\$ 99,755,057	\$ 1,373,582,345

\$ 901,900	\$	\$ 901,900
<u>\$ 901,900</u>	<u>\$ 0</u>	<u>\$ 901,900</u>
\$ 901,900	\$ 0	\$ 901,900

\$	\$ 147,000	\$ 147,000
<u>\$ 0</u>	<u>\$ 147,000</u>	<u>\$ 147,000</u>
\$ 0	\$ 147,000	\$ 147,000

\$ 20,000	\$ 999,745	\$ 1,019,745
<u>\$ 20,000</u>	<u>\$ 999,745</u>	<u>\$ 1,019,745</u>
\$ 20,000	\$ 999,745	\$ 1,019,745

SELECT STATE OF MICHIGAN DEPARTMENTS AND AGENCIES (TRANSITIONAL AGENCIES)

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended September 30, 2011

Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
<u>U.S. Department of Veterans Affairs</u>		
Direct Program:		
Veterans Information and Assistance	64.115	
Total Direct Program		
Total U.S. Department of Veterans Affairs		
<u>U.S. Environmental Protection Agency</u>		
Direct Programs:		
Great Lakes Program	66.469	
Performance Partnership Grants	66.605	
Pollution Prevention Grants Program	66.708	
Total Direct Programs		
Total U.S. Environmental Protection Agency		
<u>U.S. Department of Energy</u>		
Direct Programs:		
National Energy Information Center	81.039	
State Energy Program	81.041	
ARRA - State Energy Program	81.041	
Weatherization Assistance for Low-Income Persons	81.042	
ARRA - Weatherization Assistance for Low-Income Persons	81.042	
Regional Biomass Energy Programs	81.079	
Renewable Energy Research and Development	81.087	
State Energy Program Special Projects	81.119	
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	
ARRA - Energy Efficient Appliance Rebate Program (EEARP)	81.127	
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	
Total Direct Programs		
Pass-Through Program:		
Michigan Department of Corrections		
ARRA - State Energy Program	81.041	
Total Pass-Through Program		
Total U.S. Department of Energy		
<u>U.S. Department of Education</u>		
Independent Living State Grants Cluster		
Direct Programs:		
Independent Living - State Grants	84.169	
ARRA - Independent Living State Grants, Recovery Act	84.398	
Total Independent Living State Grants Cluster		
Independent Living Services for Older Individuals Who Are Blind Cluster		
Direct Programs:		
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177	
ARRA - Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399	
Total Independent Living Services for Older Individuals Who Are Blind Cluster		
Early Intervention Services (IDEA) Cluster:		
Pass-Through Program:		
Michigan Department of Education		
Special Education - Grants for Infants and Families	84.181	111330/IACDHS
Total Early Intervention Services (IDEA) Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
\$ 301,101	\$	\$ 301,101
\$ 301,101	\$ 0	\$ 301,101
\$ 301,101	\$ 0	\$ 301,101

\$ 210,094	\$	\$ 210,094
556,000		556,000
5,204		5,204
\$ 771,298	\$ 0	\$ 771,298
\$ 771,298	\$ 0	\$ 771,298

\$ 5,282	\$	\$ 5,282
557,178	257,422	814,600
1,414,013	18,319,937	19,733,950
384,261	14,342,850	14,727,111
694,668	94,410,911	95,105,579
	544,413	544,413
25,000	461,572	486,572
	266,225	266,225
547,386	256,754	804,140
19,383	1,654,553	1,673,936
713,606	21,217,437	21,931,043
\$ 4,360,777	\$ 151,732,074	\$ 156,092,851

\$ 10,893,000	\$ 2,676,000	\$ 13,569,000
\$ 10,893,000	\$ 2,676,000	\$ 13,569,000
\$ 15,253,777	\$ 154,408,074	\$ 169,661,851

\$ 10,177	\$ 365,438	\$ 375,615
149,717		149,717
\$ 159,894	\$ 365,438	\$ 525,332

\$ 612,996	\$ 301,836	\$ 914,832
824,231		824,231
\$ 1,437,227	\$ 301,836	\$ 1,739,063

\$ 73,150	\$	\$ 73,150
\$ 73,150	\$ 0	\$ 73,150

SELECT STATE OF MICHIGAN DEPARTMENTS AND AGENCIES (TRANSITIONAL AGENCIES)

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended September 30, 2011

Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA * Number</u>	<u>Pass-Through Identification Number</u>
Special Education Cluster (IDEA):		
Pass-Through Program:		
Michigan Department of Education		
Special Education - Grants to States	84.027	100450/0910; 110450/1011; 110480/EOSD
 Wayne County Regional Education Service Agency		
Special Education - Grants to States	84.027	Wayne County Part H
Total Special Education Cluster (IDEA)		
State Fiscal Stabilization Fund Cluster:		
Pass-Through Program:		
Michigan Department of State Police		
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	551
Total State Fiscal Stabilization Fund Cluster		
Student Financial Assistance Cluster (Note 11):		
Direct Programs:		
Federal Supplemental Educational Opportunity Grants	84.007	
Federal Family Education Loans - Guaranty Agency (Note 12)	84.032G	
Federal Family Education Loans - Lender (Note 13)	84.032L	
Federal Pell Grant Program	84.063	
Total Student Financial Assistance Programs Cluster		
Vocational Rehabilitation Cluster:		
Direct Programs:		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	
ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	84.390	
Total Vocational Rehabilitation Cluster		
Direct Programs:		
Adult Education - Basic Grants to States	84.002	
Byrd Honors Scholarships	84.185A	
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	
Assistive Technology	84.224	
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	
Credit Enhancement for Charter School Facilities	84.354	
Improving Teacher Quality State Grants	84.367	
College Access Challenge Grant Program	84.378A	
Total Direct Programs		
Pass-Through Program:		
Michigan Department of Education		
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	1001590/1011
Career and Technical Education - Basic Grants to States	84.048	113320
Career and Technical Education - Basic Grants to States	84.048	V048A-MDOE
Total Pass-Through Program		
Total U.S. Department of Education		
<u>U.S. Election Assistance Commission</u>		
Direct Program:		
Help America Vote Act Requirements Payments	90.401	
Total Direct Program		
Total U.S. Election Assistance Commission		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
\$ 126,837	\$	\$ 126,837
1,230		1,230
<u>\$ 128,067</u>	<u>\$ 0</u>	<u>\$ 128,067</u>
\$ 279,000	\$ 922,000	\$ 1,201,000
<u>\$ 279,000</u>	<u>\$ 922,000</u>	<u>\$ 1,201,000</u>
\$ 27,185	\$	\$ 27,185
135,086,613		135,086,613
(17,678,602)		(17,678,602)
758,145		758,145
<u>\$ 118,193,341</u>	<u>\$ 0</u>	<u>\$ 118,193,341</u>
\$ 97,556,845	\$ 1,153,627	\$ 98,710,472
11,110,372	(380,371)	10,730,001
<u>\$ 108,667,217</u>	<u>\$ 773,256</u>	<u>\$ 109,440,473</u>
\$ 1,143,880	\$ 11,727,102	\$ 12,870,982
1,174,689		1,174,689
520,308		520,308
4,222	714,746	718,968
192,509		192,509
1,739,527	1,491,148	3,230,675
6,722,174		6,722,174
251		251
1,451,905		1,451,905
<u>\$ 12,949,465</u>	<u>\$ 13,932,996</u>	<u>\$ 26,882,461</u>
\$ 155,317	\$ 21,745	\$ 177,062
97,000		97,000
392,231	15,284,276	15,676,507
<u>\$ 644,548</u>	<u>\$ 15,306,021</u>	<u>\$ 15,950,569</u>
\$ 242,531,909	\$ 31,601,547	\$ 274,133,456
\$ 1,666,528	\$	\$ 1,666,528
<u>\$ 1,666,528</u>	<u>\$ 0</u>	<u>\$ 1,666,528</u>
\$ 1,666,528	\$ 0	\$ 1,666,528

SELECT STATE OF MICHIGAN DEPARTMENTS AND AGENCIES (TRANSITIONAL AGENCIES)

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2011

Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
<u>U.S. Department of Health and Human Services</u>		
TANF Cluster:		
Direct Programs:		
Temporary Assistance for Needy Families (Note 14)	93.558	
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF)		
State Program	93.714	
Total TANF Cluster		
CSBG Cluster:		
Direct Programs:		
Community Services Block Grant	93.569	
ARRA - Community Services Block Grant	93.710	
Total CSBG Cluster		
CCDF Cluster:		
Direct Programs:		
Child Care and Development Block Grant	93.575	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	
ARRA - Child Care and Development Block Grant	93.713	
Total CCDF Cluster		
Head Start Cluster:		
Direct Program:		
Head Start	93.600	
Total Head Start Cluster		
Medicaid Cluster:		
Direct Program:		
State Medicaid Fraud Control Units	93.775	
Total Direct Program		
Pass-Through Programs:		
Michigan Department of Community Health		
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	1005MI5000
Medical Assistance Program	93.778	1005MI5001
Medical Assistance Program	93.778	11 05 MI 5048;
		11 05 MI 5028
ARRA - Medical Assistance Program	93.778	11 05 MI ARRA
Total Pass-Through Programs		
Total Medicaid Cluster		
Direct Programs:		
Guardianship Assistance	93.090	
ARRA - Guardianship Assistance	93.090	
Food and Drug Administration - Research	93.103	
Ruminant Feed Ban Support Project	93.449	
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	
Affordable Care Act (ACA) Consumer Assistance Program Grants	93.519	
Promoting Safe and Stable Families	93.556	
Child Support Enforcement	93.563	
Child Support Enforcement Research	93.564	
Refugee and Entrant Assistance - State Administered Programs	93.566	
Low-Income Home Energy Assistance (Note 14)	93.568	
Refugee and Entrant Assistance - Discretionary Grants	93.576	
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	
State Court Improvement Program	93.586	
Community-Based Child Abuse Prevention Grants (Note 14)	93.590	
Grants to States for Access and Visitation Programs	93.597	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
\$ 534,737,459	\$ 123,526,776	\$ 658,264,235
189,737,257		189,737,257
<u>\$ 724,474,716</u>	<u>\$ 123,526,776</u>	<u>\$ 848,001,492</u>
\$ (2,071,974)	\$ 25,005,535	\$ 22,933,561
888,983	620	889,603
<u>\$ (1,182,991)</u>	<u>\$ 25,006,155</u>	<u>\$ 23,823,164</u>
\$ 80,103,532	\$ 7,428,870	\$ 87,532,402
77,071,944	7,147,718	84,219,662
	7,654,725	7,654,725
<u>\$ 157,175,476</u>	<u>\$ 22,231,313</u>	<u>\$ 179,406,789</u>
\$ 196,288	\$	\$ 196,288
<u>\$ 196,288</u>	<u>\$ 0</u>	<u>\$ 196,288</u>
\$ 3,058,964	\$	\$ 3,058,964
<u>\$ 3,058,964</u>	<u>\$ 0</u>	<u>\$ 3,058,964</u>
\$ 363,046	\$	\$ 363,046
221,396		221,396
108,754,573		108,754,573
777,419		777,419
<u>\$ 110,116,434</u>	<u>\$ 0</u>	<u>\$ 110,116,434</u>
<u>\$ 113,175,398</u>	<u>\$ 0</u>	<u>\$ 113,175,398</u>
\$ 369,596	\$	\$ 369,596
6,355		6,355
839,641		839,641
208,038		208,038
179,903		179,903
86,566		86,566
5,860,886	11,078,302	16,939,188
46,601,635	108,162,562	154,764,197
99,577	30,084	129,661
2,196,041	13,179,325	15,375,366
230,972,178	21,640,608	252,612,786
(5,148)	930,129	924,981
(92)	292,956	292,864
811,080		811,080
(549,438)	1,516,275	966,837
319,455		319,455

SELECT STATE OF MICHIGAN DEPARTMENTS AND AGENCIES (TRANSITIONAL AGENCIES)

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2011

Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
Chafee Education and Training Vouchers Program (ETV)	93.599	
Adoption Incentive Payments	93.603	
Voting Access for Individuals with Disabilities - Grants to States	93.617	
Children's Justice Grants to States	93.643	
Stephanie Tubbs Jones Child Welfare Services Program (Note 14)	93.645	
Adoption Opportunities	93.652	
Foster Care - Title IV-E	93.658	
ARRA - Foster Care - Title IV-E	93.658	
Adoption Assistance	93.659	
ARRA - Adoption Assistance	93.659	
Social Services Block Grant (Note 14)	93.667	
Child Abuse and Neglect State Grants	93.669	
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	
Chafee Foster Care Independence Program	93.674	
ARRA - Strengthening Communities Fund	93.711	
Total Direct Programs		
Pass-Through Program:		
Michigan Department of Community Health Preventive Health and Health Services Block Grant	93.991	3B01DP009028-10; 3B01DP009028-11
Total Pass-Through Program		
Total U.S. Department of Health and Human Services		
<u>U.S. Corporation for National and Community Service</u>		
Direct Programs:		
State Commissions	94.003	
AmeriCorps	94.006	
ARRA - AmeriCorps	94.006	
Program Development and Innovation Grants	94.007	
Training and Technical Assistance	94.009	
Volunteers in Service to America	94.013	
Volunteer Generation Fund	94.021	
Total Direct Programs		
Pass-Through Program:		
Michigan Department of Education Learn and Serve America - School and Community Based Programs	94.004	09KSNMI001
Total Pass-Through Program		
Total U.S. Corporation for National and Community Service		
<u>Social Security Administration</u>		
Disability Insurance/SSI Cluster:		
Direct Program:		
Social Security - Disability Insurance	96.001	
Total Disability Insurance/SSI Cluster		
Total Social Security Administration		
<u>U.S. Department of Homeland Security</u>		
Direct Programs:		
State Fire Training Systems Grants	97.043	
Driver's License Security Grant Program	97.089	
Total Direct Programs		
Total U.S. Department of Homeland Security		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
\$ (4,152)	\$ 1,946,025	\$ 1,941,873
696,707	(20,590)	676,117
3,430	142,822	146,252
469,319		469,319
8,695,795		8,695,795
	269,954	269,954
106,009,338	2,095,117	108,104,455
1,171,243		1,171,243
110,115,730		110,115,730
4,565,402		4,565,402
130,303,253	2,583,829	132,887,082
518,102	535,708	1,053,810
129,463	2,418,849	2,548,312
4,070,592	692,794	4,763,386
169,009		169,009
\$ 654,909,504	\$ 167,494,749	\$ 822,404,253

\$ 9,269	\$ 234,104	\$ 243,373
\$ 9,269	\$ 234,104	\$ 243,373

\$ 1,648,757,660 \$ 338,493,097 \$ 1,987,250,757

\$ 383,064	\$	\$ 383,064
(181,929)	7,465,417	7,283,488
(7,228)	6,318	(910)
48,872		48,872
115,109		115,109
1,375		1,375
2,535	253,250	255,785
\$ 361,798	\$ 7,724,985	\$ 8,086,783

\$ \$ \$

144,385	367,721	512,106
\$ 144,385	\$ 367,721	\$ 512,106

\$ 506,183 \$ 8,092,706 \$ 8,598,889

\$ 83,916,316	\$	\$ 83,916,316
\$ 83,916,316	\$ 0	\$ 83,916,316

\$ 83,916,316 \$ 0 \$ 83,916,316

\$ 8,507	\$	\$ 8,507
22,546		22,546
\$ 31,053	\$ 0	\$ 31,053

\$ 31,053 \$ 0 \$ 31,053

SELECT STATE OF MICHIGAN DEPARTMENTS AND AGENCIES (TRANSITIONAL AGENCIES)

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2011

Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA * Number</u>	<u>Pass-Through Identification Number</u>
<u>U.S. Department of Treasury</u>		
Direct Program:		
State Small Business Credit Initiative	21. UNKNOWN**	
Total Direct Program		
Total U.S. Department of Treasury		
Total Expenditures of Federal Awards		

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

** The State Small Business Credit Initiative does not have a *CFDA* number because this program is not a grant. Instead, it is considered an interagency transfer to the State.

The accompanying notes are an integral part of this schedule.

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
\$ 71,018	\$ 4,429,500	\$ 4,500,518
\$ 71,018	\$ 4,429,500	\$ 4,500,518
\$ 71,018	\$ 4,429,500	\$ 4,500,518
\$ 6,574,799,368	\$ 1,017,300,287	\$ 7,592,099,655

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Reporting Entity

For federal reporting purposes, the State of Michigan's reporting entity includes the primary government and its component units with the exception of those noted below. The primary government includes all funds, departments and agencies, bureaus, boards, commissions, and those authorities that are considered an integral part of the primary government. Component units are legally separate governmental organizations for which the State's elected officials are financially accountable.

Ten of the State's public universities are considered component units because they have boards appointed by the primary government. Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate from the State.

For purposes of presenting the schedule of expenditures of federal awards (SEFA), the following entities have been excluded from the reporting entity for fiscal year 2010-11. These departments and agencies obtained separate audits in accordance with U.S. Office of Management and Budget (OMB) Circular A-133:

1. Michigan Unemployment Insurance Agency
2. Michigan State Housing Development Authority
3. Michigan Department of Community Health
4. Michigan Department of Environmental Quality
5. Michigan Department of Military and Veterans Affairs
6. Michigan Department of Natural Resources
7. Michigan Department of Corrections
8. Michigan Department of Education
9. Michigan Department of State Police
10. Michigan Early Childhood Investment Corporation
11. Central Michigan University
12. Western Michigan University
13. Eastern Michigan University

14. Ferris State University
15. Grand Valley State University
16. Lake Superior State University
17. Michigan Technological University
18. Northern Michigan University
19. Oakland University
20. Saginaw Valley State University

Note 2 Fiscal Year-Ends

The State of Michigan and discretely presented component units included within the fiscal year 2010-11 reporting entity are reported using fiscal years which end on September 30.

Note 3 Basis of Presentation

This SEFA presents the federal grant activity of the State of Michigan in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 4 Basis of Accounting

The expenditures for each of the federal financial assistance programs are presented in the SEFA on the accounting basis as presented on the fund financial statements. For entities with governmental funds, expenditures are presented on a modified accrual basis of accounting. For entities with proprietary or fiduciary funds, expenditures are presented on the accrual basis. Differences may 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 federal financial reports for the fiscal year.

Note 5 Pass-Through Expenditures

Federal funds received by one State grantee agency and redistributed (expended) to another State grantee agency (i.e., pass-through of funds by the primary recipient State grantee agency to a subrecipient State grantee agency), are reported in the SEFA as federal expenditures of the receiving/expending State grantee agency. This is to avoid duplication and the

overstatement of the aggregate level of federal financial assistance expended by the State.

Note 6 Non-Cash Assistance

The State of Michigan is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements, termed "non-cash programs." The distributions under these programs would be included in the SEFA. The State did not have any non-cash assistance for the reporting entity for fiscal year 2010-11.

Note 7 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 16.55% of the USDA's total expenditures for SNAP benefits in the federal fiscal year ended September 30, 2011.

Note 8 State Infrastructure Bank (SIB)

The SIB Program was enacted by the U.S. Congress in 1995 as part of the U.S. Department of Transportation's continuing effort to increase infrastructure investment in the transportation sector. A SIB is an investment fund at the state or multi-state level with the ability to make loans to public and private entities to carry out highway construction or transit capital projects. For fiscal years 1997-98 through 2004-05, the Federal Highway Administration (FHWA) deposited a total of \$11,050,000 in a Michigan Department of Transportation (MDOT) account strictly used for SIB activity. A State match equal to 25% of the federal deposit was required. These monies, along with interest earnings, are to remain in the SIB account and be used for purposes included in the cooperative agreement between the FHWA, the Federal Transit Administration (FTA), and MDOT. At the end of fiscal year 2010-11, the total amount of federal and State contributions and interest earnings equaled \$22,760,975.

Two loans totaling \$829,405 were disbursed in fiscal year 2010-11.

Note 9 Airport Improvement Program

Federal expenditures for the Airport Improvement Program (*CFDA* 20.106) channeled to primary airports in the amount of \$54,328,715 for fiscal year 2010-11 are not included in the SEFA. MDOT is channeling the Federal Aviation Administration (FAA) funds to the primary airports, in accordance with Act 327, P.A. 1945. The FAA determined that MDOT has no oversight responsibility for grants to primary airports. Primary airports had expenditures of ARRA grants totaling \$5,754,298 for fiscal year 2010-11.

Note 10 Donation of Surplus Property

The amount distributed to subrecipients for the Donation of Federal Surplus Property Program (*CFDA* 39.003) is 23.3% of the acquisition value of property donated (sold) during the fiscal year. The value does not include service charges that are the basis for the sale of inventory items. The valuation method follows General Services Administration guidelines. The service charges on property donated (sold) in fiscal year 2010-11 were \$58,185.

Note 11 Student Financial Assistance Cluster - Loans Outstanding

The Michigan Finance Authority, a discretely presented component unit of the State of Michigan, administers the Federal Family Education Loans (FFEL) Program, which is a component of the Student Financial Assistance Cluster. As of September 30, 2011, the outstanding original principal balance of loans guaranteed under the FFEL Program - Guaranty Agency (CFDA 84.032G) by the Michigan Finance Authority was \$3.2 billion. In addition, as of September 30, 2011, \$1.4 billion in loans were outstanding under the FFEL Program - Lender (CFDA 84.032L). The loan guarantees and loan balances are not included in the federal expenditures presented in the SEFA.

The Health Care and Education Reconciliation Act of 2010, Public Law No. 111-152, eliminated the authorization to originate FFEL Program loans after June 30, 2010 and, as a result, the Michigan Finance Authority did not issue or guarantee any new FFEL Program loans in fiscal year 2010-11.

Note 12 Student Financial Assistance Cluster - Federal Family Education Loans (FFEL) Program - Guaranty Agency

The Michigan Finance Authority receives federal loan reinsurance revenue from the U.S. Department of Education (USDOE) according to the following schedule for all eligible default claims purchased by the Authority:

<u>Annual Default Rate</u>	<u>Federal Reinsurance</u>
0% to less than 5%	95%
5% to less than 9%	95% of claims up to 5%, 85% of claims equal to or greater than 5% but less than 9%
9% or greater	95% of claims up to 5%, 85% of claims equal to or greater than 5% but less than 9%, and 75% of claims equal to or greater than 9%

FFEL Program - Guaranty Agency activity for fiscal year 2010-11 was:

Federal Program Title	CFDA Number	Federal Expenditures
Federal Family Education Loans - Guaranty Agency	84.032G	
Loan Loss Reinsured by USDOE		\$ 117,740,794
Account Maintenance Fees		2,014,427
Loan Processing and Issuance Fees		(50,613)
Loan Recoveries - Net of Amounts Returned to USDOE		3,808,190
Loans Repurchased and Rehabilitated		11,573,815
Total Federal Family Education Loans - Guaranty Agency		<u>\$ 135,086,613</u>

Note 13 Student Financial Assistance Cluster - Federal Family Education Loans (FFEL) Program - Lender

The FFEL Program provides the Michigan Finance Authority with interest on subsidized student loans during the period a student is attending school or during certain other allowable grace and deferment periods. In addition, the FFEL Program provides funding (special allowance) that is primarily an incentive payment in order that money market conditions or interest rates will not impede the origination of student loans. For loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that, if the resulting special allowance calculation was negative, the negative special allowance must be paid to the USDOE.

FFEL Program - Lender activity for fiscal year 2010-11 was:

Federal Program Title	CFDA Number	Federal Expenditures
Federal Family Education Loans - Lender	84.032L	
Interest Subsidy Payments		\$ 10,456,869
Special Allowance Payments		(28,135,471)
Total Federal Family Education Loans - Lender		<u>\$ (17,678,602)</u>

Note 14 Department of Human Services (DHS) Federal Claims

- a. Federal claims exceeded their grant award authorizations in the following program areas and were not reimbursed for the amounts in excess of the grant award. The expenditures not reimbursed could be reimbursed if program disallowances occur. The SEFA reports 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 (greater than \$500,000):

Social Services Block Grant (<i>CFDA</i> 93.667)	\$12,247,000
Low-Income Home Energy Assistance (<i>CFDA</i> 93.568)	\$ 4,046,000
Stephanie Tubbs Jones Child Welfare Services Program (<i>CFDA</i> 93.645)	\$57,646,000
Community-Based Child Abuse Prevention Grants (<i>CFDA</i> 93.590)	
Children's Trust Fund	\$ 1,488,000

- b. DHS moved \$77,535,000 of the TANF (*CFDA* 93.558) grant award to the Social Services Block Grant (*CFDA* 93.667) as allowed by the Welfare Reform Plan.

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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

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

The Honorable Rick Snyder, Governor
Members of the Legislature

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, principally as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated March 9, 2012. 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

Management of the State is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State'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 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, as described in the *State of Michigan Comprehensive Annual Financial Report* management letter, that we considered 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.

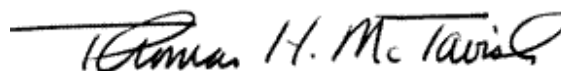
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State'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 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*.

The State's preliminary responses to the findings identified in our audit of the financial statements are described in the *State of Michigan Comprehensive Annual Financial Report* management letter. We did not audit the State's preliminary responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the Legislature, management, others within the State, 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.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a horizontal line extending to the left.

Thomas H. McTavish, C.P.A.
Auditor General
March 9, 2012



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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

The Honorable Rick Snyder, Governor
Members of the Legislature

Compliance

We have audited the compliance of the State of Michigan's Departments of Human Services, Transportation, Licensing and Regulatory Affairs, Attorney General, State, Agriculture and Rural Development, Civil Rights, Treasury, and Technology, Management, and Budget; the Judiciary; the Michigan Finance Authority; the Michigan Strategic Fund; the Michigan Economic Development Corporation; and the Land Bank Fast Track Authority 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 these State agencies' major federal programs for the fiscal year ended September 30, 2011. These State agencies' 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 these State agencies' major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The State's basic financial statements include the operations of the Departments of Community Health, Corrections, Education, Environmental Quality, Military and Veterans Affairs, Natural Resources, and State Police; the Michigan State Housing Development Authority; the Unemployment Insurance Agency - Unemployment Compensation Fund; the Unemployment Insurance Agency - Administration Fund; the Michigan Early Childhood Investment Corporation; Central Michigan University; Western Michigan University; Eastern Michigan University; Ferris State University; Grand Valley State University; Lake Superior State University; Michigan Technological University; Northern Michigan University; Oakland University; and Saginaw Valley State University which expended \$20.7 billion in federal awards for the fiscal year ended September 30, 2011. Our audit did not include the operations of those departments and agencies because these departments and agencies obtained separate audits in accordance with OMB Circular A-133.

We did not audit the Michigan Finance Authority's compliance with the following compliance requirements applicable to the Student Financial Assistance Cluster related to the Federal Family Education Loans, CFDA 84.032L and 84.032G: Special Tests and Provisions (Individual Record Review; Interest Benefits; Special Allowance Payments; Loan Sales, Purchases, and Transfers; Enrollment Reports; Payment Processing; Due Diligence by Lenders in the Collection of Delinquent Loans; Timely Claim Filings by Lenders or Servicers; Curing Due-Diligence and Timely Filing Violations; Federal Share of Borrower Payments; Assignment of Defaulted Loans to ED; and Collection Charges). Also, we excluded reporting for the Federal Family Education Loans, CFDA 84.032L. Third-party servicers Great Lakes Educational Loan Services, Inc., NelNet Inc., and Sallie Mae, Inc. performed these compliance requirements for the Authority and have obtained audits performed under the *Lender Servicer Financial Statement Audit and Compliance Attestation Guide* (January 2011) and *Audits of Guaranty Agency Servicers Participating in The Federal Family Education Loan Program* (March 2000), issued by the U.S. Department of Education. Great Lakes Educational Loan Services, Inc. lender audits covered the period October 1, 2010 through September 30, 2011, and NelNet, Inc. and Sallie Mae, Inc. lender audits covered the periods January 1, 2010 through December 31, 2010 and January 1, 2011 through December 31, 2011. Our report does not include the results of the other accountants' examinations of the third-party servicers' compliance with such requirements.

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

As described in the findings listed below, which are in the accompanying schedule of findings and questioned costs, we were not able to obtain sufficient documentation supporting the compliance of the State with the following program compliance

requirements, nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures:

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirement(s)	Finding Number(s)
U.S. Department of Health and Human Services	93.558 93.714	TANF Cluster	Special Tests and Provisions - Income and Eligibility Verification System	2011-026
U.S. Department of Health and Human Services	93.575 93.596 93.713	CCDF Cluster	Special Tests and Provisions - Health and Safety Requirements	2011-029
U.S. Department of Agriculture	10.551 10.561	SNAP Cluster	Special Tests and Provisions - ADP System for SNAP	2011-005

As described in the findings listed below, which are in the accompanying schedule of findings and questioned costs, the State did not comply with compliance requirements that are applicable to the following federal programs:

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirement(s)	Finding Number(s)
U.S. Department of Health and Human Services	93.558 93.714	TANF Cluster	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; Special Tests and Provisions - Penalties for Refusal to Work; and Special Tests and Provisions - Child Support Noncooperation	2011-014 2011-017 2011-018 2011-020 2011-024 2011-025
U.S. Department of Health and Human Services	93.575 93.596 93.713	CCDF Cluster	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Health and Safety	2011-027
U.S. Department of Health and Human Services	93.674	Chafee Foster Care Independence Program	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; Procurement and Suspension and Debarment; and Reporting	2011-041 2011-042 2011-046 2011-047

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirement(s)	Finding Number(s)
U.S. Department of Housing and Urban Development	14.228 14.255	CDBG - State-Administered CDBG Cluster	Reporting	2011-006
U.S. Department of Health and Human Services	93.568	Low-Income Home Energy Assistance	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Eligibility	2011-031 2011-033
U.S. Department of Health and Human Services	93.658	Foster Care - Title IV-E	Procurement and Suspension and Debarment and Matching, Level of Effort, and Earmarking	2011-037
U.S. Department of Health and Human Services	93.659	Adoption Assistance	Activities Allowed or Unallowed and Eligibility	2011-038
U.S. Department of Transportation	20.106	Airport Improvement Program	Davis-Bacon Act, Procurement and Suspension and Debarment, and Reporting	2011-003 2011-009 2011-011
U.S. Department of Transportation	20.205	Highway Planning and Construction Cluster	Reporting	2011-003

Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major federal programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the State did not comply, in all material respects, with the requirements referred to above that could have a direct and material effect on the following major programs: TANF Cluster, CCDF Cluster, and the Chafee Foster Care Independence Program. Also in our opinion, except for the noncompliance described in the previous paragraph and except for the effects of noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the special tests and provisions requirements of the TANF Cluster (CFDA 93.558 and 93.714) related to the income and eligibility verification system; the CCDF Cluster (CFDA 93.575, 93.596, and 93.713) related to health and safety requirements; and the SNAP Cluster (CFDA 10.551 and 10.561) related to the ADP system for SNAP, the State complied, in all material respects, with the 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 fiscal year ended September 30, 2011. In addition, the results of our auditing procedures 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 2011-004, 2011-007, 2011-008, 2011-010, 2011-012, 2011-013, 2011-015, 2011-016, 2011-021, 2011-022, 2011-030, 2011-034, 2011-035, 2011-036, 2011-039, 2011-040, and 2011-045.

Internal Control Over Compliance

Management of the State 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 State'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 State'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 2011-001, 2011-002, 2011-003, 2011-005, 2011-006, 2011-009, 2011-010, 2011-011, 2011-014, 2011-017, 2011-018, 2011-020, 2011-024, 2011-025, 2011-026, 2011-027, 2011-029, 2011-031, 2011-033, 2011-037, 2011-041, 2011-042, 2011-044, 2011-046, and 2011-047 to be 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 2011-004, 2011-007, 2011-008, 2011-012, 2011-013, 2011-015, 2011-016, 2011-019, 2011-021, 2011-022, 2011-023, 2011-028, 2011-030, 2011-032, 2011-034, 2011-035, 2011-036, 2011-039, 2011-040, 2011-043, and 2011-045 to be significant deficiencies.

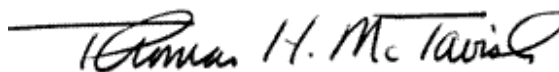
Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State principally as of and for the fiscal year ended September 30, 2011 and have issued our report thereon dated March 9, 2012, which includes references to other auditors. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The State's management views and corrective action plan are included in the accompanying schedule of findings and questioned costs, following each finding. We did not audit the State's management views and corrective action plan and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the Legislature, management, 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.

Sincerely,



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

June 21, 2013 (except as related to the schedule of expenditures of federal awards, for which the date is March 9, 2012)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified*

Internal control* over financial reporting:

Material weaknesses* identified? No

Significant deficiencies* identified? Yes

Noncompliance or other matters material to the financial statements? No

Federal Awards

Internal control over major programs:

Material weaknesses* identified? Yes

Significant deficiencies* identified? Yes

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget* (OMB) Circular A-133, Section 510(a)? Yes

Identification of Major Programs, Type of Auditor's Report Issued on Compliance, Questioned Costs, and Audit Finding Numbers:

CFDA* Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
10.551 and 10.561	SNAP Cluster, including ARRA	Qualified	Undeterminable	<u>2011-001</u> <u>2011-002</u> <u>2011-005</u>
14.228 and 14.255	CDBG - State Administered CDBG Cluster, including ARRA	Qualified	\$0	<u>2011-006</u> <u>2011-007</u> <u>2011-008</u>
17.207, 17.801, and 17.804	Employment Service Cluster, including ARRA	Unqualified	\$0	Not Applicable
17.245	Trade Adjustment Assistance	Unqualified	\$0	Not Applicable
17.258, 17.259, 17.260, and 17.278	WIA Cluster, including ARRA	Unqualified	\$0	Not Applicable

* See glossary at end of report for definition.

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
20.106	Airport Improvement Program	Qualified	\$988,733	<u>2011-003</u> <u>2011-009</u> <u>2011-010</u> <u>2011-011</u>
20.205	Highway Planning and Construction Cluster, including ARRA	Qualified	\$0	<u>2011-003</u> <u>2011-012</u>
81.041	State Energy Program, including ARRA	Unqualified	\$0	<u>2011-013</u>
81.042	Weatherization Assistance for Low-Income Persons, including ARRA	Unqualified	\$0	Not Applicable
84.007, 84.032G, 84.032L, and 84.063	Student Financial Assistance Cluster	Unqualified	\$0	Not Applicable
84.126 and 84.390	Vocational Rehabilitation Cluster, including ARRA	Unqualified	\$0	Not Applicable
93.558 and 93.714	TANF Cluster, including ARRA	Adverse	\$5,064,502	<u>2011-001</u> <u>2011-002</u> <u>2011-004</u> <u>2011-014</u> <u>2011-015</u> <u>2011-016</u> <u>2011-017</u> <u>2011-018</u> <u>2011-019</u> <u>2011-020</u> <u>2011-021</u> <u>2011-022</u> <u>2011-023</u> <u>2011-024</u> <u>2011-025</u> <u>2011-026</u>
93.575, 93.596, and 93.713	CCDF Cluster, including ARRA	Adverse	\$3,085	<u>2011-001</u> <u>2011-002</u> <u>2011-027</u> <u>2011-028</u> <u>2011-029</u>
93.775, 93.777 and 93.778	Medicaid Cluster, including ARRA	Unqualified	\$0	Not Applicable
93.563	Child Support Enforcement	Unqualified	\$0	<u>2011-004</u> <u>2011-030</u>

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
93.568	Low-Income Home Energy Assistance	Qualified	\$3,764	<u>2011-001</u> <u>2011-002</u> <u>2011-031</u> <u>2011-032</u> <u>2011-033</u>
93.658	Foster Care - Title IV-E, including ARRA	Qualified	\$76,996	<u>2011-034</u> <u>2011-035</u> <u>2011-036</u> <u>2011-037</u>
93.659	Adoption Assistance, including ARRA	Qualified	Undeterminable	<u>2011-038</u>
93.667	Social Services Block Grant	Unqualified	(\$99,086)	<u>2011-036</u> <u>2011-039</u> <u>2011-040</u>
93.674	Chafee Foster Care Independence Program	Adverse	\$340,476	<u>2011-004</u> <u>2011-041</u> <u>2011-042</u> <u>2011-043</u> <u>2011-044</u> <u>2011-045</u> <u>2011-046</u> <u>2011-047</u>

Dollar threshold used to distinguish between type A and type B programs: \$30,000,000

Auditee qualified as a low-risk auditee*?

No

Required Reporting Thresholds

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.

* See glossary at end of report for definition.

Further, Circular A-133 requires the auditor to report in Section III 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.

Section II: Findings Related to the Financial Statements and Schedule of Expenditures of Federal Awards.

The findings related to the financial statements are reported in the State of Michigan Comprehensive Annual Financial Report Management Letter (071-0010-12), located at <http://audgen.michigan.gov/finalpdfs/11_12/r071001012.pdf>.

We did not report any findings related to the schedule of expenditure of federal awards.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING 2011-001

DHS Bridges Interface and Change Controls

Federal Agency	U.S. Department of Agriculture	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	SNAP Cluster, Including ARRA: CFDA 10.551 and 10.561	
Award Identification Number and Year	EBT-2010	10/01/2009 - 09/30/2010
	EBT-2011	10/01/2010 - 09/30/2011
	SNAP-Benefits (ARRA)	
	2011	10/01/2010 - 09/30/2011

Total Expenditures of Federal Awards	\$3,270,952,799
Total ARRA Expenditures	\$493,781,926
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - Income Eligibility and Verification System
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Special Tests and Provisions - Child Support Noncooperation, Income Eligibility and Verification System, and Penalty for Refusal to Work
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575, 93.596, and 93.713 (ARRA)
Award Identification Number and Year	G 09 01 MI CCDF 10/01/2008 - 09/30/2011 G 09 01 MI CCD7 (ARRA) 10/01/2008 - 09/30/2011 G 10 01 MI CCDF 10/01/2009 - 09/30/2012 G 11 01 MI CCDF 10/01/2010 - 09/30/2013 G 11 01 MI CCDF (Mandatory) 10/01/2010 - 09/30/2011 G 11 01 MI CCDF (Matching) 10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$179,406,789
Total ARRA Expenditures	\$7,654,725
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness

Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Award Identification Number and Year	G 10 B1 MILIEA 10/01/2009 - 09/30/2011 G 10 B1 MI LIE2 10/01/2009 - 09/30/2011 G 11 B1 MI LIEA 10/01/2010 - 09/30/2012
Total Expenditures of Federal Award	\$252,612,786
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Human Services and Department of Technology, Management, and Budget

Background

The Department of Human Services (DHS) uses the Bridges Integrated Automated Eligibility Determination System* (Bridges) for determining eligibility and benefit amounts for food assistance, cash assistance, child care assistance, and emergency assistance programs. Our auditing procedures included a review of certain information technology (IT) general controls designed for Bridges that were significant to Bridges' eligibility determination and benefit calculation functionality. Our auditing procedures were a coordinated effort between the Statewide single audit and our IT performance audit of Interface and Change Controls of the Bridges Integrated Automated Eligibility Determination System, Department of Human Services and Department of Technology, Management, and Budget (431-0591-12), located at <http://audgen.michigan.gov/finalpdfs/12_13/r431059112.pdf>. Our IT performance audit disclosed control weaknesses related to interface processing controls and change controls.

Condition

DHS and Department of Technology, Management, and Budget (DTMB) internal control over federal programs did not provide reasonable assurance that they were managing

* See glossary at end of report for definition.

federal awards in compliance with program requirements related to eligibility and benefit level for the SNAP Cluster, TANF Cluster, CCDF Cluster, and Low-Income Home Energy Assistance Program (LIHEAP).

For purposes of the Statewide single audit, we concluded that Finding 1, Interface Processing Controls; Finding 4, Interface Documentation; Finding 5, Data-Sharing Agreements; Finding 6, Bridges Change Controls; Finding 7, ClearCase and ClearQuest Access; and Finding 8, Segregation of Duties, reported in the IT performance audit were collectively a material control weakness impacting the Bridges application and data used to help determine eligibility and benefit level for these programs.

Criteria

OMB Circular A-133, Section 300(b) requires the auditee to maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of the federal programs.

Cause

Causes for each finding can be found in the IT performance audit of Interface and Change Controls of the Bridges Integrated Automated Eligibility Determination System, Department of Human Services and Department of Technology, Management, and Budget.

Effect

DHS and DTMB's weaknesses in maintaining sufficient internal control over federal program compliance could result in noncompliance that will not be detected or corrected in a timely manner.

Also, these material weaknesses were considered in determining the nature, timing, and extent of the auditing procedures that we conducted to reach our opinion on the State's compliance with requirements that could have a direct and material effect on the aforementioned major programs and the State's internal control over compliance in accordance with OMB Circular A-133. In some cases, the Office of the Auditor General was required to conduct additional compliance testing because of the ineffective controls.

In addition, we were not able to obtain sufficient documentation supporting the compliance of the State with certain program requirements for the SNAP Cluster (CFDA 10.551 and 10.561) and the TANF Cluster (CFDA 93.558 and 93.714), nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures. As a result, we issued a scope limitation related to the SNAP Cluster, Special Tests and Provisions - ADP System for SNAP (see Finding 2011-005) and the TANF Cluster, Special Tests and Provisions - Income and Eligibility Verification System (see Finding 2011-026).

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS and DTMB improve internal control over federal programs to provide reasonable assurance that they are managing federal awards in compliance with program requirements related to eligibility and benefit level for the SNAP Cluster, TANF Cluster, CCDF Cluster, and LIHEAP.

Management Views and Corrective Action Plan

Management Views:

DHS and DTMB agree that internal control could be improved. It should be noted that, while the documentation was not readily available, end user testing was performed and yielded the expected results for eligibility determinations.

Planned Corrective Action:

DHS and DTMB will develop a detailed corrective action plan to address the issues noted in the finding.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Teresa Spalding, Department of Human Services

Rich DeMello, Department of Technology, Management, and Budget

FINDING 2011-002

DHS Bridges Security Management and Access Controls

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	SNAP Cluster, Including ARRA: CFDA 10.551 and 10.561
Award Identification Number and Year	EBT-2010 10/01/2009 - 09/30/2010 EBT-2011 10/01/2010 - 09/30/2011 SNAP-Benefits (ARRA) 2011 10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$3,270,952,799
Total ARRA Expenditures	\$493,781,926
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - ADP System for SNAP
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Special Tests and Provisions - Child Support Noncooperation, Income Eligibility and Verification System, and Penalty for Refusal to Work
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575, 93.596, and 93.713 (ARRA)

Award Identification Number and Year	G 09 01 MI CCDF	10/01/2008 - 09/30/2011
	G 09 01 MI CCD7 (ARRA)	10/01/2008 - 09/30/2011
	G 10 01 MI CCDF	10/01/2009 - 09/30/2012
	G 11 01 MI CCDF	10/01/2010 - 09/30/2013
	G 11 01 MI CCDF (Mandatory)	10/01/2010 - 09/30/2011
	G 11 01 MI CCDF (Matching)	10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$179,406,789	
Total ARRA Expenditures	\$7,654,725	
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility	
Type of Finding	Material Weakness	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agencies	Department of Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Low-Income Home Energy Assistance, <i>CFDA</i> 93.568	
Award Identification Number and Year	G 10 B1 MILIEA	10/01/2009 - 09/30/2011
	G 10 B1 MI LIE2	10/01/2009 - 09/30/2011
	G 11 B1 MI LIEA	10/01/2010 - 09/30/2012
Total Expenditures of Federal Award	\$252,612,786	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility	
Type of Finding	Material Weakness	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agencies	Department of Human Services and Department of Technology, Management, and Budget	

Condition

DHS and DTMB had not established effective security management and access controls over Bridges for privileged and high-risk users. We noted:

- a. DHS did not consistently monitor incompatible roles granted to local office users by local office security coordinators to ensure that the local offices had implemented appropriate compensating controls.
- b. DTMB had not established effective access controls over the Bridges database management system, including establishing unique accounts for the Bridges

database administrators, configuring the database management system to log privileged activity, effectively configuring database security settings such as profiles that control account lockout and password settings, assigning system and table privileges in accordance with best practices, and removing excessive access that the database management system granted by default to all database accounts.

- c. DHS had not established effective controls over granting access to the Bridges application. We judgmentally selected a sample of 21 privileged users and 13 contractors with access to Bridges and requested a copy of each user's DHS-173. Our review disclosed that DHS was unable to locate a DHS-173 for 4 (19%) of the 21 privileged users and 1 (8%) of the 13 contractors sampled with access to Bridges. In addition, DHS did not ensure that the local office security coordinators signed and dated 3 (10%) of 29 DHS-173 forms that DHS provided.

Criteria

According to Control Objectives for Information and Related Technology* (COBIT), management is responsible for establishing processes for evaluating the effectiveness and efficiency* of its internal control processes. Also, COBIT states that the results of management's review of internal control should be documented and procedures should be established for reporting and remediating control exceptions. According to the U.S. Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM), access to the database management system should be controlled and monitored because direct access to the database management system could allow an individual to bypass application controls or gain unauthorized access to the operating system. Also, according to FISCAM, entities should apply security policies and procedures addressing user identification and authentication that include the owner identifying the nature and extent of access that should be available for each user and approving user access to the application and data.

Cause

DHS had not established policies and procedures for monitoring high-risk activities or clearly assigned responsibility for monitoring local offices' security management controls over Bridges. In addition, DTMB had not established standards for securing database management systems. DTMB informed us that some of the excessive access was granted when DTMB updated the database management system and that DTMB has created scripts to identify and remove the excessive access. Also, DHS's security

* See glossary at end of report for definition.

officers did not always follow DHS's process for granting access to Bridges or DHS misplaced the security forms.

Effect

Without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to Bridges. As a result, an increased risk exists that DHS and DTMB cannot ensure the confidentiality, integrity, and security of the Bridges application and data used to help determine eligibility and benefit level for the SNAP Cluster, TANF Cluster, CCDF Cluster, and LIHEAP.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS and DTMB establish effective security management and access controls over Bridges for privileged and high-risk users.

Management Views and Corrective Action Plan

Management Views:

DHS and DTMB agree with the finding.

Planned Corrective Action:

- a. DHS is developing a Security Monitoring Plan.
- b. The cited deficiencies are being addressed through the Bridges maintenance scope and request for change process. The changes will be promoted through the Bridges environments using the documented Bridges scope process.
- c. DHS is reviewing processes to address maintenance of security agreements (location[s], electronic, retention, etc.).

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

- a. Teresa Spalding, Department of Human Services
Kathy Tober, Department of Human Services
- b. Tess Layman, Department of Technology, Management, and Budget
David Fox, Department of Technology, Management, and Budget
Foster Joseph, Department of Technology, Management, and Budget
- c. Teresa Spalding, Department of Human Services
Kathy Tober, Department of Human Services

FINDING 2011-003

MDOT, Reporting - FFATA Reporting

Federal Agency	U.S. Department of Transportation	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Airport Improvement Program: CFDA 20.106	
Award Identification Number and Year	3-26-SBGP-4506	02/23/2006 - 09/30/2009
	3-26-SBGP-4606	04/04/2006 - 09/30/2009
	3-26-SBGP-4706	08/18/2006 - 09/30/2009
	3-26-SBGP-4806	09/05/2006 - 09/30/2009
	3-26-SBGP-5007	06/15/2007 - 09/30/2010
	3-26-SBGP-5107	08/20/2007 - 09/30/2010
	3-26-SBGP-5407	09/28/2007 - 09/30/2010
	3-26-SBGP-5508	04/15/2008 - 09/30/2011
	3-26-SBGP-5608	06/12/2008 - 09/30/2011
	3-26-SBGP-5708	08/25/2008 - 09/30/2011
	3-26-SBGP-5808	08/25/2008 - 09/30/2011
	3-26-SBGP-5908	08/25/2008 - 09/30/2011
	3-26-SBGP-6008	09/16/2008 - 09/30/2011
	3-26-SBGP-6108	09/16/2008 - 09/30/2011
	3-26-SBGP-6209	02/20/2009 - 09/30/2012
	3-26-SBGP-6509	06/23/2009 - 09/30/2012
	3-26-SBGP-6610	03/09/2010 - 09/30/2013
	3-26-SBGP-6710	03/15/2010 - 09/30/2013
	3-26-SBGP-6810	03/29/2010 - 09/30/2013
	3-26-SBGP-6910	03/30/2010 - 09/30/2013
	3-26-SBGP-7010	07/01/2010 - 09/30/2013
	3-26-SBGP-7110	08/11/2010 - 09/30/2013
	3-26-SBGP-7210	08/11/2010 - 09/30/2013

	3-26-SBGP-7310	08/11/2010 - 09/30/2013
	3-26-SBGP-7410	08/11/2010 - 09/30/2013
	3-26-SBGP-7610	09/24/2010 - 09/30/2013
	3-26-SBGP-7711	03/11/2011 - 09/30/2014
	3-26-SBGP-7811	06/23/2011 - 09/30/2014
Total Expenditures of Federal Awards	\$30,824,000	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Transportation	

Federal Agency	U.S. Department of Transportation
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Highway Planning and Construction Cluster: CFDA 20.205 and 20.205 (ARRA)
Award Identification Number and Year	Various
Total Expenditures of Federal Awards	\$1,281,064,803
Total ARRA Expenditures	\$162,159,988
Compliance Requirement(s)	Reporting
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Transportation

Condition

The Michigan Department of Transportation (MDOT) did not report any Airport Improvement Program (AIP) or Highway Planning and Construction Cluster subaward information as required by the Federal Funding Accountability and Transparency Act of 2006 (FFATA).

Criteria

Title 2, Part 170 of the *Code of Federal Regulations** (CFR) implemented FFATA and requires that recipients report, on the federal Web site, each action that obligates \$25,000 or more in federal funds by the end of the month following the month in which the subaward was made.

* See glossary at end of report for definition.

Cause

MDOT informed us that it did not report any of the required AIP and Highway Planning and Construction Cluster subaward information during fiscal year 2010-11 because it appeared that legislation was going to pass which would make the FFATA reporting requirements obsolete.

Effect

MDOT grant information was not available for public access through the Web site established to improve transparency of governmental spending. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that MDOT report the AIP and Highway Planning and Construction Cluster subaward information as required by FFATA.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees with the finding. In 2010, the Federal Highway Administration (FHWA) instructed MDOT not to comply with this requirement because FHWA stated that it anticipated that the U.S. Congress would replace the existing FFATA reporting requirement. Subsequently, the U.S. Congress did not enact the replacement reporting requirement.

Planned Corrective Action:

In February 2013, MDOT began to report new FHWA grants on the FFATA Subaward Reporting System Web site located at <<https://www.fsrs.gov>>, in compliance with FFATA, and began updating the Web site for previously unreported grants.

Anticipated Completion Date:

December 31, 2013

Responsible Individual(s):

Patrick McCarthy, Department of Transportation

FINDING 2011-004

DHS, Subrecipient Monitoring - DUNS Numbers

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Support Enforcement: CFDA 93.563
Award Identification Number and Year	G 11 04 MI 4004 10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$154,764,197
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: CFDA 93.674
Award Identification Number and Year	G 10 01 MI 1420 10/01/2009 - 09/30/2011
Total Expenditures of Federal Awards	\$4,763,386
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring

Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS did not ensure that it obtained the Data Universal Numbering System (DUNS) numbers for all of its TANF, Child Support Enforcement (CSE), and Chafee Foster Care Independence Program (CFCIP) subrecipients* before it issued awards to subrecipients.

We reviewed random samples of subrecipients that received subawards through TANF, CSE, and CFCIP in fiscal year 2010-11. As noted in the following table, DHS did not obtain the DUNS number for all subrecipients reviewed:

<u>Program</u>	<u>Sample</u>	<u>Population</u>	<u>Missing DUNS</u>	<u>Percentage of Missing DUNS</u>
TANF	25	136	3	12%
CSE	8	82	8	100%
CFCIP	3	14	1	33%

Criteria

Effective October 1, 2010, federal regulation 2 *CFR* 25 requires that DHS only make a subaward to a subrecipient that provided its DUNS number prior to DHS's issuance of the subaward. The DUNS number is used to provide a means to identify entities receiving awards and their business relationships. The identifier is used for tracking purposes, validating addresses and point of contact information, and transparency reporting.

Cause

DHS informed us that it was not aware that the requirement was effective October 1, 2010 and did not begin obtaining DUNS numbers for subrecipients until fiscal year 2012-13 funds were awarded.

* See glossary at end of report for definition.

Effect

DHS was in noncompliance with federal requirements when it issued subawards to subrecipients prior to obtaining the subrecipients' DUNS numbers. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS ensure that it obtains DUNS numbers before it issues awards to subrecipients.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

The Office of Contracts and Purchasing began obtaining the DUNS number prior to contract execution in early 2012.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Susan Kangas, Department of Human Services

Christine Sanches, Department of Human Services

FINDING 2011-005

SNAP Cluster, Including ARRA, CFDA 10.551 and 10.561, Special Tests and Provisions – ADP System for SNAP

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	SNAP Cluster, Including ARRA: CFDA 10.551 and 10.561

Award Identification Number and Year	EBT-2010	10/01/2009 - 09/30/2010
	EBT-2011	10/01/2010 - 09/30/2011
	SNAP Benefits (ARRA)	
	2011	10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$3,270,952,799	
Total ARRA Expenditures	\$493,781,926	
Compliance Requirement(s)	Special Tests and Provisions - ADP System for SNAP	
Type of Finding	Material Weakness and Scope Limitation for Compliance	
Known Questioned Costs	Undeterminable	
Repeat Finding	Not Applicable	
State Agencies	Department of Human Services and Department of Technology, Management, and Budget	

Background

DHS's Automated Data Processing (ADP) System for the Supplemental Nutrition Assistance Program (SNAP) is the Bridges Integrated Automated Eligibility Determination System (Bridges). Bridges obtains and utilizes information from the Income and Eligibility Verification System (IEVS) to verify the eligibility and benefit levels of applicants and participating households for SNAP. To obtain IEVS information, Bridges conducts data exchanges through interfaces with various governmental agencies. Bridges disseminates the IEVS information obtained from the various interfaces through electronic notifications in Bridges to the recipients' local office caseworkers to determine SNAP recipients' eligibility and benefit level.

Condition

DHS and DTMB were unable to provide sufficient documentation to demonstrate that Bridges accurately and completely processed, stored, and provided notification of all IEVS information for SNAP eligibility determinations and benefit calculations. In addition, DHS's internal control did not ensure that local office caseworkers utilized the IEVS information for SNAP eligibility determinations and benefit calculations. Our review disclosed:

- a. DHS and DTMB could not provide documentation to support that DHS and DTMB included each applicable recipient in the IEVS interfaces and that Bridges stored each recipient's information obtained from the IEVS interfaces.

- b. DHS and DTMB had not established effective processing controls over Bridges interfaces with the required data sources to ensure that DHS and DTMB requested and obtained IEVS information to determine a recipient's eligibility for SNAP benefits (see Finding 2011-001, DHS Bridges Interface and Change Controls).
- c. DHS, in conjunction with DTMB, could not provide sufficient documentation to support that Bridges provided notification to DHS local office caseworkers to take action to terminate, deny, or reduce recipient benefits based on information obtained through IEVS.
- d. DHS had not established a process to review and monitor the Bridges electronic notifications provided to local office caseworkers to ensure that DHS utilized the information obtained from IEVS to determine the recipient's eligibility and the accuracy of the recipient's benefit calculation. We noted that for some IEVS interface data matches local office caseworkers could manually delete the electronic notifications without utilizing the information to determine the recipient's eligibility and benefit calculation.

Criteria

Title 7, Part 272, section 10 of the *Code of Federal Regulations (CFR)* requires all state agencies to sufficiently automate their food stamp program operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning the food stamp program. This includes processing and storing all case record information necessary for eligibility determination and benefit calculation and notifying the certification unit of cases requiring action. Also, federal regulation 7 *CFR* 272.10 (b) states that, in order to meet the requirements, a food stamp system must be automated for certification and meet the requirements of IEVS. Also, federal regulation 7 *CFR* 273.2(f)(9) requires the state agency to take action to terminate, deny, or reduce benefits based on information obtained through the IEVS processes. Further, federal regulation 7 *CFR* 272.8(e) requires that the state agency must document information obtained through the IEVS both when an adverse action is and is not instituted.

Cause

DHS and DTMB informed us that it had not developed and implemented an audit trail for the IEVS interfaces that tracked and monitored activity attributable to each recipient because of limited resources. Also, DHS and DTMB informed us that there were

various reasons why they had not established effective controls over Bridges interface processes (see Finding 2011-001, DHS Bridges Interface and Change Controls). In addition, DHS informed us that it did not have a mechanism in place to force local office caseworkers to utilize the IEVS interface information communicated through Bridges electronic notifications to determine recipients' eligibility and benefit calculation.

Effect

DHS and DTMB were unable to demonstrate compliance with the ADP System for SNAP special tests and provisions compliance requirement.

Known Questioned Costs

As a result of the scope limitation, questioned costs were undeterminable.

Recommendations

We recommend that DHS, in conjunction with DTMB, develop and maintain documentation to demonstrate that Bridges accurately and completely processes, stores, and provides notification of all IEVS information for SNAP eligibility determinations and benefit calculations.

We also recommend that DHS implement internal control to ensure that local office caseworkers utilize IEVS information for SNAP eligibility determinations and benefit calculations.

Management Views and Corrective Action Plan

Management Views:

DHS and DTMB generally agree with the finding. It should be noted that, while the documentation was not readily available, end user testing was performed during the system development and again as system changes are made. The end user testing yielded the expected results for eligibility determinations.

Planned Corrective Action:

- a. DTMB will continue work to obtain the necessary documentation from the Bridges application.

- b. DHS and DTMB will develop a detailed corrective action plan to address the issues noted in the finding.
- c. DTMB will continue work to obtain the necessary documentation from the Bridges application.
- d. DHS has established a workgroup of stakeholders from the department to evaluate the necessity or redundancy of tasks and reminders. By reducing the number of tasks and reminders, it will allow caseworkers to concentrate their efforts on those that have an effect on eligibility determination and benefit calculations (e.g., IEVS).

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Teresa Spalding, Department of Human Services

Rich DeMello, Department of Technology, Management, and Budget

Terry Beurer, Director, Department of Human Services

FINDING 2011-006

CDBG - State-Administered CDBG Cluster, CFDA 14.228 and 14.255 (ARRA), Reporting - Section 3 Summary Report

Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CDBG - State-Administered CDBG Cluster: CFDA 14.228 and 14.255 (ARRA)
Award Identification Number and Year	B-10-DC-26-0001 07/01/2010 - Until Expended B-11-DC-26-0001 07/01/2011 - Until Expended B-09-DY-26-0001 06/29/2009 - 09/30/2012
Total Expenditures of Federal Awards	\$65,989,922
Total ARRA Expenditures	\$6,970,791
Compliance Requirement(s)	Reporting
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Strategic Fund

Condition

The Michigan Strategic Fund (MSF) did not ensure that grants awarded directly by MSF for other public construction were included in the Section 3 Summary Report (HUD 60002). In addition, MSF did not review the Section 3 Summary Report prepared by the Michigan State Housing Development Authority (MSHDA), its subrecipient responsible for administering the housing component of the Michigan Community Development Block Grant (CDBG) program, prior to its submission.

MSF relied on MSHDA to prepare and submit the Section 3 Summary Report. However, MSHDA's reporting did not include MSF's grants for other public construction. Our review of 25 MSF grants for other public construction with expenditures during fiscal year 2010-11 noted that 20 (80%) grants included funding for projects that met the threshold for reporting on the Section 3 Summary Report. Construction expenditures for these 20 grants totaled approximately \$20 million during fiscal year 2010-11; however, the Section 3 Summary Report submitted for the period July 1, 2010 through June 30, 2011 included only \$1,464,603 in construction contract awards.

Criteria

Appendix A to federal regulation 2 *CFR* 25 requires MSF to submit an annual Section 3 Summary Report (HUD 60002) for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction. Section 3 Summary Reports are intended to measure compliance with Section 3 of the Housing and Urban Development Act of 1968, as amended, which provides that employment and other economic opportunities generated by certain HUD financial assistance shall, to the greatest extent feasible, be directed to low-income and very low-income persons.

Cause

MSF informed us that it believed the reporting requirement applied only to housing projects; therefore, it relied solely on MSHDA to complete and submit this report.

Effect

MSF did not report information necessary for the federal grantor agency to monitor its program. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendations

We recommend that MSF ensure that grants awarded directly by MSF for other public construction are included in the Section 3 Summary Report (HUD 60002).

We also recommend that MSF review the Section 3 Summary Report prepared by MSHDA, its subrecipient, prior to submission.

Management Views and Corrective Action Plan

Management Views:

MSF agrees with the finding.

Planned Corrective Action:

MSF has revised its process to ensure that CDBG staff identify grant awards greater than \$200,000 that include public construction. The Section 3 language will be included in those grant agreements and the subrecipient will be required to provide a Section 3 Action Plan, Fair Housing Ordinance, and Section 504 Compliance prior to disbursement of CDBG funds.

Subrecipients will also be required to submit an annual Section 3 Recipient Contractor Activity Report and show evidence of implementation of Section 3 requirements during the required monitoring visit. MSF will ensure that awards subject to Section 3 are identified and will use information provided by subrecipients to prepare the Section 3 Summary Report (HUD 60002).

In addition, MSF will also review reports from MSHDA prior to submission and reconcile based on MSF records of MSHDA awards.

Anticipated Completion Date:

July 1, 2013

Responsible Individual(s):

Deborah Stuart, Michigan Strategic Fund

FINDING 2011-007

CDBG - State-Administered CDBG Cluster, CFDA 14.228 and 14.255 (ARRA), Subrecipient Monitoring

Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CDBG - State-Administered CDBG Cluster: CFDA 14.228 and 14.255 (ARRA)
Award Identification Number and Year	B-10-DC-26-0001 07/01/2010 - Until Expended B-11-DC-26-0001 07/01/2011 - Until Expended B-09-DY-26-0001 06/29/2009 - 09/30/2012
Total Expenditures of Federal Awards	\$65,989,922
Total ARRA Expenditures	\$6,970,791
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Strategic Fund

Condition

MSF did not monitor subrecipients* for compliance with all Section 3 requirements of the Housing and Urban Development Act of 1968, as amended.

Although MSF informed subrecipients of the requirement for including a Section 3 clause in applicable construction contracts and checked for this during site visits, it did not monitor subrecipients for compliance with other Section 3 requirements. MSF distributed \$62.3 million (94%) of \$66.0 million total expenditures to subrecipients.

Criteria

Section 3 of the Housing and Urban Development Act of 1968, as amended, provides that job training, employment, contracting, and other economic opportunities generated by certain HUD financial assistance shall, to the greatest extent feasible, be directed to low-income and very low-income persons. Federal regulation 24 *CFR* 135.32(f) requires MSF to inform subrecipients of Section 3 requirements, assist subrecipients and their contractors in meeting Section 3 requirements, and monitor the performance of subrecipients with respect to Section 3 requirements.

* See glossary at end of report for definition.

Cause

MSF informed us that it was waiting for guidance from HUD regarding how to monitor subrecipients for compliance with Section 3 requirements.

Effect

MSF could not be assured that subrecipients complied with Section 3 requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that MSF monitor subrecipients for compliance with all Section 3 requirements of HUD.

Management Views and Corrective Action Plan

Management Views:

MSF agrees with the finding.

Planned Corrective Action:

MSF has revised its process to ensure that CDBG staff identify grant awards greater than \$200,000 that include public construction. The Section 3 language will be included in those grant agreements and the subrecipient will be required to provide a Section 3 Action Plan, Fair Housing Ordinance, and Section 504 Compliance prior to disbursement of CDBG funds.

Subrecipients will also be required to submit an annual Section 3 Recipient Contractor Activity Report and show evidence of implementation of Section 3 requirements during the required monitoring visit. MSF will ensure that awards subject to Section 3 are identified and will use information provided by subrecipients to prepare the Section 3 Summary Report (HUD 60002).

In addition, MSF will also review reports from MSHDA prior to submission and reconcile based on MSF records of MSHDA awards.

Anticipated Completion Date:
July 1, 2013

Responsible Individual(s):
Deborah Stuart, Michigan Strategic Fund

FINDING 2011-008

CDBG - State-Administered CDBG Cluster, CFDA 14.228 and 14.255 (ARRA), Subrecipient Monitoring - DUNS Numbers

Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CDBG - State-Administered CDBG Cluster: CFDA 14.228 and 14.255 (ARRA)
Award Identification Number and Year	B-10-DC-26-0001 07/01/2010 - Until Expended B-11-DC-26-0001 07/01/2011 - Until Expended B-09-DY-26-0001 06/29/2009 - 09/30/2012
Total Expenditures of Federal Awards	\$65,989,922
Total ARRA Expenditures	\$6,970,791
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Strategic Fund

Condition

MSF did not ensure that it obtained subrecipients' DUNS numbers before it awarded grants to them.

Our review of 6 non-ARRA grants awarded during fiscal year 2010-11 disclosed that MSF did not document whether 4 (67%) subrecipients provided their DUNS numbers prior to MSF awarding funds. MSF distributed \$62.3 million (94%) of \$66.0 million total expenditures to subrecipients.

Criteria

Appendix A to federal regulation 2 CFR 25 requires MSF to ensure that potential subrecipients of non-ARRA awards provide their DUNS numbers prior to MSF awarding funds.

Cause

Although MSF instructed potential subrecipients to register for a DUNS number on the grant application form, it did not require subrecipients to provide their DUNS numbers prior to MSF awarding funds.

Effect

MSF was in noncompliance with federal requirements when it issued subawards to subrecipients prior to obtaining the subrecipients' DUNS numbers. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that MSF ensure that it obtains subrecipients' DUNS numbers before it awards grants to them.

Management Views and Corrective Action Plan

Management Views:

MSF agrees with the finding.

Planned Corrective Action:

CDBG staff implemented a new grant application process in July 2012 that requires DUNS numbers. Receipt of the DUNS number is now a requirement prior to consideration by the MSF Board and execution of the grant agreement.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Deborah Stuart, Michigan Strategic Fund

FINDING 2011-009**Airport Improvement Program, CFDA 20.106, Davis-Bacon Act**

Federal Agency	U.S. Department of Transportation
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Airport Improvement Program: CFDA 20.106
Award Identification Number and Year	3-26-SBGP-4506 02/23/2006 - 09/30/2009 3-26-SBGP-4606 04/04/2006 - 09/30/2009 3-26-SBGP-4706 08/18/2006 - 09/30/2009 3-26-SBGP-4806 09/05/2006 - 09/30/2009 3-26-SBGP-5007 06/15/2007 - 09/30/2010 3-26-SBGP-5107 08/20/2007 - 09/30/2010 3-26-SBGP-5407 09/28/2007 - 09/30/2010 3-26-SBGP-5508 04/15/2008 - 09/30/2011 3-26-SBGP-5608 06/12/2008 - 09/30/2011 3-26-SBGP-5708 08/25/2008 - 09/30/2011 3-26-SBGP-5808 08/25/2008 - 09/30/2011 3-26-SBGP-5908 08/25/2008 - 09/30/2011 3-26-SBGP-6008 09/16/2008 - 09/30/2011 3-26-SBGP-6108 09/16/2008 - 09/30/2011 3-26-SBGP-6209 02/20/2009 - 09/30/2012 3-26-SBGP-6509 06/23/2009 - 09/30/2012 3-26-SBGP-6610 03/09/2010 - 09/30/2013 3-26-SBGP-6710 03/15/2010 - 09/30/2013 3-26-SBGP-6810 03/29/2010 - 09/30/2013 3-26-SBGP-6910 03/30/2010 - 09/30/2013 3-26-SBGP-7010 07/01/2010 - 09/30/2013 3-26-SBGP-7110 08/11/2010 - 09/30/2013 3-26-SBGP-7210 08/11/2010 - 09/30/2013 3-26-SBGP-7310 08/11/2010 - 09/30/2013 3-26-SBGP-7410 08/11/2010 - 09/30/2013 3-26-SBGP-7610 09/24/2010 - 09/30/2013 3-26-SBGP-7711 03/11/2011 - 09/30/2014 3-26-SBGP-7811 06/23/2011 - 09/30/2014
Total Expenditures of Federal Awards	\$30,824,000
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Davis-Bacon Act
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Transportation

Condition

MDOT did not maintain documentation to support whether it reviewed certified payrolls for 3 (30%) of 10 randomly sampled MDOT-let projects with final payments issued in fiscal year 2010-11.

Criteria

Federal regulation 29 *CFR* 5.5 requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds be paid wages not less than those established for the locality of the project by the U.S. Department of Labor (prevailing wage rates). Federal regulation 29 *CFR* 5.5 also requires the contractor or subcontractor to submit a copy of the payroll and statement of compliance to MDOT or the airport sponsor weekly for each week in which any contract work is performed. The terms and conditions of accepting Airport Improvement Program Grants require MDOT to review the payrolls for federal labor and civil rights requirements.

Cause

MDOT informed us that staffing changes had caused difficulty in locating the documentation to support its review of certified payrolls.

Effect

MDOT could not demonstrate that it ensured that laborers and mechanics who worked on MDOT-let projects were paid prevailing wage rates. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that MDOT maintain documentation to support its reviews of certified payrolls for MDOT-let projects.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees with the recommendation.

Planned Corrective Action:

MDOT will improve its internal control process and maintain documentation to support its reviews of certified payrolls for MDOT-let projects.

Anticipated Completion Date:

September 30, 2013

Responsible Individual(s):

Mike Trout, Department of Transportation

FINDING 2011-010

Airport Improvement Program, CFDA 20.106, Period of Availability

Federal Agency	U.S. Department of Transportation	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Airport Improvement Program: CFDA 20.106	
Award Identification Number and Year	3-26-SBGP-4506	02/23/2006 - 09/30/2009
	3-26-SBGP-4606	04/04/2006 - 09/30/2009
	3-26-SBGP-4706	08/18/2006 - 09/30/2009
	3-26-SBGP-4806	09/05/2006 - 09/30/2009
	3-26-SBGP-5007	06/15/2007 - 09/30/2010
	3-26-SBGP-5107	08/20/2007 - 09/30/2010
	3-26-SBGP-5407	09/28/2007 - 09/30/2010
	3-26-SBGP-5508	04/15/2008 - 09/30/2011
	3-26-SBGP-5608	06/12/2008 - 09/30/2011
	3-26-SBGP-5708	08/25/2008 - 09/30/2011
	3-26-SBGP-5808	08/25/2008 - 09/30/2011
	3-26-SBGP-5908	08/25/2008 - 09/30/2011
	3-26-SBGP-6008	09/16/2008 - 09/30/2011
	3-26-SBGP-6108	09/16/2008 - 09/30/2011
	3-26-SBGP-6209	02/20/2009 - 09/30/2012
	3-26-SBGP-6509	06/23/2009 - 09/30/2012
	3-26-SBGP-6710	03/15/2010 - 09/30/2013
	3-26-SBGP-6610	03/09/2010 - 09/30/2013
	3-26-SBGP-6810	03/29/2010 - 09/30/2013
	3-26-SBGP-6910	03/30/2010 - 09/30/2013
	3-26-SBGP-7010	07/01/2010 - 09/30/2013
	3-26-SBGP-7110	08/11/2010 - 09/30/2013
	3-26-SBGP-7210	08/11/2010 - 09/30/2013
	3-26-SBGP-7310	08/11/2010 - 09/30/2013
	3-26-SBGP-7410	08/11/2010 - 09/30/2013
	3-26-SBGP-7610	09/24/2010 - 09/30/2013

	3-26-SBGP-7711	03/11/2011 - 09/30/2014
	3-26-SBGP-7811	06/23/2011 - 09/30/2014
Total Expenditures of Federal Awards	\$30,824,000	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Period of Availability	
Type of Finding	Material Weakness and Noncompliance	
Known Questioned Costs	\$479,469	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Transportation	

Condition

MDOT did not expend AIP grant funding within the period of availability. Our comparison of grant expenditures to the 7 grant awards with periods of availability that ended on or before September 30, 2011 disclosed that MDOT expended a total of \$479,469 more than four years after the date of grant acceptance for 5 of the grant awards.

Criteria

Chapter 10, Section 4 of the Federal Aviation Administration (FAA) Order 5100.38C requires MDOT to expend grant funding for each grant within four years from the date of grant acceptance.

Cause

MDOT informed us that it expended grant funding within five years from the date of the grant awards based on guidance the FAA provided to MDOT. We contacted the FAA to obtain clarification regarding the FAA period of availability requirements. The FAA informed us that the additional year provided is for paperwork preparation and submission purposes only.

Effect

The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs of \$479,469. The questioned costs represent the known amount of fiscal year 2010-11 AIP expenditures made after the period of availability.

Recommendation

We recommend that MDOT expend AIP grant funding within the period of availability.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees with the recommendation.

Planned Corrective Action:

MDOT will improve its internal control process to ensure AIP grant funding is expended within the period of availability.

Anticipated Completion Date:

September 30, 2013

Responsible Individual(s):

Mike Trout, Department of Transportation

FINDING 2011-011

Airport Improvement Program, CFDA 20.106, Procurement and Suspension and Debarment

Federal Agency	U.S. Department of Transportation	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Airport Improvement Program: CFDA 20.106	
Award Identification Number and Year	3-26-SBGP-4506	02/23/2006 - 09/30/2009
	3-26-SBGP-4606	04/04/2006 - 09/30/2009
	3-26-SBGP-4706	08/18/2006 - 09/30/2009
	3-26-SBGP-4806	09/05/2006 - 09/30/2009
	3-26-SBGP-5007	06/15/2007 - 09/30/2010
	3-26-SBGP-5107	08/20/2007 - 09/30/2010
	3-26-SBGP-5407	09/28/2007 - 09/30/2010
	3-26-SBGP-5508	04/15/2008 - 09/30/2011
	3-26-SBGP-5608	06/12/2008 - 09/30/2011
	3-26-SBGP-5708	08/25/2008 - 09/30/2011
	3-26-SBGP-5808	08/25/2008 - 09/30/2011
	3-26-SBGP-5908	08/25/2008 - 09/30/2011
	3-26-SBGP-6008	09/16/2008 - 09/30/2011
	3-26-SBGP-6108	09/16/2008 - 09/30/2011
	3-26-SBGP-6209	02/20/2009 - 09/30/2012
	3-26-SBGP-6509	06/23/2009 - 09/30/2012
	3-26-SBGP-6610	03/09/2010 - 09/30/2013
	3-26-SBGP-6710	03/15/2010 - 09/30/2013
	3-26-SBGP-6810	03/29/2010 - 09/30/2013
	3-26-SBGP-6910	03/30/2010 - 09/30/2013

	3-26-SBGP-7010	07/01/2010 - 09/30/2013
	3-26-SBGP-7110	08/11/2010 - 09/30/2013
	3-26-SBGP-7210	08/11/2010 - 09/30/2013
	3-26-SBGP-7310	08/11/2010 - 09/30/2013
	3-26-SBGP-7410	08/11/2010 - 09/30/2013
	3-26-SBGP-7610	09/24/2010 - 09/30/2013
	3-26-SBGP-7711	03/11/2011 - 09/30/2014
	3-26-SBGP-7811	06/23/2011 - 09/30/2014
Total Expenditures of Federal Awards	\$30,824,000	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Procurement and Suspension and Debarment	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs	\$509,264	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Transportation	

Condition

MDOT did not ensure that airport sponsors* used qualifications-based selection (QBS) procedures in the selection and engagement of consultants. During fiscal year 2010-11, MDOT expended \$5.1 million on airport consulting activities.

We randomly selected 12 (13%) of 93 consultant contracts established in fiscal year 2010-11 for review. Our review disclosed that airport sponsors did not follow QBS procedures for 3 (25%) of the 12 consultant contracts reviewed. In addition, airport sponsors did not provide adequate documentation to support whether they followed QBS procedures for 8 (67%) of the 12 consultant contracts reviewed.

Criteria

FAA Advisory Circular 150/5100-14D requires airport sponsors to award consultant contracts using QBS procedures. Specifically, FAA Advisory Circular 150/5100-14D requires airport sponsors to award consultant contracts based on the qualifications of the consultant and to negotiate the fees for services with the best qualified consultant.

Cause

MDOT informed us that, to ensure airport sponsor compliance with consultant procurement requirements, it developed Consultant Procurement Guidelines for the airport sponsors and obtained certifications from the airport sponsors attesting that the airport sponsors would use QBS procedures. Also, MDOT stated that it relied on MDOT

* See glossary at end of report for definition.

reviews and FAA audits of airport sponsor records. Our review disclosed that MDOT's Consultant Procurement Guidelines did not always provide clear guidance. In addition, MDOT did not perform any reviews of or additional monitoring related to the procurement of consultants. Further, MDOT could not provide support that the FAA audited the airport sponsors' consultant selection records during fiscal year 2010-11.

Effect

The airport sponsors may not have selected the most qualified consultants, which could diminish the quality of the projects and increase total project costs. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs of \$509,264. The questioned costs represent fiscal year 2010-11 expenditures for the 11 sampled contracts in which airport sponsors either did not follow QBS procedures (\$228,692) or did not provide adequate documentation to support whether they followed QBS procedures (\$280,572).

Recommendation

We recommend that MDOT ensure that airport sponsors use QBS procedures in the selection and engagement of consultants.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees with the finding.

Planned Corrective Action:

MDOT will improve its internal control process to ensure that airport sponsors use QBS procedures in the selection and engagement of consultants. This will include a form that all sponsors will complete to help ensure compliance.

Anticipated Completion Date:

September 30, 2013

Responsible Individual(s):

Mike Trout, Department of Transportation

FINDING 2011-012

Highway Planning and Construction Cluster, CFDA 20.205 and 20.205 (ARRA), Subrecipient Monitoring

Federal Agency	U.S. Department of Transportation
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Highway Planning and Construction Cluster: CFDA 20.205 and 20.205 (ARRA)
Award Identification Number and Year	Various
Total Expenditures of Federal Awards	\$1,281,064,803
Total ARRA Expenditures	\$162,159,988
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Education and Michigan Department of Transportation

Condition

The Accounting Service Center (ASC), within the Michigan Department of Education, and MDOT did not receive an audit report or document that an audit was not required for 8 (53%) of 15 Highway Planning and Construction Cluster subrecipients reviewed. Also, ASC, in conjunction with MDOT, did not ensure that a management decision was issued for the 2 audits. Our review disclosed that 2 (29%) of the 7 audit reports received contained a finding related to the Highway Planning and Construction Cluster.

Criteria

OMB Circular A-133, Section 400(d)(4) requires the State to ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year obtain a single audit. Also, OMB Circular A-133, Section 400(d)(5) requires the State to issue a management decision on subrecipient audit findings related to its federal awards within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Cause

A service level agreement was established between the newly created ASC, within the Michigan Department of Education, and MDOT for the review and monitoring of subrecipient audits effective October 1, 2011. The agreement established new

responsibilities for ASC and MDOT that led to some difficulties in the implementation of the new subrecipient monitoring process. MDOT's understanding was that ASC was going to begin its review with the 2010 year-end audit reports, so MDOT did not review any subrecipient audit reports. Because of audit backlogs, ASC did not finish its review of the 2010 year-end audit reports. ASC informed us that the audit backlog was partially because of the ASC staff turnover, training, and learning curves associated with the new process.

Effect

MDOT has limited assurance that subrecipients complied with grant requirements and implemented corrective action for audit findings. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendations

We recommend that ASC, within the Michigan Department of Education, and MDOT ensure that they receive an audit report or document that an audit is not required for Highway Planning and Construction Cluster subrecipients.

We also recommend that ASC and MDOT ensure that a management decision is issued for findings related to the Highway Planning and Construction Cluster.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees with the finding.

Planned Corrective Action:

MDOT will continue to provide the Accounting Service Center (ASC) with all required subrecipient information and will work with the ASC to ensure monitoring is performed.

Anticipated Completion Date:

September 30, 2013

Responsible Individual(s):

Patrick McCarthy, Department of Transportation

FINDING 2011-013

State Energy Program, CFDA 81.041 and 81.041 (ARRA), Procurement and Suspension and Debarment

Federal Agency	U.S. Department of Energy
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	State Energy Program: CFDA 81.041 ARRA - State Energy Program: CFDA 81.041
Award Identification Number and Year	DE-FG26-07NT43165 10/01/2007 - 09/30/2011 DE-EE0000166 04/17/2009 - 04/30/2012
Total Expenditures of Federal Awards	\$34,117,550
Total ARRA Expenditures	\$33,302,950
Compliance requirement(s)	Procurement and Suspension and Debarment
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Economic Development Corporation and Department of Technology, Management, and Budget

Condition

The Michigan Economic Development Corporation (MEDC) and DTMB did not include language informing the contractor that, by signing the contract, it was certifying that it had not been suspended or debarred for 1 of 2 vendor contracts. MEDC distributed \$14.7 million and \$10.9 million to 34 subrecipients and 7 vendors, respectively, during the audit period. We randomly selected and reviewed 6 subrecipient and 2 vendor contracts.

Criteria

Federal regulation 10 *CFR* 600.113 restricts subawards and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities. Federal regulation 2 *CFR* 180.300 identifies the acceptable methods by which the awarding agency should verify that a recipient is not suspended or debarred, including checking the federal Excluded Parties List System, collecting a certification from the recipient, or adding a clause or condition to the agreement with the recipient.

Cause

MEDC and DTMB did not have a process in place prior to 2011, when this contract was entered into, to collect a certification or to verify that the vendor had not been suspended or debarred. Based on our testing, contracts entered into during 2011 contained the appropriate language.

Effect

MEDC and DTMB could have potentially provided grant funds to a subrecipient or vendor that was suspended or debarred. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We verified, through review of the federal Excluded Parties List System, that the vendor was not suspended or debarred; therefore, we did not identify questioned costs related to this finding.

Recommendation

We recommend that MEDC and DTMB ensure that they have collected certifications from subrecipients and vendors.

Management Views and Corrective Action Plan

Management Views:

MEDC agrees with the finding and recommendation. It should be noted that at the time of the finding, the responsible agency was the Department of Licensing and Regulatory Affairs. In addition, the Department of Technology, Management, and Budget was responsible for the vendor contract noted in the finding.

Planned Corrective Action:

Beginning in 2011, Design and Construction Division, the Department of Technology, Management, and Budget, required submission of a certification related to suspension and debarment in all professional service type contracts.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Robert Jackson, Michigan Economic Development Corporation

FINDING 2011-014

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Use of Funds

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	4311104, part b.(1)(a)
State Agency	Department of Human Services

Background

State statute requires that DHS and Michigan county governments share in the costs of foster care and juvenile justice activities. Each county treasurer maintains a separate account called a child care fund that shall be used for the costs of providing foster care and juvenile justice services for children under the jurisdiction of the family division of the circuit court or the court of general criminal jurisdiction. DHS reimburses the county child care funds for 50% of the foster care and juvenile justice services expenditures that the counties incur for children supervised by the counties.

During our audit period, DHS completed federal cash draws of TANF Cluster funds for 100% of previously authorized Aid to Families with Dependent Children (AFDC) expenditures incurred by the counties. DHS recorded 50% of the counties' AFDC expenditures in the State's accounting records but included 100% of the counties' AFDC expenditures in DHS's schedule of expenditures of federal awards (SEFA) as TANF expenditures. DHS retained 50% of the TANF Cluster funds for other purposes rather than remitting the funds to the counties.

Condition

DHS could not document that it appropriately used TANF Cluster funds received for activities previously authorized based on an approved AFDC State Plan.

DHS informed us that it used the TANF Cluster funds it received for county expenditures as a funding source for its required 50% reimbursement to county child care funds per State statute. However, our review of county child care fund reimbursements disclosed that county child care fund reimbursed activities include other activities, such as juvenile detention, detention alternatives, probation, and foster care independent living activities, that were not previously authorized in the AFDC State Plan and, therefore, not allowable uses of TANF Cluster funds.

Criteria

Title 42, section 604(a)(2) of the *United States Code (USC)* allows DHS to use TANF Cluster funds in any manner that DHS was authorized to use amounts received under the AFDC State Plan in effect on September 30, 1995 or, at State option, on August 21, 1996.

Also, federal regulation 45 *CFR* 92.20(a)(2) requires that DHS's fiscal control and accounting procedures must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of TANF statutes.

In addition, 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.

Cause

DHS's accounting records did not permit the tracing of TANF Cluster funds drawn and received for previously authorized AFDC activities to a level of expenditures that ensured the funds were used only for previously authorized AFDC activities. DHS informed us that it used the TANF Cluster funds drawn and received in accordance with its TANF Cluster spending budget. However, DHS's TANF Cluster spending budget did not specify the activities that DHS planned to reimburse. The TANF Cluster spending budget simply included a plan for a gross "child care fund" amount.

Effect

DHS potentially used TANF Cluster funds for activities not allowed by TANF Cluster laws or regulations. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Questioned costs were undeterminable.

Recommendation

We recommend that DHS document that it appropriately used TANF Cluster funds received for activities previously authorized based on an approved AFDC State Plan.

Management Views and Corrective Action Plan

Management Views:

DHS disagrees with the finding. In compliance with 45 *CFR* 92.20(a)(2), DHS is able to trace the TANF funds claimed to emergency foster care and in-home services Child Care Fund costs incurred based on billings submitted by county governments. DHS believes that these billings, and DHS's subsequent review of the billings for TANF allowability, are sufficient to establish that the TANF funds have not been used in violation of applicable statutes.

DHS has made concerted efforts over the past several years to obtain federal clarification from the federal cognizant agency, starting with the regional office and then later with the national office. At no point has DHS received any formal or informal notification from applicable federal agencies that DHS violated any regulations by drawing down funds, or in the subsequent use of the funds.

Planned Corrective Action:

DHS disagrees with the finding and does not intend to implement corrective action.

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Amanda Bright McClanahan, Department of Human Services

FINDING 2011-015

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Unallowable Juvenile Justice Expenditures

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$3,946,921
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS claimed \$3,946,921 of juvenile justice expenditures in the TANF Cluster that were not authorized in the prior AFDC State Plan or TANF Cluster laws and regulations.

Criteria

Federal law 42 USC 604(a)(2) allows DHS to use TANF Cluster funds in any manner that DHS was authorized to use amount received under the AFDC State Plan in effect on September 30, 1995 or, at State option, on August 21, 1996. The TANF Cluster Funding Guide states that DHS may expend federal funds for activities that were previously authorized under the State's prior AFDC State Plan, including certain foster care and juvenile justice expenditures that could not otherwise be claimed under TANF Cluster federal laws and regulations. However, DHS's prior AFDC State Plan does not include juvenile justice programs.

Also, 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.

Cause

DHS used a summary level report to identify qualified TANF expenditures that were related to services provided to youth for activities related to the prevention and reduction of out-of-wedlock pregnancies. Using only the titles in the summary level report, DHS inappropriately identified and claimed four county programs that were for juvenile justice services provided to youth, not activities related to the prevention and reduction of out-of-wedlock pregnancies.

Effect

DHS paid for services that were not in accordance with the prior AFDC State Plan and TANF Cluster laws and regulations. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs of \$3,946,921, which represent the total fiscal year 2010-11 expenditures of the four juvenile justice related county programs.

Recommendation

We recommend that DHS ensure that expenditures claimed under the TANF Cluster meet the requirements of the prior AFDC State Plan or TANF Cluster laws and regulations.

Management Views and Corrective Action Plan

Management Views:

DHS disagrees with the finding. DHS does not consider the expenditures cited in the finding to be related to juvenile justice programs. DHS makes the TANF claim for Child Care Fund In-Home Care Services. Services to at-risk youth are included in the State Plan as well as family preservation services.

Although these youth entered the system through the juvenile justice system, often because of neglect and abuse, they are living with their families in their homes and are at risk of an out-of-home placement if services are not provided to the youth and their families. The amounts questioned are generally for the assessments to determine the services needed to address the needs of the youth and their families to avoid an out-of-home placement. These services qualify under not only purpose three of TANF, where claimed, but also under purpose one of TANF by providing assistance to needy families (in the form of non-cash assistance) to allow children to be cared for in their own homes.

Services included such activities as assessing the youth's needs and behavior; comprehensive assessments and specialized programming and intensive counseling to divert youth from the formal court system (adjudication); assessments designed for early identification and intervention of at-risk youth which improved the ability to differentiate between cases appropriate for plan development at the Family Resource Center and those requiring court directed services; and wrap around (e.g., counseling, mentoring, life skills) which provides supportive services to youth and their families who are at risk for out-of-home placement.

Planned Corrective Action:

DHS disagrees with the finding and does not intend to take further action.

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Amanda Bright McClanahan, Department of Human Services

Office of the Auditor General Epilogue

Management states:

DHS makes the TANF claim for Child Care Fund In-Home Care Services. Services to at-risk youth are included in the State Plan as well as family preservation services. . . . The amounts questioned are generally for the assessments to determine the services needed to address the needs of the youth and their families to avoid an out-of-home placement. These services qualify under not only purpose three of TANF, where claimed, but also under purpose one of TANF by providing assistance to needy families (in the form of non-cash assistance) to allow children to be cared for in their own homes.

Based on our review of four county Child Care Fund (CCF) fiscal year 2010-11 annual plans, the plans indicate that the services were to be provided to juvenile offenders referred or petitioned to the court for delinquency by local law enforcement, not abuse or neglect. The descriptions of the services within the CCF annual plans are not services that, in our experience and judgment, are generally provided to foster care children. These plans did not mention family preservation or families first services, which are typically foster care services similar to those described in the previous AFDC State Plan. Also, the services described in the plans did not correlate to the at-risk youth programs and services specified in DHS's TANF State Plan. Further, the individual who oversees TANF allowability, reporting, and MOE informed us that they do not review or maintain the annual CCF plans to determine the allowability of the expenditures under TANF. Because the services described in the county plans identified in the finding are generally services that relate to juvenile justice system activities and the responsible individual had not reviewed these plans in detail to validate the allowability of the services, we questioned the allowability of these expenditures under TANF.

FINDING 2011-016

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Lack of Documentation for Reverse Commute Expenditures

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)

Award Identification Number and Year	G 09 01 MI TAN2	10/01/2008 - Until expended
	G 10 01 MI TAN2	10/01/2009 - Until expended
	G 10 02 MI TANF	10/01/2009 - Until expended
	11 02 MI TANF	10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492	
Total ARRA Expenditures	\$189,737,257	
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$1,100,000	
Repeat Finding	4311104, part a.(2)	
State Agency	Department of Human Services	

Condition

DHS did not maintain survey documentation to support the recipients' need for job access reverse commute expenditures in the TANF Cluster.

DHS established an interagency agreement with MDOT to provide needy individuals with public transportation to commute to work or job related activities at a shopping mall. The interagency agreement required MDOT to have individuals using public transportation complete an annual survey to help ensure that assistance was provided only to needy individuals. Our review disclosed that the annual survey did not ask individuals using the transportation the purpose for the commute to the shopping mall to ensure that the recipients used the transportation to commute to work or job related activities.

Criteria

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. Also, federal regulation 45 *CFR* 260.20 states that 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. In addition, federal regulation 45 *CFR* 261.30 defines work activities as unsubsidized employment and job search/job readiness assistance.

Further, 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.

Cause

DHS informed us that it did not implement corrective action because it believed the estimate of the number of TANF Cluster recipients was reasonable.

Effect

DHS may have paid for job access reverse commute expenditures that were not for public transportation to work or job related activities of needy individuals. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs of \$1,100,000, which represent the total fiscal year 2010-11 expenditures paid to MDOT under the interagency agreement.

Recommendation

We recommend that DHS maintain survey documentation to support recipients' need for job access reverse commute expenditures in the TANF Cluster.

Management Views and Corrective Action Plan

Management Views:

DHS partially agrees with the finding. DHS agrees that the survey did not ask the purpose of the trip; however, MDOT officials indicated that the commute was established to take people to and from the shopping mall for employment purposes.

Planned Corrective Action:

The survey has been modified to include questions that are specific to needy individuals utilizing transportation for the sole purpose of work or job related activities.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Paul Smith, Department of Human Services

Kim Keilen, Department of Human Services

Sandra Cheatum-Dooley, Department of Human Services

FINDING 2011-017

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Lack of Eligibility Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$5,224
Repeat Finding	4311104, part c.(1)
State Agency	Department of Human Services

Condition

DHS did not maintain sufficient case record documentation to support client eligibility for 50 (78%) of 64 sampled TANF Cluster assistance case records.

DHS did not maintain documentation such as the assistance application, income and/or asset verifications, and verifications to support the age and relationship of the child to the adult in the case record in order to demonstrate that the 50 families were in need of TANF Cluster assistance.

In addition, we noted that DHS counted 45 of the case records that did not have documentation to support client eligibility toward the State's maintenance of effort (MOE) requirement.

Criteria

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. Federal regulation *CFR* 205.60(a) requires DHS to maintain records to support eligibility, including facts to support the client's need for assistance. DHS's policies and procedures require designated forms to be completed at application and redetermination of benefits.

Also, federal regulation 45 *CFR* 263.2(b) requires that funds counted as State MOE expenditures, except those expended for certain pro-family activities under the third and fourth purposes of TANF, must be expended on needy families.

In addition, 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.

Cause

DHS informed us that internal control and monitoring activities were insufficient to detect that required verification documentation was not maintained in the client's case record.

Effect

DHS may have made payments to ineligible recipients. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$5,224. These questioned costs represent the sampled expenditures for the 50 cases noted for which DHS did not maintain case record documentation to support client eligibility. We determined that the State share of these expenditures inappropriately counted as State MOE totaled \$1,751.

Recommendation

We recommend that DHS maintain sufficient case record documentation to support client eligibility for TANF Cluster assistance.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS is in the process of reviewing specific case file deficiencies noted at each local/district office to identify the areas that need improvement and where specific corrective actions can be developed. In addition, DHS has developed a report to capture the audit results for missing case files and missing documentation by each local/district office. This report will be used to establish performance metrics for each local/district office to help ensure case file accountability.

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

In addition, each local office will be responsible for ensuring 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 the case record is complete or appropriate actions are taken with the case. Case read results will be monitored by Field Services-Central Office.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services

Jane Goetschy, Department of Human Services

Local Office Directors, Department of Human Services

FINDING 2011-018

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Lack of Eligibility Redeterminations for TANF Cluster-Funded Adoption Subsidy

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$1,171
Repeat Finding	4311104, part c.(3)
State Agency	Department of Human Services

Condition

DHS did not conduct annual eligibility determinations to ensure that adoptive families met eligibility requirements for 2 of 4 sampled TANF Cluster-funded adoption subsidy case records.

We randomly selected 68 TANF Cluster client case records for review, of which 4 clients received TANF Cluster-funded adoption subsidies. For one of the 2 exceptions, the annual redetermination report was completed after the date of payment for the sampled adoption subsidy. For the other exception, the adopted child's birthday was after the date of payment for the sampled adoption subsidy and the annual redetermination report was not completed as of the date of our review.

Criteria

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.

Also, 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.

Cause

DHS established a process in August 2010 to send annual redetermination reports to adoptive parents based on the adopted child's birthday; however, the process was not fully implemented until March 2012.

Effect

DHS may have made payments to recipients who do not qualify for TANF Cluster-funded adoption subsidy. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$1,171. The questioned costs represent the 2 sampled expenditures for the case records noted for which DHS did not conduct the required annual eligibility determinations.

Recommendation

We recommend that DHS conduct annual eligibility determinations to ensure that adoptive families meet TANF Cluster eligibility requirements.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

The adoption subsidy system was automated in March 2012. The system produces an annual report for each child which is sent to each payee along with an adoption subsidy contract at the beginning of the month of the child's birth date. The adoptive parent is required to complete the annual report for which submission

is tracked by the adoption subsidy office. The process will be fully automated when the Michigan Statewide Automated Child Welfare Information System (MISACWIS) is operational.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Steve Yager, Department of Human Services

Scott Parrott, Department of Human Services

Christine Rehagan, Department of Human Services

Dawn Ritter, Department of Human Services

FINDING 2011-019

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Eligibility - Identification of Drug-Related Felony Violations

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	4311104, part c.(2)
State Agency	Department of Human Services

Condition

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

Criteria

Section 619, Act 63, P.A. 2011, states that DHS will not provide TANF Cluster-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.

Cause

DHS indicated that it was in the process of developing a functionality change to allow Bridges to identify individuals who are wanted on outstanding felony warrants or who have convictions precluding their enrollment in public assistance. DHS did not expect this functionality to be completed until June 2013.

Effect

DHS may have paid TANF Cluster assistance benefits to recipients who were convicted of a drug-related felony and were in violation of their probation or parole requirements. In addition, DHS may have denied TANF Cluster-funded adoption subsidies to individuals convicted of drug-related felonies after August 22, 1996 when the individuals may not have been in violation of their probation or parole requirements.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendations

We recommend that DHS establish a process to identify individuals receiving TANF Cluster assistance who are convicted of a drug-related felony and are in violation of their probation or parole requirements.

We also recommend that DHS ensure that it does not automatically deny TANF Cluster-funded adoption subsidies to individuals convicted of drug-related felonies who are not in violation of their probation or parole requirements.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS implemented a fugitive felon interface between Bridges and the Michigan Department of State Police in December 2012. If any Food Assistance Program (FAP), Family Independence Program (FIP), Child Development and Care (CDC), or State Disability Assistance clients receive a match, the case is automatically set for closure and a notification is sent to the case grantee. In addition, Policy Item BAM 811, Fugitive Felon, provides direction to the caseworkers.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Paul Smith, Department of Human Services

Kim Keilen, Department of Human Services

Sandra Cheatum-Dooley, Department of Human Services

FINDING 2011-020

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Matching, Level of Effort, and Earmarking and Reporting - MOE New Spending Test

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Reporting
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	4311104, part d.(1)
State Agency	Department of Human Services

Condition

DHS may have inappropriately excluded the Section 31a At-Risk Pupils Program, the Great Start Readiness Program, and a county Department of Child and Family Services Youth Assistance Program expenditures totaling \$149,665,998 from the new spending test used to meet the State's MOE requirement in fiscal year 2010-11.

These programs were in operation prior to fiscal year 1994-95 and were not part of the former AFDC State Plan. In prior years, DHS had limited the amount of expenditures in these programs that it counted toward TANF Cluster MOE until a private consulting group advised DHS that the programs would qualify as new programs.

We reviewed the legislative and contractual changes to these programs to determine if the changes would classify the programs as new programs exempt from the statutory limitations. For example, we noted that some of the programs were expanded to include more services, such as expanding a half-day school readiness program to be available all day and adding additional noninstructional services that could be provided to at-risk students. However, the overall mission and purpose of these programs did not change since fiscal year 1994-95.

Criteria

Federal regulation 45 *CFR* 263.5 states that expenditures of a state program, that was also operated in fiscal year 1994-95 and was not authorized under prior AFDC law, can be counted in the state's MOE requirement, but are limited to the amount of current year state expenditures paid on behalf of eligible families in excess of the state expenditures in fiscal year 1994-95.

Neither the federal regulations nor the TANF Cluster Funding Guide define or include guidance on what types of changes would classify a program as being new and, therefore, exempt from the statutory limitations.

Cause

A hired private consulting group advised DHS that the programs would qualify as new programs that would be exempt from the TANF Cluster statutory limitation because any change to a program in operation prior to fiscal year 1994-95 would qualify that program as a new program.

Effect

DHS may not have met its annual State MOE requirement in fiscal year 2010-11 because it did not have other State expenditures to replace these unallowable MOE expenditures. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Questioned costs were undeterminable.

Recommendation

We recommend that DHS seek guidance from the U.S. Department of Health and Human Services (HHS) to ascertain whether these programs are exempt from the new spending test.

Management Views and Corrective Action Plan

Management Views:

DHS disagrees with the finding. The 1995 new spending limitation in federal regulation 45 *CFR* 263.5 applies unless there has been a change in the program since 1995. HHS's Administration for Children and Families (ACF) 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 the "apples to apples" comparison is not possible. If a State or local program operating since fiscal year 1994-95 has undergone any changes in its operational components, it is reasonable to conclude that the program is no longer a pre-existing program, and therefore, it is not necessary 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 the funds. For example, there is expanded flexibility for the districts for using the Section 31a funds which greatly increases the scope of services that can be supported with the program funding, early childhood and reading programs were introduced, as well as other changes.

The Great Start Readiness Program was a new program initiated in Act 268, P.A. 2008. A prior program, known as the Michigan School Readiness Program, was in existence from 1985 to 2008. The new program has different program standards including comprehensive developmental screening as described in the Early Childhood Standards of Quality Pre-Kindergarten. Since 1995, the once exclusively part-day program has expanded to include full-day awards. The Great Start Readiness Program includes a part-day award of \$3,400 whereby the Michigan School Readiness Program had an original part-day award of \$2,500. Therefore, the Great Start Readiness Program was not funded in 1995 because an "apples to apples" comparison is not possible which means the Program is not subject to the new spending test.

While the Wayne County Children and Family Services Youth Assistance Programs (YAP) were offered in 1995, the Program is not subject to the new spending test because significant changes were made to program activities, and administration and oversight have taken place. Most significantly, YAP administration was transferred from the Department of Community Justice to the Department of Children and Families in 1999. In addition, service offerings have changed to competitive procurements every three years and program priorities are evolving.

Planned Corrective Action:

DHS disagrees with the finding and does not intend to take further action.

Anticipated Completion:

Not applicable

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Office of the Auditor General Epilogue

Management states:

The 1995 new spending limitation in federal regulation 45 *CFR* 263.5 applies unless there has been a change in the program since 1995. HHS's Administration for Children and Families (ACF) 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 the "apples to apples" comparison is not possible

HHS's ACF has not formally indicated in TANF regulations, policy, or questions and answers that the new spending test applies where an "apples to apples" comparison can be made between current expenditures and fiscal year 1994-95 expenditures or that any change in a program since 1995 would constitute an exemption from the statutory limitation. Management obtained this information from a private consulting group hired to maximize TANF revenue. The group also indicated that its TANF consultants had conversations with high-ranking ACF employees who suggested, verbally, that a change in a program's name may even be sufficient to remove the fiscal year 1994-95 new spending test.

We contacted HHS-ACF officials in Region V, Chicago, on March 27, 2013 and inquired as to where we could locate criteria and guidance to interpret the intent of Congress and HHS concerning changes in programs previously subject to the statutory limitation. Our Region V contact then submitted our inquiry to HHS-ACF Central Office in Washington, D.C. On June 24, 2013, we made a follow-up contact as to the status of this inquiry and we were informed that HHS-ACF could not yet provide us with criteria or guidance as to what constituted a change in a program that would exempt it from the fiscal year 1994-95 spending test limitations. As such, there is no authoritative guidance that can currently be applied, resulting in the audit recommendation that management seek formal guidance from HHS-ACF as to the validity of the exemption of these three programs from the 1995 statutory limitation.

FINDING 2011-021

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Reporting

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	4311104, part e.
State Agency	Department of Human Services

Condition

DHS did not submit accurate reports to HHS. Our review of DHS's required reports disclosed:

- a. DHS did not ensure that State MOE expenditures, as reported in its quarterly TANF Financial Report (ACF-196) for fiscal year 2010-11, were accurate. We reviewed the fourth quarter ACF-196 for fiscal year 2010-11 and noted that the total State MOE was understated by \$21,526.
- b. DHS did not ensure that State MOE expenditures and information, as reported in the Annual Report on State Maintenance of Effort Program (ACF-204) for fiscal year 2010-11, were accurate. We noted:
 - (1) DHS did not accurately report the total annual State MOE expenditures for 2 (11%) of 18 State MOE programs. DHS understated total annual State MOE expenditures by \$6,073.
 - (2) DHS did not accurately report the total State expenditures for 3 (17%) of the 18 State MOE programs. DHS understated total State expenditures by \$307,251.

- (3) DHS did not accurately report or maintain documentation to support the total number of families served for 4 (22%) of 18 State MOE programs. DHS overstated the total number of families served by 162,889.
- (4) 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 1 (6%) of the 18 the State MOE programs.

Criteria

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 (ACF-204) containing information on the State's MOE programs for that year. The ACF-204 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 counted as MOE; and each program's average monthly total number of families served for which the State counts MOE expenditures as of the end of the fiscal year.

Cause

DHS did not compare these reports to the supporting documentation to ensure that these reports were accurate prior to submission to HHS.

Effect

DHS diminished HHS's ability to ensure appropriate oversight and monitoring of the TANF Cluster federal funds. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS submit accurate billings to HHS.

Management Views and Corrective Action Plan

Management Views:

DHS generally agrees with the finding.

Planned Corrective Action:

DHS will perform a more in-depth review of its calculations and data used for MOE.

In addition, for part b.(4), DHS will include the activity in future reports.

DHS is continuously reviewing internal processes to improve identification and documentation for TANF MOE to ensure that DHS complies with TANF laws and regulations regarding reporting requirements.

Anticipated Completion Date:

January 1, 2014

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

FINDING 2011-022

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Subrecipient Monitoring - Monitoring of Single Audits

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0

Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS did not issue a management decision within the required six-month time frame for 1 (14%) of 7 reports. The management letter was issued 10 months late.

We reviewed a sample of 25 randomly selected subrecipient single audit reports and identified 7 subrecipient single audit reports that contained audit findings related to the TANF Cluster.

Criteria

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

Cause

DHS informed us that the management decision was not issued on a timely basis because of a lack of management oversight during the transition period when the newly created Accounting Service Center began to oversee the subrecipient single audit review process.

Effect

DHS has limited assurance that subrecipients implemented corrective action for audit findings. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS issue management decisions within the required six-month time frame.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS developed a tracking sheet which identifies the audit and deadline for the management decision. As a deadline nears and the program area has not issued its management decision, the Office of Monitoring and Internal Control will notify the program area of the pending due date.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Josh Larsen, Department of Human Services
Erin Frisch, Department of Human Services
Steve Yager, Department of Human Services
Terry Beurer, Department of Human Services
Susan Kangas, Department of Human Services
Paula Kaiser VanDam, Department of Human Services

FINDING 2011-023

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Subrecipient Monitoring - Subrecipient Site Visits

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)	
Award Identification Number and Year	G 09 01 MI TAN2	10/01/2008 - Until expended
	G 10 01 MI TAN2	10/01/2009 - Until expended
	G 10 02 MI TANF	10/01/2009 - Until expended
	11 02 MI TANF	10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492	
Total ARRA Expenditures	\$189,737,257	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	

Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS did not conduct annual site visits for 2 Families First of Michigan sampled subrecipients. Our review of 25 randomly selected subrecipients included 3 Families First of Michigan subrecipients.

Criteria

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.

DHS's procedure is to conduct annual site visits of Families First of Michigan subrecipients that include a review of cases for services provided to families referred to the subrecipient for crisis intervention services to avoid the child's removal from the home. The annual site visits also include a review of any critical incident reports to ensure that the subrecipient took appropriate steps to address risks and safeguard the family and child. A critical incident occurs when a serious injury or harm occurs to a child in the family referred for services.

Cause

DHS informed us that it did not conduct the site visits because efforts were focused on higher risk areas from the *Dwayne B., et al. v. Rick Snyder, et al.* Modified Settlement Agreement and Consent Order.

Effect

DHS's ability to ensure that subrecipients administer the TANF Cluster in compliance with laws, regulations, and provisions of contracts or grant agreements may be diminished without site visits. The federal grantor agency could issue sanctions or disallowances for noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS conduct annual site visits of its Families First of Michigan subrecipients.

Management Views and Corrective Action Plan

Management Views:

DHS disagrees with the finding. OMB Circular A-133 does require DHS to monitor the activities of its subrecipients; however, it does not require on-site visits as the only means of monitoring. The program area strives to perform site visits at each of the Families First of Michigan subrecipients, but DHS does not have a policy requiring 100 percent monitoring site visits. DHS has established a risk based approach to determine the level or type of monitoring that will be performed. In this case, management determined that resources would be redirected from the on-site monitoring visits to an area of higher risk. Other types of monitoring (e.g., review of expenditure and programmatic reports) were performed.

Planned Corrective Action:

DHS disagrees with the finding and does not intend to take further action.

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Steve Yager, Department of Human Services
Suzanne Stiles Burke, Department of Human Services
Colin Parks, Department of Human Services
Guy Thompson, Department of Human Services

Office of the Auditor General Epilogue

Management states:

The program area strives to perform site visits at each of the Families First of Michigan subrecipients, but DHS does not have a policy requiring 100 percent monitoring site visits. DHS has established a risk based approach to determine the level or type of monitoring that will be performed.

During the audit, management informed us that its procedure was to conduct, at a minimum, one on-site monitoring visit per subrecipient per contract year to meet its subrecipient monitoring requirements. Management did not indicate that it used a risk based or any other approach that would allow for less than one on-site monitoring visit per year. Only after the Office of the Auditor General noted that not all annual site visits were completed did management indicate that it used a risk based approach. Furthermore, management did not provide a policy or documented plan to support the use of a risk based approach for monitoring.

FINDING 2011-024

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Penalties for Refusal to Work

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Penalties for Refusal to Work
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$7,592
Repeat Finding	4311104, part f.(3)
State Agency	Department of Human Services

Condition

DHS did not appropriately and timely sanction TANF Cluster families who refused to engage in work and were not subject to good cause exceptions established by DHS.

We reviewed a sample of 60 case records of TANF Cluster families in which DHS identified a recipient as not participating in employment-related activities during fiscal year 2010-11. In 24 (40%) of the 60 sampled case records, DHS local office caseworkers did not take any action on the identified noncompliance, did not follow

established DHS policy, did not document that the client met good cause criteria for not participating in employment-related activities, could not locate two recipients' case records, or did not sanction the recipients on a timely basis.

During fiscal year 2011-12, DHS also granted good cause to 3 of the 24 recipients who did not comply with employment-related activities in fiscal year 2010-11 because the local office caseworkers had not acted on the noncompliance within 90 days.

Criteria

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.

Also, federal regulation 45 *CFR* 263.2(b) requires that funds counted as State MOE expenditures, except those expended for certain pro-family activities under the third and fourth purposes of TANF, must be expended on needy families.

Cause

DHS indicated that it had noncooperation reports to help ensure that actions were taken to terminate assistance in accordance with regulations; however, we noted that these reports were optional.

Effect

DHS may have inappropriately paid TANF Cluster funds to individuals who were ineligible because of failure to comply with work requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$7,592 that were federally funded. These questioned

costs represent the total expenditures to the families for the first unqualified month after the date that the families were determined to be not participating in employment-related activities. In addition, we identified \$2,667 of State expenditures that could not be counted as State MOE.

Recommendation

We recommend that DHS appropriately and timely sanction TANF Cluster families who refuse to engage in work and are not subject to good cause exceptions established by DHS.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

Automation of the DHS-2444, Notice of Triage, began in August 2012 and will close the case if no action is taken.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Terry Beurer, Department of Human Services

Jane Goetschy, Department of Human Services

Local Office Directors, Department of Human Services

FINDING 2011-025

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Child Support Noncooperation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)

Award Identification Number and Year	G 09 01 MI TAN2	10/01/2008 - Until expended
	G 10 01 MI TAN2	10/01/2009 - Until expended
	G 10 02 MI TANF	10/01/2009 - Until expended
	11 02 MI TANF	10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492	
Total ARRA Expenditures	\$189,737,257	
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Child Support Noncooperation	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs	\$3,594	
Repeat Finding	4311104, part f.(1)	
State Agency	Department of Human Services	

Condition

DHS did not appropriately sanction TANF Cluster families who did not cooperate with establishing paternity and child support orders.

We reviewed 60 case records 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 16 (27%) of the 60 case records.

Criteria

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.

Also, federal regulation 45 *CFR* 263.2(b) requires that funds counted as State MOE expenditures, except those expended for certain pro-family activities under the third and fourth purposes of TANF, must be expended on needy families.

Cause

DHS indicated that it implemented an interface between the Michigan Child Support Enforcement System (MiCSES) and Bridges in November 2010 to provide local office caseworkers with an electronic notification if the family was not cooperating with paternity and child support order establishment. However, DHS had difficulties with the interface and did not correct the interface weaknesses until October 2011.

Effect

DHS may have inappropriately paid TANF Cluster funds to individuals who were ineligible because of failure to comply with child support requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$3,594 that were federally funded. These questioned costs represent the total expenditures to the families for the first unqualified month after the date that the families were determined to be not cooperating with establishing paternity and child support orders. In addition, we identified \$1,263 of State expenditures that could not be counted as State MOE.

Recommendation

We recommend that DHS appropriately sanction TANF Cluster families who do not cooperate with establishing paternity and child support orders.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

A Bridges and MiCSES re-sync was performed in October 2011 which eliminated many incorrect noncooperation records by posting the compliance record. This also increased the number of noncooperation records which resulted in cases being sanctioned as appropriate. An additional release in April 2012 corrected the interface.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Teresa Spalding, Department of Human Services

Erin Frisch, Department of Human Services

Terry Beurer, Department of Human Services

FINDING 2011-026

TANF Cluster, CFDA 93.558 and 93.714 (ARRA), Special Tests and Provisions - IEVS

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558 and 93.714 (ARRA)
Award Identification Number and Year	G 09 01 MI TAN2 10/01/2008 - Until expended G 10 01 MI TAN2 10/01/2009 - Until expended G 10 02 MI TANF 10/01/2009 - Until expended 11 02 MI TANF 10/01/2010 - Until expended
Total Expenditures of Federal Awards	\$848,001,492
Total ARRA Expenditures	\$189,737,257
Compliance Requirement(s)	Special Tests and Provisions - Income and Eligibility Verification System
Type of Finding	Material Weakness and Scope Limitation for Compliance
Known Questioned Costs	Undeterminable
Repeat Finding	4311104, part f.(2)
State Agencies	Department of Human Services and Department of Technology, Management, and Budget

Background

DHS uses Bridges to conduct its required TANF Cluster Income and Eligibility Verification System (IEVS) process. To obtain IEVS information, Bridges conducts various data matches through interfaces with various governmental agencies. DHS uses electronic notifications in Bridges to disseminate required IEVS information from various data matches to local office caseworkers. DHS local office caseworkers use the data match information to determine a recipient's need and eligibility for TANF Cluster assistance.

Condition

DHS and DTMB were unable to provide sufficient documentation to demonstrate that Bridges requested and obtained data from the required data sources and performed the required data matches for each TANF Cluster recipient. In addition, DHS's internal

control did not ensure that local office caseworkers considered and used IEVS information for TANF Cluster eligibility determinations. Our review disclosed:

- a. DHS and DTMB could not provide documentation to support that DHS and DTMB requested and obtained data from the required data sources, performed the required data matches, and considered and utilized the IEVS information to determine eligibility for each recipient.
- b. DHS did not include all recipients of TANF Cluster-funded adoption subsidies in the IEVS data matches conducted during the audit period.
- c. DHS and DTMB had not established effective processing controls over Bridges interfaces with the required data sources to ensure that IEVS information was requested, obtained, and utilized to determine recipient eligibility for TANF Cluster assistance (see Finding 2011-001, DHS Bridges Interface and Change Controls).
- d. DHS, in conjunction with DTMB, could not provide sufficient documentation to support that Bridges provided notification to DHS local office caseworkers to take action to terminate, deny, or reduce TANF Cluster recipient benefits based on information obtained through IEVS.
- e. DHS had not established a process to review and monitor the electronic notifications provided to local office caseworkers to ensure that the local office caseworker utilized the IEVS information to determine recipient eligibility. We noted that, for some data matches, local office caseworkers could manually delete the electronic notifications without utilizing the IEVS information to determine recipient eligibility.
- f. DHS had not established a process to allow the local office caseworkers to document in Bridges the actions they used to verify recipient employment information from the Michigan Department of Treasury income tax withholding forms (W-4s). DHS informed local office 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 local office caseworkers to record how the W-4 information was used to determine the recipient's eligibility until June 2011. DHS procedures did not require caseworkers

to document this information in the recipient's case record located outside of Bridges.

Criteria

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. 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 TANF State Plan and the amount of assistance.

Cause

DHS and DTMB informed us that they had not developed and implemented an audit trail for the IEVS interfaces that tracked and monitored activity attributable to each recipient because of resource limitations. DHS and DTMB also informed us that there were various reasons why they had not established effective controls over Bridges interface processes (see Finding 2011-001, DHS Bridges Interface and Change Controls).

In addition, DHS did not plan to implement a process to include TANF Cluster-funded adoption subsidy recipients in the IEVS data matches until the implementation of the Statewide Automated Child Welfare Information System, which is expected in October 2013.

Further, DHS informed us it did not have a mechanism in place to force local office caseworkers to utilize the IEVS interface information communicated through Bridges electronic notifications to determine recipient eligibility.

Effect

DHS and DTMB were unable to demonstrate compliance with the IEVS special tests and provisions compliance requirement. In addition, we could not satisfy ourselves as to the State's compliance with those requirements by other auditing procedures. Without a process in place to monitor the actions taken by the local office caseworkers, DHS cannot ensure that the IEVS information was appropriately considered in determining recipient eligibility.

Known Questioned Costs

As a result of the scope limitation, questioned costs were undeterminable.

Recommendations

We recommend that DHS and DTMB develop and maintain documentation to demonstrate that Bridges requests and obtains data from the required data sources and performs the required data matches for each TANF Cluster recipient.

We also recommend that DHS implement internal control to ensure that local office caseworkers consider and use IEVS information for TANF Cluster eligibility determinations.

Management Views and Corrective Action Plan

Management Views:

DHS and DTMB generally agree with the finding. It should be noted that while the documentation was not readily available, end user testing was performed during the system development and again as system changes are made. The end user testing yielded the expected results for eligibility determinations.

Planned Corrective Action:

- a. DTMB will continue work to obtain the necessary documentation from the Bridges application.
- b. TANF Cluster-funded adoption subsidies will be included with the IEVS data matches when MISACWIS is operational.
- c. DHS and DTMB will develop a detailed corrective action plan to address the issues noted in the finding.
- d. DTMB will continue work to obtain the necessary documentation from the Bridges application.
- e. DHS has established a workgroup of stakeholders from DHS to evaluate the necessity or redundancy of tasks and reminders. By reducing the number of tasks and reminders it will allow caseworkers to concentrate on those that

have an effect on eligibility determination and benefit calculations (e.g., IEVS, etc.).

- f. As noted in the finding, DHS established a location in Bridges for local office caseworkers to record how the W-4 information was used to determine the recipient's eligibility in June 2011.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Teresa Spalding, Department of Human Services

Rich DeMello, Department of Technology, Management, and Budget

FINDING 2011-027

CCDF Cluster, CFDA 93.575, 93.596, and 93.713 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; Special Tests and Provisions - Health and Safety - Lack of Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575, 93.596, and 93.713 (ARRA)
Award Identification Number and Year	<div>G 09 01 MI CCDF 10/01/2008 - 09/30/2011</div> <div>G 09 01 MI CCD7 (ARRA) 10/01/2008 - 09/30/2011</div> <div>G 10 01 MI CCDF 10/01/2009 - 09/30/2012</div> <div>G 11 01 MI CCDF 10/01/2010 - 09/30/2013</div> <div>G 11 01 MI CCDF (Mandatory) 10/01/2010 - 09/30/2011</div> <div>G 11 01 MI CCDF (Matching) 10/01/2010 - 09/30/2011</div>
Total Expenditures of Federal Awards	\$179,406,789
Total ARRA Expenditures	\$7,654,725
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Health and Safety (for part c. only)
Type of Finding	Material Control Weakness and Material Noncompliance
Known Questioned Costs	\$3,085
Repeat Finding	4311107, parts b.(1) and b.(2)
State Agency	Department of Human Services

Condition

DHS did not maintain documentation to support client and/or child eligibility, provider eligibility, client need for the number of hours of child care authorized, and/or proper authorization of providers to render services. During our review of 60 sampled CCDF Cluster child care payments, which included payments to 26 licensed providers and 34 unlicensed providers, we noted:

- a. DHS did not maintain case record documentation to support client and/or child eligibility for 19 (32%) of the 60 CCDF Cluster child care payments. We noted incomplete supporting documentation related to the child's age and citizenship status, the client's categorical or income eligibility, and the verification of the client's need reason for child care services.
- b. DHS did not maintain case record documentation to support client eligibility for the Temporary Assistance to Needy Families (TANF) - Family Independence Program (FIP). DHS's CCDF State Plan allows DHS local office workers to determine financial eligibility for child care services based on the client's or child's eligibility determination for TANF - FIP. We noted that 37% of the total CCDF Cluster child care payments for fiscal year 2010-11 were made on behalf of TANF - FIP eligible clients or children. During our review of the TANF Program, we noted that DHS could not document that FIP clients met eligibility requirements for 91% of the TANF - FIP payments sampled for fiscal year 2010-11. We were unable to determine the impact of known questioned costs on CCDF Cluster child care payments in regard to these TANF - FIP eligibility errors.
- c. DHS did not maintain case record documentation to support provider eligibility. Our review disclosed:
 - (1) DHS did not maintain documentation to support that 14 (41%) of the 34 unlicensed child care providers that received CCDF Cluster child care payments received the health and safety training as required by the CCDF State Plan.
 - (2) DHS did not maintain documentation to support that 12 (35%) of the 34 unlicensed child care providers that received CCDF Cluster child care payments and their adult household members received background checks as

required by the CCDF State Plan. We performed additional auditing procedures and independently verified that the unlicensed child care providers and household members sampled did not have unsuitable backgrounds based on program requirements that would have resulted in provider ineligibility.

- d. DHS did not maintain documentation to support the client's need for the number of hours of child care DHS authorized in Bridges for 10 (17%) of 60 CCDF Cluster child care payments. DHS authorized hours of care in Bridges that exceeded the clients' documented need for hours of child care services.
- e. DHS did not maintain documentation to support that DHS appropriately authorized the provider to render services for a client's child prior to payment for 16 (27%) of 60 CCDF Cluster child care payments.

Criteria

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 6.1 through 6.7 of DHS's CCDF State Plan provide specific requirements for client, child, and provider eligibility. CCDF program policy requires documentation of the need for the hours of child care in the case record, including the calculations used to determine the hours needed and the source of the information used in the determination. In addition, CCDF program policy requires the local office caseworker to verify the children in child care, the date the child care began, where the child care is provided, and the provider's relationship to the children on the child care provider verification form in order to establish a certificate for the use of CCDF Cluster funds.

Also, federal regulation 45 *CFR* 98.41 requires DHS to verify that child care providers serving children who receive subsidies meet requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers. HHS's Administration for Children and Families (ACF) considers background checks to be encompassed within the building and physical premises safety standard in the statute. Sections 6.1 through 6.7 of DHS's CCDF State Plan provide further detail regarding specific requirements and enforcement procedures.

DHS policy requires provider enrollment prior to payment, which includes an application, age verification, and background checks for all unlicensed providers and adult household members. The CCDF State Plan requires that all unlicensed providers receive health and safety training.

In addition, federal regulation 45 *CFR* 98.67 requires that DHS's fiscal control and accounting procedures permit the tracing of CCDF Cluster funds to document that DHS did not use CCDF Cluster funds in violation of the restrictions and prohibitions of CCDF Cluster laws and federal regulations. Federal regulation 45 *CFR* 98.53 allows states to claim expenditures to be matched at the federal medical assistance percentage rate for allowable activities, as described in the approved CCDF State Plan.

Cause

For parts a., b., c.(2), d., and e., DHS informed us that its internal control and monitoring activities were insufficient to detect that DHS did not maintain the required verification documentation in the client's case record or the provider's file to support eligibility, to support the client's need for the number of hours of child care DHS authorized in Bridges, and/or to support that the provider was appropriately authorized to render services for a client's child.

For part c.(1), DHS informed us that the external entity that provided the training required training participants to sign in to demonstrate the providers' attendance at the health and safety training; however, the entity did not retain the sign-in sheets.

Effect

DHS may have provided assistance on behalf of clients and children and paid providers when it could not support eligibility for CCDF Cluster assistance. The federal grantor agency could issue sanctions or disallowances related to assistance provided to ineligible clients, children, and/or providers.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified \$3,085 in questioned costs and \$956 of unallowable State-funded expenditures used to match the CCDF Cluster funds. The questioned costs represent

the amount of sampled CCDF Cluster payments for which DHS did not maintain documentation to support client and/or child eligibility, provider eligibility, client need for the number of hours authorized, and/or proper authorization of providers to render services.

Recommendation

We recommend that DHS maintain documentation to support client and/or child eligibility, provider eligibility, client need for the number of hours of child care authorized, and/or proper authorization of providers to render services.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS is in the process of reviewing specific case file deficiencies noted at each local/district office to identify the areas that need improvement and where specific corrective actions can be developed. In addition, DHS has developed a report to capture the audit results for missing case files and missing documentation by each local/district office. This report will be used to establish performance metrics for each local/district office to help ensure case file accountability.

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

In addition, each local office will be responsible for ensuring 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 the case record is complete or appropriate actions are taken with the case. Case read results will be monitored by Field Services-Central Office.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services

Jane Goetschy, Department of Human Services

Local Office Directors, Department of Human Services

FINDING 2011-028

CCDF Cluster, CFDA 93.575, 93.596, and 93.713 (ARRA), Special Tests and Provisions - Fraud Detection and Repayment

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575, 93.596, and 93.713 (ARRA)
Award Identification Number and Year	G 09 01 MI CCDF 10/01/2008 - 09/30/2011 G 09 01 MI CCD7 (ARRA) 10/01/2008 - 09/30/2011 G 10 01 MI CCDF 10/01/2009 - 09/30/2012 G 11 01 MI CCDF 10/01/2010 - 09/30/2013 G 11 01 MI CCDF (Mandatory) 10/01/2010 - 09/30/2011 G 11 01 MI CCDF (Matching) 10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$179,406,789
Total ARRA Expenditures	\$7,654,725
Compliance Requirement(s)	Special Tests and Provisions - Fraud Detection and Repayment
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Background

DHS's Office of Inspector General (OIG) is responsible for detecting fraudulent child care payments based on investigations, and DHS's Recoupment Section (RS) is responsible for administering the repayment of fraudulent child care payments. The OIG obtains a repayment agreement, a court order for recoupment, or an administrative hearing decision for the individual responsible when the OIG has verified the child care payment is fraudulent. The OIG forwards the repayment agreement, court order, or administrative hearing decision for provider fraud to the RS, and the RS enters a claim into the Bridges Benefits Recovery System (BRS) to initiate and pursue repayment efforts. The OIG forwards the repayment agreement, court order, or administrative hearing decision for client fraud to the local office recoupment specialist, and the local office recoupment specialist enters a claim into BRS to initiate and pursue repayment efforts.

Condition

DHS did not have sufficient processes to help ensure that it initiated and pursued repayment efforts for all fraudulent child care payments. Our review disclosed:

- a. DHS did not have a process to reconcile OIG-identified cases of fraud to the claims that the RS established on BRS to ensure that all cases of fraud would be pursued for repayment.
- b. DHS did not have a process to ensure that the RS maintained segregation of duties and performed reconciliation procedures related to the entry of provider repayment agreements and the posting of payments into BRS. A risk exists that a debt could be written off without payment being received.
- c. DHS did not have a process to routinely send automated notices to providers and clients who were late in remitting payment. In addition, DHS did not have a process to regularly submit delinquent claims to the Department of Treasury for additional collection efforts.

Criteria

Federal regulation 45 *CFR* 98.60 requires DHS to recover child care payments that are the result of fraud from the individual responsible for committing the fraud.

Cause

DHS informed us that the RS was developing an informal random check process, but this process had not yet been implemented as of the end of fiscal year 2010-11. DHS also informed us that a delinquency date for collections was not programmed into the BRS to allow for automated tracking of delinquent claims.

Effect

Collectively, the lack of the processes described in this finding increase the risk that DHS may not always take the necessary steps to recover all fraudulent child care payments.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS implement sufficient processes to help ensure that it initiates and pursues repayment efforts for all fraudulent child care payments.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

- a. Corrective action includes a reconciliation process through manual review of OIG paper disposition packets for Provider CDC Intentional Program Violation (IPV) that the Reconciliation and Recoupment Unit receives weekly from the county-based OIG field agents against a master list of all OIG dispositions Statewide which are indexed weekly and maintained electronically by OIG administrative staff in DHS Central Office.

Verification of follow-through provider CDC claim establishment in Bridges is achieved by retaining a hard copy print of successful claim establishment transaction, noting provider particulars and date of establishment transaction. Print is then placed within the case file retained by the Reconciliation and Recoupment Unit.

- b. The Reconciliation and Recoupment Unit has implemented separation of duties whereby staff not involved in provider CDC claim establishment or receivables monitoring processes post payments on those receivables.

Payments posting and accuracy of provider CDC claims establishment are then randomly checked for processing accuracy by other staff further removed from Bridges data entry in general and both provider CDC claims establishment and routine posting of payments in particular.

- c. The Reconciliation and Recoupment Unit is reviewing criteria for both delinquency and collection referral action to follow-up on existing provider CDC claims; management will make approvals of both manual processes forward.

Manual notification of provider due process (dunning notices) is and has been underway for 18 months to compensate for the lack of automated processes. Resumption of ensuing collection referral action to the Department of Treasury awaits completion and summary evaluation of a minimum six-month special project involving the Revenue and Collections Division of the Office of Attorney General.

Work requests to automate the processes have been submitted and are waiting for project prioritization.

Anticipated Completion Date:

- a. October 1, 2013
- b. Completed
- c. Project prioritization for work request anticipated by October 1, 2013.

Responsible Individual(s):

Susan Kangas, Department of Human Services
Marilyn Carey, Department of Human Services
Bob Drake, Department of Human Services

FINDING 2011-029

CCDF Cluster, CFDA 93.575, 93.596, and 93.713 (ARRA), Special Tests and Provisions - Health and Safety Requirements - Licensed Child Care Providers

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575, 93.596, and 93.713 (ARRA)
Award Identification Number and Year	G 09 01 MI CCDF 10/01/2008 - 09/30/2011 G 09 01 MI CCD7 (ARRA) 10/01/2008 - 09/30/2011 G 10 01 MI CCDF 10/01/2009 - 09/30/2012 G 11 01 MI CCDF 10/01/2010 - 09/30/2013 G 11 01 MI CCDF (Mandatory) 10/01/2010 - 09/30/2011 G 11 01 MI CCDF (Matching) 10/01/2010 - 09/30/2011
Total Expenditure of Federal Awards	\$179,406,789
Total ARRA Expenditures	\$7,654,725

Compliance Requirement(s)	Special Tests and Provisions - Health and Safety Requirements
Type of Finding	Material Control Weakness and Scope Limitation for Compliance
Known Questioned Costs	Undeterminable
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS did not maintain documentation to support its compliance with special tests and provisions requirements to verify that center-based, group home, and family child care providers serving children who receive subsidies met requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers.

DHS informed us that one of its primary means of ensuring that center-based, group home, and family child care providers that serve children who receive CCDF subsidies met health and safety requirements was through periodic on-site inspections by DHS staff. DHS informed us that, during these on-site inspections, DHS staff conducted reviews of children's immunization records, caregiver background check records, and caregiver health and safety training records. Upon completion of the on-site inspections, DHS issued a licensing study report (LSR); however, DHS's LSRs did not contain sufficient information to determine that DHS staff had reviewed children's immunization records, caregiver background check records, or caregiver health and safety training records maintained by the providers during the inspection.

Criteria

Federal regulation 45 *CFR* 98.41 requires DHS to verify that child care providers serving children who receive subsidies meet requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers. ACF considers background checks to be encompassed within the building and physical premises safety standard in the statute. Sections 6.1 through 6.7 of DHS's CCDF State Plan provide further detail regarding specific requirements and enforcement procedures.

Cause

DHS informed us that, unless a licensing rule violation was noted, DHS did not maintain detailed records of its on-site inspections for child care centers, group homes, and family homes after DHS issued the LSR. DHS also informed us that it was not DHS's

policy to maintain documentation of DHS staff on-site reviews of children's immunization records, caregiver background check records, and caregiver health and safety training records because maintaining that level of documentation would be cumbersome. DHS did have a policy to maintain environmental health and fire safety inspection reports for child care centers, group homes, and family homes.

Effect

DHS was unable to provide documentation to demonstrate compliance with the health and safety requirements special tests and provisions compliance requirement to verify that center-based, group home, and family child care providers serving children who receive subsidies met requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers.

As a result, we could not satisfy ourselves that DHS complied with those requirements through other auditing procedures.

Known Questioned Costs

As a result of the scope limitation, questioned costs were undeterminable.

Recommendation

We recommend that DHS maintain documentation to support its compliance with special tests and provisions requirements to verify that center-based, group home, and family child care providers serving children who receive subsidies meet requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers.

Management Views and Corrective Action Plan

Management Views:

DHS partially agrees with the finding. The LSR indicates the number and type of records reviewed during the inspection; however, it does not specify what is contained in those records. The applicable administrative rules address what is to be retained in staff and children's records. The inspection looks for verification that the center, group home, or family home complies with all applicable rules.

Planned Corrective Action:

For clarity purposes, a statement has been added to the LSR describing what is included in the record review.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Jim Gale, Department of Human Services

FINDING 2011-030

Child Support Enforcement, CFDA 93.563, Subrecipient Monitoring

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Support Enforcement: CFDA 93.563
Award Identification Number and Year	G 11 04 MI 4004 10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$154,764,197
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS did not issue a management decision to its subrecipient within the required six-month time frame for 1 of 2 subrecipient single audit reports sampled that contained findings related to the CSE Program. The subrecipient's single audit report identified that 3 (8%) of 37 employee time sheets tested were lacking supervisory review and approval as required by OMB Circular A-87 (federal regulation 2 CFR 225). DHS issued the management decision 12 months after the receipt of the single audit report.

DHS distributed \$108.2 million (70%) of \$154.8 million total expenditures to subrecipients. We reviewed a random sample of 8 of 82 subrecipient single audit reports and identified 2 subrecipient single audit reports that contained audit findings related to the CSE Program.

Criteria

OMB Circular A-133, Section 400(d)(5) requires pass-through entities to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

Cause

DHS indicated that it did not consider a timely management decision critical because the subrecipient certified to DHS in its expenditure reimbursement reports that payroll expenditures billed were incurred by employees who performed child support activities during the billing period.

Effect

Untimely management decisions hinder DHS's ability to ensure that subrecipients comply with grant requirements and implement corrective action for audit findings to prevent future sanctions or disallowed costs.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS issue management decisions to its subrecipients within the required six-month time frame.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS developed a tracking sheet which identifies the audit and deadline for the management decision. The Office of Monitoring and Internal Control monitors the deadlines and notifies the program area of the pending due date.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Erin Frisch, Department of Human Services

Josh Larsen, Department of Human Services

FINDING 2011-031

Low-Income Home Energy Assistance, CFDA 93.568, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Lack of Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Award Identification Number and Year	G 10 B1 MI LIEA 10/01/2009 - 09/30/2011 G 10 01 MI LIE2 10/01/2009 - 09/30/2011 G 11 B1 MI LIEA 10/01/2010 - 09/30/2012
Total Expenditures of Federal Award	\$252,612,786
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$3,346
Repeat Finding	4311106, parts a.(1)(a) and b.
State Agency	Department of Human Services

Condition

DHS did not maintain documentation, such as required payment verification, shutoff notices, and applications, to support that households receiving assistance were eligible in 7 (16%) of 43 State Emergency Relief (SER) energy payments reviewed. Also, DHS did not document that it properly authorized 1 (2%) of the 43 SER energy payments.

We randomly selected 43 SER energy payments, of which 32 payments were for clients who were categorically eligible and 11 payments were for clients who were not categorically eligible. Clients are categorically eligible if they are receiving benefits under FIP, the Food Assistance Program (FAP), or Supplemental Security Income (SSI); the name and address on the energy bill is the same as the case name or that of the spouse; all SER group members are also active on the applicant's FIP, FAP, or SSI

case; and the assistance case is not overdue for a redetermination. If a client is not categorically eligible, the client must be evaluated to determine whether the client meets income eligibility criteria. Clients are considered non-categorically eligible if the households' income does not exceed 60% of the State's median income.

Our review disclosed:

- a. DHS did not ensure that 3 (27%) of the 11 clients who were not categorically eligible either made the required payments or showed good cause for not making the required payments prior to receiving Low-Income Home Energy Assistance Program (LIHEAP) assistance, as required by the LIHEAP State Plan. We questioned costs of \$1,087.
- b. DHS did not ensure that 1 (3%) of the 32 clients who were categorically eligible provided a shutoff notice or an energy bill in the name of the head of household or the head of household's spouse, as required by the LIHEAP State Plan. We questioned costs of \$350.
- c. DHS did not maintain applications to document that the client requested services or made accurate disclosures in 3 (7%) of the 43 SER energy payments. DHS policy requires a signed application to ensure that a client requested energy related emergency assistance and that the client's income and emergency need disclosures complied with LIHEAP eligibility requirements. We questioned costs of \$1,059.
- d. DHS did not properly document its authorization of the client's energy related emergency assistance for 1 (2%) of the 43 SER energy payments. DHS policy requires local office staff to sign payment authorization forms and maintain those forms within the client's case record. We questioned costs of \$850. This item impacts only the allowable costs/cost principles compliance requirement.

Criteria

Federal law 42 *USC* 8624 requires that the State expend funds in accordance with the LIHEAP State Plan and allows DHS to use LIHEAP funds to intervene in energy-related crisis situations and assist eligible households to meet the costs of home energy. In addition, 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.

Cause

DHS informed us that internal control and monitoring activities were insufficient to detect that required verification documentation was not maintained in the client's case record.

Effect

DHS may have made payments that do not qualify for LIHEAP reimbursement. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs \$3,346. The questioned costs represent the amount of the 8 sampled assistance payments noted in parts a. through d. that did not qualify for LIHEAP reimbursement.

Recommendation

We recommend that DHS maintain sufficient documentation to support that SER energy payments are made on behalf of eligible clients for allowable activities and that the SER energy payments are properly authorized.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

The Field Operations Administration (FOA) issued additional guidance to the local offices in November 2012. FOA Memo 2012-045 included links to updated training wizards to aid staff when processing an assistance application for services, the SER/LIHEAP Case Read Form, and the SER fiscal checklist. FOA will partner with

the Office of Workforce Development and Training to improve SER training. Caseworkers, managers, and supervisors will be required to complete the training.

FOA and the Business Service Centers will develop a plan for targeted case reads. The results of the targeted case reads will be analyzed to determine if there is a reduction of the known deficiencies or if training improvements are needed.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Terry Beurer, Department of Human Services

Jane Goetschy, Department of Human Services

Business Center Directors, Department of Human Services

Local Office Directors, Department of Human Services

Paul Smith, Department of Human Services

Kim Keilen, Department of Human Services

FINDING 2011-032

Low-Income Home Energy Assistance, CFDA 93.568, Allowable Costs/Cost Principles -
Reconciliation of Home Heating Credit Reimbursements

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Award Identification Number and Year	G 10 B1 MILIEA 10/01/2009 - 09/30/2011 G 10 01 MI LIE2 10/01/2009 - 09/30/2011 G 11 B1 MI LIEA 10/01/2010 - 09/30/2012
Total Expenditures of Federal Award	\$252,612,786
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	4311106, part a.(2)(b)
State Agencies	Department of Human Services and Department of Treasury

Condition

DHS had not implemented a process to periodically reconcile Department of Treasury electronic home heating credit (HHC) claim detail information to the paper reimbursement billings and summary reports provided by the Department of Treasury to ensure the propriety of HHC reimbursements.

The Department of Treasury processes and issues HHC claims, and DHS reimburses the Department of Treasury for HHC claims issued. DHS used the paper summary reports to determine the amount of HHC claims to reimburse the Department of Treasury. Our review disclosed that the electronic file of HHC claim detail information did not support the paper summary reports for 3 (19%) of 16 sampled HHC processing runs. For these 3 HHC processing runs, the paper summary reports used for the Department of Treasury reimbursements exceeded the amount of the electronic claim detail information.

Criteria

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.

Cause

DHS relied on the paper summary reports provided by the Department of Treasury and did not identify the reasons for the discrepancies between the electronic file of HHC claim detail information and the paper summary reports during fiscal year 2010-11.

Effect

DHS potentially could have reimbursed the Department of Treasury the incorrect amount.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS periodically reconcile the Department of Treasury electronic HHC claim detail information to reimbursement billings and summary reports provided by the Department of Treasury.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

Effective October 1, 2012, DHS revised its procedures to reconcile the HHC billings to a data warehouse report on a monthly basis.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Paul Smith, Department of Human Services
Kim Keilen, Department of Human Services
Amanda Baker, Department of Human Services

FINDING 2011-033

Low-Income Home Energy Assistance, CFDA 93.568, Allowable Costs/Costs Principles - Inappropriate Benefit Level

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Award Identification Number and Year	G 10 B1 MI LIEA 10/01/2009 - 09/30/2011 G 10 01 MI LIE2 10/01/2009 - 09/30/2011 G 11 B1 MI LIEA 10/01/2010 - 09/30/2012
Total Expenditures of Federal Award	\$252,612,786
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$418
Repeat Finding	4311106, part a.(3)(a)
State Agency	Department of Human Services

Condition

DHS did not ensure that the assistance amount for energy related emergencies was the minimum amount necessary to prevent shutoff or restore service for 7 (16%) of 43 sampled emergency energy payments. In these instances, DHS local office staff authorized payments that included current energy charges. Payment of current energy charges is not required to prevent shutoff or restore service.

Also, DHS did not apply the fiscal year caps designated within its approved LIHEAP State Plan to 5 (12%) of 43 sampled emergency energy payment amounts.

Criteria

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. 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 shutoff or restore service. In addition, DHS's LIHEAP State Plan included approved emergency energy payment fiscal year caps.

Cause

DHS informed us that a potential reason that DHS paid current energy charges may have been poor communication to and training of local office staff.

Also, DHS implemented a policy change effective October 1, 2010 that reduced the fiscal year cap amounts from the fiscal year cap amounts indicated in the LIHEAP State Plan. DHS programmed the reduced fiscal year caps into Bridges to process payments for emergency energy services; however, DHS did not submit an amendment to the LIHEAP State Plan or receive approval from HHS prior to implementing the changes. The following table shows the fiscal year caps we noted during the period October 1, 2010 through April 22, 2011:

Type of Emergency Energy Payment	Fiscal Year Cap	
	LIHEAP State Plan	Bridges
Natural gas and non-heat electricity shutoff	\$ 550	\$350
Deliverable fuels	\$ 850	\$650
Electricity only shutoff	\$1,100	\$700

Effect

As a result of paying current charges in energy related emergencies, DHS made inappropriate payments that could result in sanctions or disallowances.

As a result of the reduced fiscal year cap amounts, DHS may have underclaimed allowable federal expenditures.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$664, which represent the current energy charges that were paid in excess of the minimum amount necessary to avoid shutoff or restore service for the 7 sampled transactions identified in this finding.

We identified negative questioned costs of \$246 for the additional amounts DHS should have paid on the clients' behalf because DHS inappropriately applied fiscal year caps that were less than the approved amounts in the LIHEAP State Plan.

Recommendations

We recommend that DHS ensure that the assistance amount for energy related emergencies is the minimum amount necessary to prevent shutoff or restore service.

We also recommend that DHS apply the fiscal year caps designated within its approved LIHEAP State Plan to emergency energy payment amounts.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

FOA issued additional guidance to the local offices in November 2012. FOA Memo 2012-045 included links to updated training wizards to aid staff when processing an assistance application for services, the SER/LIHEAP Case Read Form, and the SER fiscal checklist. FOA will partner with the Office of Workforce

Development and Training to improve SER training. Caseworkers, managers, and supervisors will be required to complete the training.

FOA and the Business Service Centers will develop a plan for targeted case reads. The results of the targeted case reads will be analyzed to determine if there is a reduction of the known deficiencies or if training improvements are needed.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Terry Beurer, Department of Human Services

Jane Goetschy, Department of Human Services

Business Center Directors, Department of Human Services

Local Office Directors, Department of Human Services

Paul Smith, Department of Human Services

Kim Keilen, Department of Human Services

FINDING 2011-034

Foster Care - Title IV-E, CFDA 93.658 and 93.658 (ARRA), Activities Allowed or Unallowed;

Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Lack of Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 ARRA - Foster Care - Title IV-E: CFDA 93.658
Award Identification Number and Year	10 01 MI 1401 10/01/2009 - 09/30/2010 10 01 MI 1402 10/01/2009 - 09/30/2010 11 01 MI 1401 10/01/2010 - 09/30/2011 11 01 MI 1402 10/01/2010 - 09/30/2011 11 01 MI 1404 10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$109,275,698
Total ARRA Expenditures	\$1,171,243
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$1,806

Repeat Finding	4311109, part b.(1)
State Agency	Department of Human Services

Condition

DHS did not maintain documentation to support a determination of care need and approval, the good moral character safety considerations for a child care institution (CCI), or a foster parent's need reason for child care assistance.

We sampled a total of 48 foster care maintenance payments. This included 29 maintenance payments to child placing agencies or family foster homes, 13 of which were for determination of care supplemental payments. Our sample also included 15 maintenance payments to CCIs and 4 maintenance payments for child care services. We noted:

- a. DHS did not maintain documentation for, or obtain approval of, the determination of care need for 1 (8%) of 13 maintenance payments. We questioned costs of \$55. This item impacts only the allowable costs/cost principles and matching, level of effort, and earmarking compliance requirements.
- b. DHS did not maintain documentation that a CCI met good moral character safety considerations for 1 (7%) of 15 maintenance payments. We questioned costs of \$1,600.
- c. DHS did not maintain documentation of the foster parent's need reason for child care assistance for 1 (25%) of the 4 maintenance payments. We questioned costs of \$151.

Criteria

Federal regulation 45 *CFR* 1356.30(f) requires that, in order for a CCI to be eligible for Foster Care - Title IV-E Program funding, the licensing file for the CCI must contain documentation that verifies that safety considerations with respect to the staff of the CCI have been addressed. In addition, federal regulation 45 *CFR* 1355.20(a)(1) allows foster care maintenance payments to be made for daily supervision in licensed child care only when work responsibilities preclude foster parents from being at home when the foster child is not in school. Further, Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal programs be adequately documented.

In addition, federal regulation 45 *CFR* 1356.60(a) allows states to claim federal financial participation for allowable expenditures in the approved Title IV-E State Plan, including expenditures related to foster care maintenance payments.

Cause

For the determination of care need, DHS informed us that it revised its policy on August 1, 2011 for supplemental payments to lead to greater consistency in application, payment authorization, and the approval process. In the instance noted in part a., the determination of care payment was made prior to August 1, 2011. Our sample included two determination of care payments after August 1, 2011, and we noted that DHS properly documented and approved both of those payments.

For documentation related to good moral character safety considerations, DHS informed us that its Bureau of Child and Adult Licensing (BCAL) conducts on-site reviews at CCIs that include a review of the CCI records that document a CCI's compliance with good moral character safety considerations of CCI staff. BCAL issues an LSR to summarize the results of the on-site review. However, BCAL did not indicate in the CCI's LSR, or retain other identifying documentation, that it had verified the CCI's good moral character safety considerations of the CCI's staff. In addition, DHS did not have a policy in place to ensure that documentation was retained to support its verification that safety considerations with respect to the CCI staff have been addressed. DHS informed us that it was not aware that the LSR did not indicate the good moral character safety considerations had been met.

For documentation of the foster parent's need reason for child care assistance, DHS informed us that it was not aware that it had not maintained documentation of the caseworker's verification in the client's case record.

Effect

DHS may have made payments that did not qualify for the Foster Care - Title IV-E Program. The federal grantor agency could issue sanctions or disallowances related to the ineligible payments.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is

likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$1,806 and \$887 of unallowable State-funded expenditures used to match the Foster Care - Title IV-E funds. The questioned costs represent the amount of sampled Foster Care - Title IV-E payments for which DHS did not maintain documentation supporting that they were for eligible services, to eligible CCIs, or on behalf of an eligible child.

Recommendation

We recommend that DHS maintain documentation to support that Foster Care - Title IV-E payments are for eligible services, to eligible CCIs, or on behalf of eligible children.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

- a. As noted in the finding, corrective action was implemented in August 2011. This payment was made prior to the August 2011 policy change.
- b. DHS will improve oversight and remind staff of the importance to document that the criminal history was reviewed.
- c. DHS is in the process of reviewing specific case file deficiencies noted at each local/district office to identify the areas that need improvement and where specific corrective actions can be developed. In addition, DHS has developed a report to capture the audit results for missing case files and missing documentation by each local/district office. This report will be used to establish performance metrics for each local/district office to help ensure case file accountability.

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

In addition, each local office will be responsible for ensuring 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 the case record is complete or appropriate actions are taken with the case. Case read results will be monitored by Field Services-Central Office.

Anticipated Completion Date:

- a. Completed
- b. October 1, 2013
- c. October 1, 2014

Responsible Individual(s):

- a. Steve Yager, Department of Human Services
- b. James Gale, Department of Human Services
- c. Terry Beurer, Department of Human Services
Jane Goetschy, Department of Human Services
Local Office Directors, Department of Human Services

FINDING 2011-035

Foster Care - Title IV-E, CFDA 93.658 and 93.658 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Medical Treatment Costs

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 ARRA - Foster Care - Title IV-E: CFDA 93.658	
Award Identification Number and Year	10 01 MI 1401	10/01/2009 - 09/30/2010
	10 01 MI 1402	10/01/2009 - 09/30/2010
	11 01 MI 1401	10/01/2010 - 09/30/2011
	11 01 MI 1402	10/01/2010 - 09/30/2011
	11 01 MI 1404	10/01/2010 - 09/30/2011

Total Expenditures of Federal Awards	\$109,275,698
Total ARRA Expenditures	\$1,171,243
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$2,302
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS inappropriately used Foster Care - Title IV-E funds for medical treatment costs.

We reviewed all billings that DHS paid during fiscal year 2010-11 to CCI's for foster care maintenance payments on behalf of eligible juvenile justice children.

Criteria

Federal law 42 USC 675(4)(A) defines foster care maintenance payments to cover the cost of food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, reasonable travel to the child's home for visitation, and reasonable travel for the child to remain in the school in which the child is enrolled at the time of placement. 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.

Cause

Beginning in fiscal year 2010-11, DHS revised its payment process for issuing foster care maintenance payments to county CCI's for juvenile justice children. DHS's revised payment process included a review of the billings to ensure that the children were eligible and that the dates of placement in care were correct. However, DHS's process did not include a review of the rates that DHS applied to calculate the foster care maintenance and medical treatment portions of payments to CCI's.

Effect

DHS overpaid CCI's for medical treatment costs. In addition, DHS inappropriately used the State-funded portion of the payments to match federal funds. The federal grantor agency could issue sanctions or disallowances related to the expenses that were not allowable under the Foster Care - Title IV-E Program.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$2,302 and \$987 of unallowable State-funded expenditures used to match the Foster Care - Title IV-E Program funds. The questioned costs represent the total amount of fiscal year 2010-11 Foster Care - Title IV-E Program foster care maintenance payments that included medical treatment costs.

Recommendation

We recommend that DHS appropriately use Foster Care - Title IV-E funds and ensure that it excludes medical treatment costs from payments to CCIs on behalf of eligible juvenile justice children.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS believes this to be an isolated incident. Oversight was improved and rates were correctly applied during fiscal year 2011-12.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Steve Yager, Department of Human Services

Terri Gilbert, Department of Human Services

Jenifer Pettibone, Department of Human Services

FINDING 2011-036

Foster Care - Title IV-E, CFDA 93.658 and 93.658 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Inappropriate Allocation of Foster Care Maintenance Payments

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 ARRA - Foster Care - Title IV-E: CFDA 93.658
Award Identification Number and Year	10 01 MI 1401 10/01/2009 - 09/30/2010 10 01 MI 1402 10/01/2009 - 09/30/2010 11 01 MI 1401 10/01/2010 - 09/30/2011 11 01 MI 1402 10/01/2010 - 09/30/2011 11 01 MI 1404 10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$109,275,698
Total ARRA Expenditures	\$1,171,243
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$65,464
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: CFDA 93.667
Total Expenditure of Federal Awards	\$132,887,082
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Question Costs	(\$99,505)
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS incorrectly allocated the maintenance portion of foster care payments to the Social Services Block Grant (SSBG) Program and the treatment portion of foster care payments to the Foster Care - Title IV-E Program.

DHS's process is to allocate foster care payments between the Foster Care - Title IV-E Program and the SSBG Program. In the first quarter of fiscal year 2011-12, the maintenance portion of foster care payments incurred was charged to the SSBG Program and the treatment portion was charged to the Foster Care - Title IV-E Program. DHS should have charged the maintenance portion to the Foster Care - Title IV-E Program and the treatment portion to the SSBG Program.

DHS attempted to adjust the incorrect allocation; however, DHS inadvertently charged the foster care payments to the wrong fiscal year and the wrong program. The net effect of the adjusting journal entries resulted in \$99,505 of maintenance expenditures improperly allocated between the two programs in fiscal year 2010-11.

Criteria

Federal law 42 *USC* 1397(d)(a)(2) indicates that SSBG Program funds may not be used for cash payments for costs of subsistence or for the provision of room and board, other than costs of subsistence during rehabilitation, room and board provided for a short term as an integral but subordinate part of a social service, or temporary shelter provided as a protective service. Also, federal regulation 45 *CFR* 96.30 requires that DHS have fiscal controls and accounting procedures that permit the tracing of SSBG Program funds to document that DHS did not use SSBG Program funds in violation of the restrictions and prohibitions of SSBG Program laws and federal regulations.

Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal programs be necessary and reasonable for the administration of the federal award and in accordance with generally accepted accounting principles. Also, federal regulation 45 *CFR* 1356.60(a) allows states to claim federal financial participation for allowable expenditures in the approved Title IV-E State Plan, including expenditures related to foster care maintenance payments.

Cause

DHS accounting staff prepared multiple journal entries during fiscal year 2011-12 to correct the allocation between the two programs and to adjust foster care payments for services provided in fiscal year 2010-11. However, the accounting staff who prepared the entries were independent of each other and were not aware of each other's adjusting entry. DHS was not aware that the entries resulted in an error between the programs and fiscal years until we conducted our review.

Effect

DHS recorded expenditures for the Foster Care - Title IV-E Program in the wrong fiscal year; therefore, expenditures were overstated for fiscal year 2010-11 and understated for fiscal year 2011-12. In addition, DHS incorrectly reduced SSBG expenditures in fiscal year 2010-11.

Known Questioned Costs

We identified questioned costs of \$65,464 and \$34,041 of unallowable State-funded expenditures used to match the Foster Care - Title IV-E funds. The questioned costs represent the maintenance payments for the Foster Care - Title IV-E Program that DHS charged to fiscal year 2010-11 and should have charged to fiscal year 2011-12.

We also identified negative questioned costs of \$99,505 related to SSBG.

Recommendation

We recommend that DHS ensure that foster care payments are correctly allocated between the SSBG Program and the Foster Care - Title IV-E Program and are recorded in the correct fiscal year.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS has improved oversight to ensure that journal vouchers are reviewed and released by authorized accounting personnel.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

FINDING 2011-037

Foster Care - Title IV-E, CFDA 93.658 and 93.658 (ARRA), Procurement and Suspension and Debarment and Matching, Level of Effort, and Earmarking - Procurement of Contracts

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 ARRA - Foster Care - Title IV-E: CFDA 93.658
Award Identification Number and Year	10 01 MI 1401 10/01/2009 - 09/30/2010 10 01 MI 1402 10/01/2009 - 09/30/2010 11 01 MI 1401 10/01/2010 - 09/30/2011 11 01 MI 1402 10/01/2010 - 09/30/2011 11 01 MI 1404 10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$109,275,698
Total ARRA Expenditures	\$1,171,243
Compliance Requirement(s)	Procurement and Suspension and Debarment and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$7,424
Repeat Finding	4311109, part e.(1)
State Agency	Department of Human Services

Condition

DHS did not obtain the signatures of authorized representatives of all parties to contracts before the contractor provided services and DHS made payments to the contractor.

We selected 24 contracts with CCIs and child placing agencies and sampled one payment for services from each of the 24 contracts. Our review disclosed that services began prior to DHS's execution of the contract for 17 (71%) of the 24 contracts. In addition, for 15 of these 17 contracts, DHS made payments for services provided for periods ranging from 39 days to 511 days prior to DHS executing the contracts.

We estimated that DHS made Foster Care - Title IV-E Program-funded payments to contracted CCIs and child placing agencies of \$33.6 million during our audit period.

Criteria

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 procedure 0510.15 requires a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred. In addition, federal regulation 45 *CFR* 1356.60(a) allows states to claim federal financial participation for allowable expenditures in the approved Title IV-E State Plan, including expenditures related to foster care maintenance payments.

Cause

DHS informed us that it was unable to fully execute the contracts prior to the contractors providing services and DHS making payments because several contractors wanted to revise the terms and conditions of the contracts. DHS stated that, because of the nature of the services the contractors provide and the vulnerable population served, DHS worked with the contractors in a good faith relationship until contracts could be signed. DHS did not execute the contracts until a resolution was reached with the contractors.

Effect

DHS increased the risk that it may pay for services that ultimately may not be covered by the final executed contract; such payments could result in noncompliance. The federal grantor agency could issue sanctions or disallowances related to the noncompliance.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$7,424 and \$3,535 of unallowable State-funded expenditures used to match the Foster Care - Title IV-E Program funds. The questioned costs represent the amount of sampled payments for services funded with Foster Care - Title IV-E funds that DHS paid to the vendor before DHS executed the contracts.

Recommendation

We recommend that DHS obtain the signatures of authorized representatives of all parties to contracts before the contractor provides services and DHS makes payments to the contractor.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS has implemented several improvements to the contracting process that include the revision of contract and amendment language to specify that the contract is effective from the date of DHS signatures through a specific date and that no services are to be provided and no costs will be incurred by the State prior to the effective date of the contract. In addition, DHS has developed a planning tool to track the amount of time necessary to contract for services and when the contracting process needs to start in order to ensure that the contract has all authorized signatures prior to when services need to be rendered.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Susan Kangas, Department of Human Services

Christine Sanches, Department of Human Services

FINDING 2011-038

Adoption Assistance, CFDA 93.659 and 93.659 (ARRA), Activities Allowed or Unallowed and Eligibility - Determination of Eligibility for Children Adopted Prior to July 2009

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Adoption Assistance: CFDA 93.659 ARRA - Adoption Assistance: CFDA 93.659

Award Identification Number and Year	G 11 01 MI 1403	10/01/2010 - 09/30/2011
	G 11 01 MI 1405	10/01/2010 - 09/30/2011
	G 11 01 MI 1407	10/01/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$114,681,132	
Total ARRA Expenditures	\$4,565,402	
Compliance Requirement(s)	Activities Allowed or Unallowed and Eligibility	
Type of Finding	Material Noncompliance	
Known Questioned Costs	Undeterminable	
Repeat Finding	4311110, part b.	
State Agency	Department of Human Services	

Condition

DHS did not ensure that adoption subsidy payments made on behalf of children who were adopted prior to 2009, and whose eligibility for adoption subsidy was based on the former AFDC eligibility and judicial determinations, were eligible for the adoption subsidy.

Adoption subsidy payments begin at the time of a child's adoption and, in most cases, are continuous until the child reaches 18 years of age. As a result, the adoption subsidy payments DHS makes in any given year are primarily on behalf of children whose eligibility for the adoption subsidy was determined in previous years. During the period October 1, 2010 through September 30, 2011, DHS's adoption subsidy payments totaled \$102.7 million. DHS made an estimated 88% of those payments on behalf of children whose eligibility determinations were made prior to July 2009.

Prior to July 2009, DHS Adoption Assistance Program staff relied on the Foster Care - Title IV-E Program eligibility determination information recorded within the Services Worker Support System for Foster Care, Adoption, and Juvenile Justice (SWSS-FAJ) to determine a child's eligibility for adoption subsidy under the Adoption Assistance Program. Our reviews of DHS's Foster Care - Title IV-E Program eligibility determinations for periods between October 1, 2000 and June 30, 2009 concluded that, on average, 10.7% of the eligibility determinations did not meet eligibility requirements related to AFDC eligibility and judicial determinations.

Criteria

Federal law 42 USC 673(a)(1)(B) states that DHS may make adoption subsidy payments to adoptive parents on behalf of eligible children. Federal law 42 USC 673(a)(2)(A) requires that a child must meet one of three financial based criteria to be

eligible for the Adoption Assistance Program. The criterion used for approximately 90% of all Adoption Assistance Program participants is that the child was, or would have been, eligible for the former AFDC Program, including 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.

Cause

In July 2009, DHS discontinued relying upon the eligibility determination information recorded within SWSS-FAJ for new adoption subsidy cases. At that time, Adoption Assistance Program staff began determining and documenting the eligibility for all new adoption subsidy cases. However, DHS did not perform redeterminations of eligibility for children adopted prior to July 2009 or perform procedures on a test basis to determine the eligibility error rate in that population of children.

Effect

During the period October 1, 2010 through September 30, 2011, DHS made adoption subsidy payments on behalf of approximately 18,100 children whose eligibility was determined prior to July 2009. Because DHS relied on the Foster Care - Title IV-E Program eligibility determination information recorded within SWSS-FAJ for AFDC eligibility and judicial determinations when determining a child's eligibility for the Adoption Assistance Program prior to July 2009, it is likely that DHS made adoption subsidy payments on behalf of children who were not eligible during the current audit period. Our review of Adoption Assistance Program eligibility determinations made during the current audit period (October 1, 2010 through September 30, 2011) did not disclose any errors. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Questioned costs were undeterminable.

Recommendation

We recommend that DHS perform procedures to validate the eligibility of children adopted prior to July 2009, and whose eligibility for adoption subsidy was based on former AFDC eligibility and judicial determinations, to ensure that these children are eligible for the adoption subsidy.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

In July 2009, DHS discontinued relying upon the eligibility determination information recorded within SWSS-FAJ for new adoption subsidy cases. At that time, Adoption Assistance Program staff began determining and documenting the eligibility for all new adoption subsidy cases.

Anticipated Completion Date:

The cases determined to be Title IV-E eligible will decrease over time as a result of case closures.

Responsible Individual(s):

Steve Yager, Department of Human Services

Scott Parrott, Department of Human Services

Christine Rehagan, Department of Human Services

Dawn Ritter, Department of Human Services

FINDING 2011-039

Social Services Block Grant, CFDA 93.667, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Lack of Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: CFDA 93.667
Award Identification Number and Year	G 10 01 MI SOSR 10/01/2009 - 09/30/2011 G 11 01 MI SOSR 10/01/2010 - 09/30/2012
Total Expenditures of Federal Awards	\$132,887,082
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$419

Repeat Finding	4311111, part b.
State Agency	Department of Human Services

Condition

DHS did not maintain documentation to support the eligibility of 3 (43%) of 7 sampled clients who received SSBG Program-funded child care assistance. DHS could not locate 1 client's case record, and DHS did not maintain documentation of the clients' need reason for child care assistance in the remaining 2 clients' case records.

We randomly selected 25 SSBG Program client case records for review, including records for 7 clients who received SSBG Program-funded child care assistance. Federal regulations allow states flexibility in determining the social services that the states will provide to clients under the SSBG Program, as long as the services are consistent with SSBG goals. DHS includes child care service activities as one of the services it provides under the SSBG Program.

Criteria

Federal law 42 *USC* 1397c and federal regulation 45 *CFR* 96.10 require each state to submit an annual pre-expenditure report on the intended use of SSBG Program funds to HHS that includes information on the types of activities to be supported and the categories or characteristics of individuals to be served. DHS's pre-expenditure report for SSBG Program funds for fiscal year 2010-11 included child care service activities for clients meeting eligibility requirements, including a signed application requesting that each client receive child care services and that each client meet the specified need reason criteria. Also, DHS policy requires the local office to maintain a case record to support that a client requested child care assistance and that the local office caseworker verified the need reason for child care assistance.

Cause

DHS informed us that internal control and monitoring activities were insufficient to detect that required verification documentation was not maintained in the client's case record.

Effect

DHS may have made payments that do not qualify for the SSBG Program. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$419. These questioned costs represent the sampled expenditures for the 3 clients for whom DHS did not maintain documentation to support client eligibility.

Recommendation

We recommend that DHS maintain documentation to support the eligibility of clients who receive SSBG Program-funded child care assistance.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS is in the process of reviewing specific case file deficiencies noted at each local/district office to identify the areas that need improvement and where specific corrective actions can be developed. In addition, DHS has developed a report to capture the audit results for missing case files and missing documentation by each local/district office. This report will be used to establish performance metrics for each local/district office to help ensure case file accountability.

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

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 monitored by Field Services-Central Office.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services

Jane Goetschy, Department of Human Services

Local Office Directors, Department of Human Services

FINDING 2011-040

Social Services Block Grant, CFDA 93.667, Cash Management

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: CFDA 93.667
Award Identification Number and Year	G 10 01 MI SOSR 10/01/2009 - 09/30/2011 G 11 01 MI SOSR 10/01/2010 - 09/30/2012
Total Expenditures of Federal Awards	\$132,887,082
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Cash Management
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS did not use the biweekly Modified Grants for Administrative Costs funding technique for 2 (67%) of 3 cash draws related to TANF grants transferred to the SSBG Program. For these 2 cash draws, DHS used a quarterly instead of a biweekly funding technique that was not included in the Cash Management Improvement Act (CMIA) agreement for either the TANF Program or the SSBG Program.

Criteria

Federal law 42 USC 604 and Public Law No. 111-291 (Claims Resolution Act of 2010) allow a state to transfer up to 10% of the TANF grant to the SSBG Program for a given fiscal year. In addition, federal law 42 USC 604(d)(3)(A) states that the amounts transferred from TANF to the SSBG Program are subject to SSBG Program requirements when expended. The CMIA agreement requires DHS to use the Modified

Grants for Administrative Costs funding technique for cash draws related to SSBG Program expenditures. This funding technique requires DHS to calculate an amount for biweekly cash draws based on a prorated share of DHS's total annual SSBG Program award.

Cause

DHS informed us that it viewed the CMIA agreement as unclear on whether the TANF grant funds transferred to the SSBG Program should follow the specified funding technique for the TANF grant or the SSBG Program funding technique. As a result, DHS informed us that it followed a quarterly cash draw pattern for the SSBG Program related to the transferred TANF grant funds because it believed a quarterly draw pattern appropriately represented DHS's use of the funds.

Effect

For cash draws prior to July 2011, DHS was not in compliance with federal requirements for the funding technique for SSBG Program cash draws.

In July 2011, DHS began using the biweekly Modified Grants for Administrative Costs funding technique for cash draws related to the transferred TANF grant funds. Our review noted that DHS followed the required SSBG Program funding technique for the cash draw we sampled and reviewed for September 2011 related to the TANF grant transfer.

Known Questioned Costs

The funding techniques specified in the CMIA agreement for both the TANF grant and the SSBG Program are interest neutral. Therefore, we did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS use the specified funding technique outlined in the CMIA agreement for SSBG Program cash draws.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

As noted in the finding, DHS revised its process and began using the biweekly Modified Grants for Administrative Costs funding technique for cash draws related to the transferred TANF grant funds in July 2011.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

FINDING 2011-041

Chafee Foster Care Independence Program, CFDA 93.674, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Lack of Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: CFDA 93.674
Award Identification Number and Year	G 10 01 MI 1420 10/01/2009 - 09/30/2011
Total Expenditures of Federal Awards	\$4,763,386
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$16,148
Repeat Finding	4311112, parts a. and b.
State Agency	Department of Human Services

Condition

DHS did not maintain documentation to properly support its use of Chafee Foster Care Independence Program (CFCIP) funds. Our review disclosed:

- a. DHS did not maintain youth service plans supporting the youth's need for goods and services, receipts, or evidence of the youth's participation in meetings for advanced stipends in 9 (16%) of 55 payments reviewed.

- b. DHS supervisors did not document their approval of youth service plans, payment authorization forms, and youth profile reports to ensure the appropriateness of the services provided to the youth for 13 (30%) of 43 payments reviewed.

Criteria

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. Also, 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. In addition, 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 CFCIP and adequately supported. Further, federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs of the federal award.

DHS policy requires the caseworker to document in the youth service plan the goods or services the youth can receive that support the youth transitioning from foster care to achieve self-sufficiency. DHS policy also requires that payments for the goods or services be supported by the original invoice and/or receipt. In addition, DHS policy requires that payments for stipends be based on youth participation. Further, DHS policy requires the supervisor to authorize services to ensure that the goods or services supported the youth transitioning from foster care and allowed the youth to achieve self-sufficiency.

Cause

DHS informed us that the local office caseworkers and supervisors did not follow established policy to maintain the youth case record documentation and document approvals on all required forms.

Effect

DHS may have paid for goods and services without proper documentation and authorization to ascertain that the goods and services were appropriate and accomplished the purposes of CFCIP. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs of \$16,148 that were federally funded. These questioned costs represent the amount of sampled CFCIP payments to or on behalf of the cases noted for which DHS did not maintain case record documentation to support the propriety of the payment. We also identified \$4,037 of State-funded costs that DHS inappropriately used as matching expenditures for CFCIP funds.

Recommendation

We recommend that DHS maintain documentation to properly support its use of CFCIP funds.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS revised its internal review process for Youth-in-Transition (YIT) funding requests beginning October 1, 2011. As cases are reviewed, caseworkers and supervisors are requested to make necessary corrections related to eligibility when appropriate. In addition, DHS issued communications to local DHS and private agency foster care workers, supervisors, and administrative staff to address concerns over documentation and allowable expenditures when using YIT funds.

Private agency foster care workers currently have limited access to SWSS-FAJ, but with the implementation of the Michigan Statewide Automated Child Welfare Information System, both local DHS and private agency foster care workers will use the same process for approving payments. Payment requests for YIT expenditures will be entered into the system by the caseworkers and approved by supervisors in the system.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Steve Yager, Department of Human Services

Scott Parrott, Department of Human Services

Local Office Child Welfare Directors, Department of Human Services

FINDING 2011-042

Chafee Foster Care Independence Program, CFDA 93.674, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Payroll Certification

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: CFDA 93.674
Award Identification Number and Year	G 10 01 MI 1420 10/01/2009 - 09/30/2011
Total Expenditures of Federal Awards	\$4,763,386
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$319,292
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS did not ensure that payroll expenditures charged to CFCIP met the requirements of OMB Circular A-87 (federal regulation 2 *CFR* 225). Our review disclosed:

- a. DHS did not complete semiannual certifications for 5 employees who charged 100% of their payroll costs to CFCIP. To ensure that DHS expended the 2010 CFCIP grant award, DHS recorded an accounting adjustment moving the payroll costs of these 5 employees from an indirect cost pool to a direct charge to CFCIP. However, the position descriptions for these employees did not support that the employees worked solely on CFCIP activities.
- b. DHS charged CFCIP for 100% of payroll costs for an employee who did not work solely on CFCIP activities. In this instance, the employee's semiannual certification was approved by an individual who did not have first-hand knowledge of the work performed. In addition, this employee's position description indicated that the employee spent time administering contracts that were not related to CFCIP.

Criteria

Appendix B of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that employees who work solely on a federal award or cost objective have their time certified

at least semiannually to ensure that the costs are allowable to the program. Also, OMB Circular A-87 requires that the certification be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. In addition, federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs of the federal award.

Cause

For the 5 employees included in the accounting adjustment, DHS informed us the semiannual certifications were not completed because the accounting adjustment was not included in DHS's established semiannual certification process. For the one employee who had a certification but did not work 100% on CFCIP, DHS informed us that it did not know the reason why the employee's time distribution was programmed within the payroll system to solely charge CFCIP.

Effect

DHS potentially charged CFCIP for payroll expenditures of employees who worked on non-CFCIP activities. The federal grantor agency could issue sanctions or disallowances related to ineligible charges.

Known Questioned Costs

We identified questioned costs of \$319,292 that were federally funded. These questioned costs represent the entire amount of payroll costs incurred for the 5 employees included in the accounting adjustments in part a. and six months of payroll costs for the one employee noted in part b. In addition, we identified \$79,823 of State-funded expenditures that DHS inappropriately used as matching expenditures for CFCIP funds.

Recommendation

We recommend that DHS ensure that payroll expenditures charged to CFCIP meet the requirements of OMB Circular A-87 (federal regulation 2 *CFR* 225).

Management Views and Corrective Action Plan

Management Views:

DHS generally agrees with the finding. While payroll certifications may not have been completed, the employees did work solely on the program. Position descriptions may not always be accurate given the employees' tasks evolve over time, and position descriptions may not be updated.

Planned Corrective Action:

DHS will ensure that payroll certifications are reviewed and certified by the supervisor of employees who work 100% on federal programs. If an accounting adjustment is needed, DHS will obtain a written statement from the employee(s) or supervisor(s) regarding the duties performed during the adjustment period.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Steve Yager, Department of Human Services
Lois St. John, Department of Human Services
Susan Kangas, Department of Human Services
Marilyn Carey, Department of Human Services

FINDING 2011-043

Chafee Foster Care Independence Program, CFDA 93.674, Eligibility - Funding Eligibility Checklists

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: CFDA 93.674
Award Identification Number and Year	G 10 01 MI 1420 10/01/2009 - 09/30/2011
Total Expenditures of Federal Awards	\$4,763,386
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	4311112, part c.
State Agency	Department of Human Services

Condition

DHS local office caseworkers and supervisors did not approve and/or did not maintain the funding eligibility checklist in the case record to support that DHS certified the youth's eligibility for CFCIP for 6 (14%) of 43 sampled case records.

In 4 of these instances, DHS could not locate the funding eligibility checklist in the youth's case record. In the other 2 instances, DHS completed the funding eligibility checklist, but the local office caseworker and/or supervisor did not sign the checklist.

Criteria

Federal law 42 USC 677(a) requires the state to determine, within the purposes defined in federal law 42 USC 677(a), the assistance and services that will be made available to all youth whom the state defines as eligible for CFCIP. DHS policies require that the case record contain a completed and signed funding eligibility checklist as certification of the youth's eligibility.

Cause

DHS informed us that the funding eligibility checklists were not approved or maintained because the local office caseworker did not follow established policy to maintain the youth case record documentation and certify eligibility.

Effect

Without consistently applying the internal control of approving and maintaining the funding checklist, DHS increases its risk that a payment can be made to an ineligible youth. The federal grantor agency could issue sanctions or disallowances related to ineligible payments.

Known Questioned Costs

We could determine that the 6 youths were eligible for CFCIP based on other evidence in the case record. Therefore, we did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS ensure that local office caseworkers and supervisors approve and maintain the CFCIP funding eligibility checklist in each youth's case record.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS revised its internal review process for YIT funding requests beginning October 1, 2011. As cases are reviewed, caseworkers and supervisors are requested to make necessary corrections related to eligibility when appropriate. In addition, DHS issued communication to local DHS and private agency foster care workers, supervisors, and administrative staff to address concerns over documentation and allowable expenditures when using YIT funds.

Private agency foster care workers currently have limited access to SWSS-FAJ, but with the implementation of MISACWIS, both local DHS and private agency foster care workers will use the same process for approving payments. Payment requests for YIT expenditures will be entered into the system by the caseworkers and approved by supervisors in the system.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Steve Yager, Department of Human Services

Scott Parrott, Department of Human Services

Local Office Child Welfare Directors, Department of Human Services

FINDING 2011-044

Chafee Foster Care Independence Program, CFDA 93.674, Matching, Level of Effort, and Earmarking

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: CFDA 93.674
Award Identification Number and Year	G 10 01 MI 1420 10/01/2009 - 09/30/2011
Total Expenditures of Federal Awards	\$4,763,386

Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	4311112, part d.
State Agency	Department of Human Services

Condition

DHS did not identify and monitor room and board expenditures for youth who were between 18 and 21 years of age to ensure that the expenditures did not exceed the 30% maximum.

Criteria

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 21. 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 who have not yet turned 18 years old.

Cause

DHS informed us that it did not have a means to monitor room and board expenditures because SWSS-FAJ did not have the capability to provide the information.

Effect

If DHS does not monitor housing services provided to all CFCIP eligible youth, it cannot ensure that it complies with the room and board expenditure maximums. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

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 expenditures. As a result, we did not report questioned costs related to this finding.

Recommendation

We recommend that DHS identify and monitor room and board expenditures for youth who are between 18 and 21 years of age to ensure that those expenditures do not exceed the 30% maximum.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS implemented enhancements to the case management system in fiscal year 2010-11, making it possible for the program office to monitor the room and board expenditures for youth who were between 18 and 21 years of age for fiscal year 2011-12. The program office generates quarterly reports of quarterly expenditures to determine the percentage of approved room and board.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Steve Yager, Department of Human Services

Suzanne Stiles Burke, Department of Human Services

Janet Kaley, Department of Human Services

FINDING 2011-045

Chafee Foster Care Independence Program, CFDA 93.674, Period of Availability and Matching, Level of Effort, and Earmarking

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program, CFDA 93.674
Award Identification Number and Year	G 10 01 MI 1420 10/01/2009 - 09/30/2011
Total Expenditures of Federal Awards	\$4,763,386
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Period of Availability and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$413
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS paid for services provided to youth that were not within the two-year CFCIP period of availability of federal funds for 1 (4%) of 25 expenditures reviewed.

Criteria

Federal law 45 *CFR* 92.23(a) states that a grantee may charge to the grant award only costs resulting from obligations of the funding period. Also, HHS policy directive states that obligations are the amounts for which the recipient had made binding commitments for orders placed for property and services, contracts and subawards, goods and services received, and similar transactions during a funding period that will require payment during the same or future period. In addition, federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs of the federal award.

Cause

DHS informed us that it made payments for expenditures from current grant funds and did not verify that these services were within the funding period of the grant to which DHS charged the expenditures.

Effect

The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$413 that were federally funded. These questioned costs represent the amount of the sampled CFCIP payment for services provided to youth that were not within the two-year CFCIP period of availability. We also identified \$103 of State-funded costs that DHS inappropriately used as matching expenditures for CFCIP funds.

Recommendation

We recommend that DHS review the dates that services are provided to ensure that expenditures are charged to the appropriate CFCIP grant within the period of availability.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS believes that this was an isolated incident and that internal controls are in place to mitigate the risk that expenditures are charged to the wrong grant period. DHS has reminded staff of the importance of monitoring service dates when reviewing expenditures.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Steve Yager, Department of Human Services

Scott Parrott, Department of Human Services

Local Office Child Welfare Directors, Department of Human Services

FINDING 2011-046

Chafee Foster Care Independence Program, CFDA 93.674, Procurement and Suspension and Debarment and Matching, Level of Effort, and Earmarking - Contract Authorization

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: CFDA 93.674
Award Identification Number and Year	G 10 01 MI 1420 10/01/2009 - 09/30/2011
Total Expenditures of Federal Awards	\$4,763,386
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Procurement and Suspension and Debarment and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$4,623
Repeat Finding	4311112, part e.
State Agency	Department of Human Services

Condition

DHS did not obtain the signatures of authorized representatives of all parties to contracts before the contractor provided services and DHS made payments to the contractors.

We selected 9 contracts and sampled a payment from each contract. Our review disclosed that services began prior to DHS's execution of the contracts for 5 (56%) of the 9 contracts. Also, DHS made payments ranging from 197 days to 514 days prior to the full execution of the contracts for these services. In addition, DHS's authorized representatives signed the contracts but did not document the date of their signatures for 2 (22%) of the 9 contracts. As a result, we could not determine if the services were provided or the payments were made prior to the contracts' execution.

Criteria

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 procedure 0510.15 requires 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.

Also, federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs of the federal award.

Cause

DHS informed us that it was unable to fully execute the contracts prior to the contractors providing services and DHS making payments because several contractors wanted to revise the terms and conditions of the contracts. DHS stated that, because these contractors provide services to a vulnerable population, DHS worked with the contractors in a good faith relationship until DHS and the contractor executed the contracts. DHS did not execute the contracts until a resolution was reached with contractors.

Effect

DHS violated State procurement procedures and may have paid for services that were not in accordance with contractual agreements because the contractors revised the terms and conditions of the contracts after services were rendered and paid. The federal grantor agency could issue sanctions or disallowances related to the noncompliance.

Known Questioned Costs

As described in Section I under "Required Reporting Thresholds," OMB Circular A-133 requires the auditor to report known questioned costs that are less than \$10,000 if it is likely that total questioned costs would exceed \$10,000. Accordingly, we questioned costs of \$4,623 that were federally funded. These questioned costs represent the amount of the 7 sampled contract payments. We also identified \$1,156 of State-funded costs that DHS inappropriately used as matching expenditures for CFCIP funds.

Recommendation

We recommend that DHS obtain the signatures of authorized representatives of all parties to contracts before the contractor provides services and DHS makes payments to the contractors.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS has implemented several improvements to the contracting process that include the revision of contract and amendment language to specify that the contract is effective from the date of DHS signatures through a specific date and that no services are to be provided and no costs will be incurred by the State prior to the effective date of the contract. In addition, DHS has developed a planning tool to track the amount of time necessary to contract for services and when the contracting process needs to start in order to ensure that the contract has all authorized signatures prior to when services need to be rendered.

Anticipated Completion Date:
Completed

Responsible Individual(s):
Susan Kangas, Department of Human Services
Christine Sanches, Department of Human Services

FINDING 2011-047

Chafee Foster Care Independence Program, CFDA 93.674, Reporting

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: CFDA 93.674
Award Identification Number and Year	G 10 01 MI 1420 10/01/2009 - 09/30/2011
Total Expenditures of Federal Awards	\$4,763,386
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS did not collect surveys on a timely basis from youth in the required baseline group to help ensure that its reporting is in compliance with federal regulations.

Criteria

Federal regulation 45 *CFR* 1356.85(b)(1) requires that applicable demographic, service, and outcomes data elements reported must be 90% correct.

Cause

DHS informed us that it was not able to comply with National Youth in Transition Database (NYTD) federal requirements for this data element because DHS had not received all of the surveys from youth in the required baseline group on a timely basis.

Effect

DHS could not ensure that the data elements used to document the date it collected youth outcome data for its September 30, 2011 NYTD report were in accordance with federal regulations.

Also, when DHS submitted the report, DHS received notice from HHS's ACF that the data element was not compliant. Also, HHS's ACF had previously sanctioned DHS for the same data element related to its March 31, 2011 NYTD report. The federal grantor agency could assess additional sanctions for noncompliance related to the September 30, 2011 report.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS collect surveys on a timely basis from youth in the required baseline group to help ensure that its reporting is in compliance with federal regulations.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS revised its procedures to ensure that it collected surveys on a timely basis and that its reporting is in compliance with federal regulations. These revised procedures were implemented during fiscal year 2011-12 and DHS was found to be in compliance for fiscal year 2011-12.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Steve Yager, Department of Human Services
Suzanne Stiles Burke, Department of Human Services
Janet Kaley, Department of Human Services

OTHER SCHEDULES

STATEWIDE SINGLE AUDIT - Fiscal Year Ended September 30, 2011
Summary Schedule of Prior Audit Findings

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS AND SCHEDULES

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 4311101
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: The Department of Human Services (DHS) did not correctly classify payments made to the Michigan Department of Treasury on the SEFA.

Current Status: The finding is no longer valid as a result of the Statewide compilation of the SEFA.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 5911102
Finding Title: Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Finding: The Michigan Department of Transportation's (MDOT's) internal control over financial reporting did not ensure that MDOT prepared its SEFA in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State financial management policies.

Current Status: MDOT has partially corrected the deficiencies noted in the finding. In addition, the Department of Technology, Management, and Budget's (DTMB's) Office of Financial Management implemented additional corrective action by providing guidance to MDOT regarding including accounts payable write-offs on the

SEFA and in the notes to the SEFA for the Airport Improvement Program. The Office of Financial Management corrected the MDOT SEFA for inclusion in this report.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 6411101LBFTA
Finding Title: Internal Control Over Accounting and Financial Reporting

Finding: The Land Bank Fast Track Authority's (LBFTA's) and the Department of Energy, Labor & Economic Growth (DELEG) Finance and Administrative Services' internal control over accounting and financial reporting did not prevent or detect certain accounting and reporting errors.

Current Status: LBFTA corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 7911101
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: The Michigan Department of Agriculture's (MDA's) internal control did not ensure the accurate presentation of expenditures in the SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, reporting standards.

Current Status: MDA corrected the deficiencies noted in the finding.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 2311103
Finding Title: Driver's License Security Grant Program, *CFDA* 97.089

Finding: The Department of State's internal control over the Driver's License Security Grant Program may not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment.

Current Status: The Department corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2009

Finding Number: 2511004

Finding Title: Promotion of the Arts - Partnership Agreements, *CFDA* 45.025

Finding: The Promotion of the Arts - Partnership Agreements Program's internal control did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, cash management, and subrecipient monitoring.

Note: The finding was reported in the financial audit, including the provisions of the Single Audit Act, of the Department of History, Arts and Libraries issued in March 2011. The Promotion of the Arts-Partnership Agreements (*CFDA* 45.025) Program was transferred to the Michigan Strategic Fund (MSF) by Executive Order No. 2009-36, effective October 1, 2009. Previously, the Program was administered by the Department of History, Arts and Libraries. MSF agreed with the finding and began developing procedures and policies to correct all issues identified beginning with fiscal year 2010-11.

Current Status: MSF corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 2711103

Finding Title: Byrd Honors Scholarships, *CFDA* 84.185A

Finding: The Department of Treasury's internal control over the Byrd Honors Scholarships Program did not ensure compliance with federal laws and regulations regarding reporting.

Current Status: The Department corrected the deficiencies noted in its final report. The federal program has ended.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 2711104

Finding Title: College Access Challenge Grant Program, *CFDA* 84.378A

Finding: The Department of Treasury's internal control over the College Access Challenge Grant (CACG) Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and procurement and suspension and debarment.

Current Status: The finding, as it relates to matching, level of effort, and earmarking is no longer valid because the Department did not receive any new federal awards for this Program. In addition, procurement and suspension and debarment is also no longer valid because the Department did not enter into any new contracts under the existing federal award.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 2711101MFA

Finding Title: Byrd Honors Scholarships, *CFDA* 84.185A

Finding: The Department of Treasury's internal control over the Byrd Honors Scholarships Program did not ensure compliance with federal laws and regulations regarding reporting.

Current Status: The Department corrected the deficiencies noted in its final report. The federal program has ended.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 2711102MFA
Finding Title: Credit Enhancement for Charter School Facilities, *CFDA* 84.354

Finding: The Michigan Finance Authority's internal control over the Credit Enhancement for Charter School Facilities Program did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.

Current Status: The Michigan Finance Authority corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 2711102MEDC
Finding Title: Regional Biomass Energy Programs, *CFDA* 81.079

Finding: The Michigan Economic Development Corporation's (MEDC's) internal control over the Regional Biomass Energy Programs did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; procurement and suspension and debarment; reporting; and subrecipient monitoring.

Current Status: MEDC corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 2711103MEDC
Finding Title: Renewable Energy Research and Development, *CFDA* 81.087

Finding: MEDC's internal control over the Renewable Energy Research and Development Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; procurement and suspension and debarment; reporting; and subrecipient monitoring.

Current Status: MEDC corrected the deficiencies noted for reporting and subrecipient monitoring. In addition, findings noted for matching, level of effort, and earmarking and procurement and suspension and debarment are no longer valid as MEDC did not receive any new federal awards for this Program and no new awards were made to subrecipients under the existing federal award.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 2711101MSF

Finding Title: CDBG - State-Administered Small Cities Program Cluster, *CFDA* 14.228 and 14.255, Reporting

Finding: MSF's internal control over the CDBG - State-Administered Small Cities Program Cluster did not ensure compliance with federal laws and regulations regarding reporting.

Current Status: MSF corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 2711102MSF

Finding Title: CDBG - State-Administered Small Cities Program Cluster, *CFDA* 14.228 and 14.255, Access Controls

Finding: MSF had not established effective access controls over the CDBG Small Cities Database.

Current Status: MSF has corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 4311103

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

Finding: 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).

Current Status: DHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010

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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Findings 2011-014; 2011-016 through 2011-021; and 2011-024 through 2011-026.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 4311105

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

Finding: 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.

Current Status: DHS corrected the deficiencies noted in the finding related to activities allowed or unallowed and procurement and suspension and debarment but did not correct the deficiencies noted related to allowable costs/cost principles, eligibility, and reporting.

DHS is in the process of reviewing specific case file deficiencies noted at each local/district office to identify the areas that need improvement and where specific corrective actions can be developed. In addition, DHS has developed a report to capture the audit results for missing case files and missing documentation by each local/district office. This report will be used to establish performance metrics for each local/district office to help ensure case file accountability.

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

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 monitored by Field Services-Central Office.

DHS staff were trained on the reporting requirements to ensure that a consistent methodology was used to compile the necessary reports and that documentation was maintained. Corrective action was implemented, and the reports for fiscal year 2011-12 were accurate.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 4311106

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 allowable costs/cost principles and eligibility.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Findings 2011-031 through 2011-033.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 4311107

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

Finding: 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.

Current Status: DHS corrected the deficiencies noted in the finding related to allowable costs/cost principles but did not correct the deficiencies noted related to eligibility. See corrective action for Finding 2011-027.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 4311108

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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. DHS established but had not yet implemented corrective action for the deficiencies noted in the finding. DHS has evaluated its controls and revised its processes as necessary to ensure that a written contract is in place prior to any payment to a contractor.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 4311109

Finding Title: Foster Care - Title IV-E and ARRA - 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.

Current Status: DHS corrected the deficiencies noted in the finding related to activities allowed or unallowed, eligibility, and subrecipient monitoring but did not correct the deficiencies noted related to allowable costs/cost principles and procurement and suspension and debarment. See corrective action for Findings 2011-034 and 2011-037.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 4311110

Finding Title: Adoption Assistance and ARRA - 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 eligibility and procurement and suspension and debarment. Also, DHS did not comply with federal laws and regulations regarding allowable costs/cost principles.

Current Status: DHS corrected the deficiencies noted in the finding related to allowable costs/cost principles and procurement and suspension and debarment but did not correct the deficiencies noted related to eligibility. See corrective action for Finding 2011-038.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 4311111

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

Finding: 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.

Current Status: DHS corrected the deficiencies noted in the finding related to allowable costs/cost principles but did not correct the deficiencies noted related to eligibility. See corrective action for Finding 2011-039.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 4311112

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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Findings 2011-041, 2011-043, 2011-044, and 2011-046.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 4311113
Finding Title: Medicaid Cluster, Including ARRA - Medical Assistance Program, *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. Also, DHS did not comply with federal regulations regarding eligibility.

Current Status: DHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 5911105
Finding Title: Monitoring of Subrecipient Single Audit Reports

Finding: MDOT's internal control over the Federal Transit Cluster, the Transit Services Programs Cluster, and the Formula Grants for Other Than Urbanized Areas Program did not ensure compliance with federal laws and regulations regarding monitoring of subrecipients' single audit reports.

Current Status: MDOT did not correct the deficiencies noted in the finding. The State has initiated corrective action by establishing an accounting service center for the purpose of monitoring the receipt and review of required subrecipient's OMB Circular A-133 audits.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 5911106
Finding Title: Highway Planning and Construction Cluster, Including ARRA - Highway Planning and Construction, *CFDA* 20.205

Finding: MDOT's internal control over the Highway Planning and Construction Cluster would not ensure compliance with federal

laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and the Davis-Bacon Act. Also, MDOT's internal control over the Highway Planning and Construction Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions (quality assurance).

Current Status: MDOT corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 5911107

Finding Title: Federal Transit Cluster, Including ARRA - Federal Transit: Formula Grants, *CFDA* 20.500 and 20.507

Finding: MDOT's internal control over the Federal Transit Cluster did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

Current Status: MDOT partially corrected the deficiencies noted in the finding. MDOT established new guidelines for the disposition of assets but had not yet implemented this corrective action. MDOT will continue to work to ensure that it complies with accrual basis reporting requirements.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 5911108

Finding Title: Formula Grants for Other Than Urbanized Areas and ARRA - Formula Grants for Other Than Urbanized Areas, *CFDA* 20.509

Finding: MDOT's internal control over the Formula Grants for Other Than Urbanized Areas Program did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

Current Status: MDOT partially corrected the deficiencies noted in the finding. MDOT established new guidelines for the disposition of assets but had not yet implemented this corrective action. MDOT will continue to work to ensure that it complies with accrual basis reporting requirements at year-end.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 5911109

Finding Title: Transit Services Program Cluster, *CFDA* 20.513, 20.516, and 20.521

Finding: MDOT's internal control over the Transit Services Programs Cluster did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

Current Status: MDOT has partially corrected the deficiencies noted in the finding. MDOT established new guidelines for the disposition of assets but had not yet implemented this corrective action. MDOT will continue to work to ensure that it complies with accrual basis reporting requirements at year-end.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 6411106

Finding Title: Employment Service Cluster, Including ARRA - Employment Service/Wagner-Peyser Funded Activities, *CFDA* 17.207, 17.801, and 17.804

Finding: DELEG's internal control over the Employment Service Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Current Status: DELEG corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 6411107
Finding Title: WIA Cluster, Including ARRA, WIA Adult Program, ARRA - WIA Youth Activities, ARRA - WIA Dislocated Workers, *CFDA* 17.258, 17.259, 17.260, and 17.278

Finding: DELEG's internal control over the Workforce Investment Act (WIA) Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Current Status: DELEG corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 6411108
Finding Title: Occupational Safety and Health - State Program and ARRA - Occupational Safety and Health - State Program, *CFDA* 17.503

Finding: DELEG's internal control over the Occupational Safety and Health - State Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Current Status: DELEG corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 6411109
Finding Title: State Energy Program and ARRA - State Energy Program, *CFDA* 81.041

Finding: DELEG's internal control over the State Energy Program (SEP) did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Current Status: DELEG corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 6411110
Finding Title: ARRA - Energy Efficient Appliance Rebate Program (EEARP),
CFDA 81.127

Finding: DELEG's internal control over EEARP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Current Status: DELEG corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 6411111
Finding Title: ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG), *CFDA* 81.128

Finding: DELEG's internal control over EECBG did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Current Status: DELEG corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 6411112
Finding Title: Adult Education - Basic Grants to States, *CFDA* 84.002

Finding: DELEG's internal control did not ensure compliance with federal laws and regulations regarding subrecipient monitoring for Adult Education - Basic Grants to States (Adult Education Program).

Current Status: DELEG corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 6411113

Finding Title: Vocational Rehabilitation Cluster, Including ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act, *CFDA* 84.126 and *CFDA* 84.390

Finding: DELEG's internal control did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; procurement and suspension and debarment; and matching, level of effort, and earmarking for the Vocational Rehabilitation Cluster. Also, DELEG did not comply with federal laws and regulations regarding eligibility.

Current Status: DELEG corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 6411114

Finding Title: Gaining Early Awareness and Readiness for Undergraduate Programs, *CFDA* 84.334

Finding: DELEG's internal control did not ensure Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Current Status: DELEG corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 6411103LBFTA

Finding Title: CDBG - State-Administered Small Cities Program Cluster, *CFDA* 14.228

Finding: LBFTA's internal control over the Community Development Block Grant (CDBG) - State-Administered Small Cities Program Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost

principles; period of availability; reporting; matching, level of effort, and earmarking; and procurement and suspension and debarment.

Current Status: LBFTA has corrected the deficiencies noted in the finding related to activities allowed or unallowed; allowable costs/cost principles and partially corrected the deficiencies related to reporting. In addition, deficiencies related to period of availability and procurement and suspension and debarment are no longer valid because there were no new purchase agreements or contracts entered into during fiscal year 2010-11. LBFTA has developed corrective action for reporting and matching, level of effort, and earmarking that are planned to be implemented in fiscal year 2012-13, including maintaining documentation for quarterly progress reports (QPRs) and reconciling QPR expenditures with the Michigan Administrative Information Network* (MAIN) accounting records as applicable and utilizing its own financial tool to monitor actual expenditures on administrative and activity delivery costs, including staff costs and contractor expenses.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 6411104LBFTA

Finding Title: ARRA - Neighborhood Stabilization Program (Recovery Act Funded), CFDA 14.256

Finding: LBFTA's internal control over the Neighborhood Stabilization Program (NSP) (Recovery Act Funded) did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; real property acquisition and relocation assistance; and reporting.

Current Status: LBFTA corrected the deficiencies noted in the finding related to activities allowed or unallowed; allowable costs/cost principles;

* See glossary at end of report for definition.

matching, level of effort, and earmarking; and real property acquisition and relocation assistance; and partially corrected the deficiencies related to reporting. LBFTA has developed corrective action for the remaining reporting deficiencies that are planned to be implemented in fiscal year 2012-13, including maintaining official documentation of management's review and approval in the files for each QPR submitted. LBFTA is coordinating with the pass-through entity to ensure that the correct total expenditures are reported on the QPRs.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 7911102
Finding Title: Market Protection and Promotion, *CFDA* 10.163

Finding: MDA's internal control did not ensure that the Market Protection and Promotion Program complied with federal laws and regulations regarding allowable costs/cost principles.

Current Status: MDA corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 7911103
Finding Title: Environmental Quality Incentives Program, *CFDA* 10.912

Finding: MDA's internal control did not ensure that the Environmental Quality Incentives Program (EQIP) complied with federal laws and regulations regarding subrecipient monitoring.

Current Status: MDA corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 7911104
Finding Title: National Farmworker Jobs Program, *CFDA* 17.264

Finding: MDA's internal control over the National Farmworker Jobs Program did not ensure compliance regarding subrecipient monitoring as required in OMB Circular A-133, Section 400(d)(3) and federal regulation 29 *CFR* 97.40.

Current Status: The finding is no longer valid because the State did not receive any new federal awards for the Program and no new awards were made to subrecipients under the existing federal award.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 7911105

Finding Title: Food and Drug Administration - Research, *CFDA* 93.103

Finding: MDA's internal control did not ensure that the Food and Drug Administration - Research Program complied with federal laws and regulations regarding allowable costs/cost principles.

Current Status: MDA corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 9501101

Finding Title: ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, *CFDA* 16.803

Finding: The Judiciary's internal control over the ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment.

Current Status: The Judiciary corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 9501102
Finding Title: Alcohol Impaired Driving Countermeasures Incentive Grants I, *CFDA* 20.601

Finding: The Judiciary's internal control over the Alcohol Impaired Driving Countermeasures Incentive Grants I Program did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.

Current Status: The Judiciary corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 9501103
Finding Title: Child Support Enforcement, *CFDA* 93.563

Finding: The Judiciary's internal control over the Child Support Enforcement (CSE) Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and matching, level of effort, and earmarking.

Current Status: The Judiciary corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 9501104
Finding Title: State Court Improvement Program, *CFDA* 93.586

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

Current Status: The Judiciary corrected the deficiencies noted in the finding.

Audit Period: October 1, 2008 through September 30, 2010

Finding Number: 9501105

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

Finding: The Judiciary's internal control over the Foster Care - Title IV-E Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment.

Current Status: The Judiciary corrected the deficiencies noted in the finding.

GLOSSARY

Glossary of Acronyms and Terms

ACF	HHS's Administration for Children and Families.
ACF-196	TANF Financial Report.
ACF-204	Annual Report on State Maintenance of Effort Programs.
ADP	automated data processing.
adverse opinion	An auditor's opinion in which the auditor states that the audited entity did not comply, in all material respects, with the cited compliance requirements that are applicable to each major federal program.
AFDC	Aid to Families with Dependent Children.
AIP	Airport Improvement Program.
airport sponsor	An agency that is legally, financially, and otherwise able to assume and carry out the certifications, representations, warranties, assurances, covenants, and other obligations required in the Terms and Conditions of Accepting Airport Improvement Grants document and in the accepted Grant Agreement.
American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
ASC	Accounting Service Center.
BCAL	DHS's Bureau of Child and Adult Licensing.

Bridges Integrated Automated Eligibility Determination System (Bridges)	An automated, integrated service delivery system for Michigan's cash assistance, medical assistance, food assistance, child care assistance, and emergency assistance programs.
BRS	Bridges Benefits Recovery System.
<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.
CDBG	Community Development Block Grants.
CDC	Child Development Care.
CFCIP	Chafee Foster Care Independence Program.
channeling	A requirement by State legislation that federal revenue received by a political subdivision must be accepted and disbursed by the State.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
CMIA	federal Cash Management Improvement Act of 1990.

<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.
Control Objectives for Information and Related Technology (COBIT)	A framework, control objectives, and audit guidelines published by the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over information technology.
CSE	Child Support Enforcement.
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.
DELEG	Department of Energy, Labor & Economic Development.
DHS	Department of Human Services.
disclaimer of opinion	A statement that the auditor does not express an opinion on the financial statements or a statement that the auditor does not express an opinion on the audited entity's compliance with the cited requirements that are applicable to each major federal program.
DTMB	Department of Technology, Management, and Budget.
DUNS	Data Universal Numbering System.

efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
FAA	Federal Aviation Administration.
FAP	Food Assistance Program.
FFATA	Federal Funding Accountability and Transparency Act of 2006.
FFEL	Federal Family Education Loans.
FHWA	Federal Highway Administration.
financial audit	An audit that is designed to provide reasonable assurance about whether the 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.
FISCAM	U.S. Government Accountability Office's Federal Information System Controls Audit Manual.
FOA	Field Operations Administration.
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."
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.
HUD	U.S. Department of Housing and Urban Development
IEVS	Income and Eligibility Verification System.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
IT	information technology.
known questioned costs	Questioned costs that are specifically identified by the auditor.
LBFTA	Land Bank Fast Track Authority.
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.
LSR	licensing study report.

material misstatement	A misstatement in the financial statements that causes the 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 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 statements will not be prevented, or detected and corrected, on a timely basis.
MDOT	Michigan Department of Transportation.
MEDC	Michigan Economic Development Corporation.
MFA	Michigan Finance Authority.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
MiCSES	Michigan Child Support Enforcement System.
MISACWIS	Michigan Statewide Automated Child Welfare Information System.

MOE	maintenance of effort.
MSF	Michigan Strategic Fund.
MSHDA	Michigan State Housing Development Authority.
NYTD	National Youth in Transition Database.
OAG	Office of the Auditor General.
OIG	DHS's Office of Inspector General.
other noncompliance	Violations of contracts or grant agreements that are not material to the 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> .
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
PTMS	Passenger Transportation Management System.
QBS	qualifications-based selection.
QPR	quarterly progress report.
qualified opinion	An auditor's opinion in which the auditor: <ul style="list-style-type: none"> a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial statements presenting the basic financial information of the audited entity 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 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 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. Identifies a scope limitation or material noncompliance with one or more of the cited compliance 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.

RS

DHS's Recoupment Section.

SEFA

schedule of expenditures of federal awards.

SEP

State Energy Program.

SER

State Emergency Relief.

SIB	State Infrastructure Bank.
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.
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.
TPSO	third party service organization.
transitional agency	A State department or agency that, under the biennial, departmental single audit approach, was due for its biennial departmental audit of fiscal years 2010-11 and 2011-12 at the time of transition to an annual Statewide single audit approach.
UIA	Unemployment Insurance Agency.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ul style="list-style-type: none"> a. The financial statements presenting the basic financial information of the audited entity 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 statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial statements to the extent necessary to form an opinion on the basic financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial statements taken by themselves; or

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

<i>USC</i>	<i>United States Code.</i>
USDA	U.S. Department of Agriculture.
USDOE	U.S. Department of Education.
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.
WIA	Workforce Investment Act.
YAP	Wayne County Children and Family Services Youth Assistance Programs.
YIT	Youth-in-Transition.

