



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

Report Number:
000-0100-13

State of Michigan

Fiscal Year Ended September 30, 2012

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 Report on Internal Control, Compliance, and Other Matters for the State of Michigan Comprehensive Annual Financial Report (071-0010-13).

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 37 programs as major programs and reported known questioned costs of \$12.3 million. The State expended a total of \$22.0 billion in federal awards during the fiscal year ended September 30, 2012. We issued 24 unqualified opinions, 9 qualified opinions, and 4 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>2012-001</u> <u>2012-002</u> <u>2012-003</u>
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster	Qualified	\$0	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u> <u>2012-014</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Unqualified	\$0	<u>2012-005</u> <u>2012-013</u>
10.558	Child and Adult Care Food Program	Qualified	\$0	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u>
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Unqualified	\$955,952	<u>2012-015</u> <u>2012-016</u>
14.228 and 14.255	CDBG - State-Administered CDBG Cluster, including ARRA	Qualified	\$0	<u>2012-017</u> <u>2012-018</u> <u>2012-019</u> <u>2012-020</u> <u>2012-072</u>
20.205 and 20.219	Highway Planning and Construction Cluster, including ARRA	Qualified	\$0	<u>2012-012</u> <u>2012-021</u> <u>2012-022</u>
81.042	Weatherization Assistance for Low-Income Persons, including ARRA	Unqualified	\$0	<u>2012-006</u> <u>2012-012</u>
84.007, 84.032G, 84.032L, and 84.063	Student Financial Assistance Cluster	Unqualified	\$0	Not Applicable
84.010 and 84.389	Title I, Part A Cluster, including ARRA	Unqualified	\$0	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u>
84.027, 84.173, 84.391, and 84.392	Special Education Cluster (IDEA), including ARRA	Unqualified	Undeterminable	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u> <u>2012-023</u>
84.126	Vocational Rehabilitation Cluster	Unqualified	\$0	Not Applicable
84.377 and 84.388	School Improvement Grants Cluster, including ARRA	Unqualified	\$0	<u>2012-009</u> <u>2012-010</u> <u>2012-011</u> <u>2012-024</u>
84.048	Career and Technical Education - Basic Grants to States	Unqualified	\$0	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u>
84.287	Twenty-First Century Community Learning Centers	Unqualified	\$0	<u>2012-004</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u>

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
84.367	Improving Teacher Quality State Grants	Unqualified	\$0	2012-004 2012-007 2012-009 2012-010 2012-011
84.410	Education Jobs Fund	Unqualified	\$0	2012-009 2012-010 2012-011
93.044, 93.045, and 93.053	Aging Cluster	Unqualified	\$0	2012-005 2012-027
93.558	TANF Cluster	Adverse	\$3,788,952	2012-001 2012-002 2012-003 2012-006 2012-008 2012-012 2012-013 2012-028 2012-029 2012-030 2012-031 2012-032 2012-033 2012-034 2012-035 2012-036 2012-037 2012-038 2012-039
93.575 and 93.596	CCDF Cluster	Adverse	\$2,307	2012-001 2012-002 2012-040 2012-041 2012-042 2012-043
93.775, 93.777, and 93.778	Medicaid Cluster, including ARRA	Adverse	\$6,962,774	2012-001 2012-002 2012-003 2012-013 2012-044 2012-045 2012-046 2012-047 2012-048 2012-049 2012-050 2012-051 2012-052 2012-053
93.563	Child Support Enforcement	Qualified	\$0	2012-006 2012-008 2012-012
93.566	Refugee and Entrant Assistance - State Administered Programs	Qualified	\$9,252	2012-001 2012-002 2012-012 2012-054 2012-055 2012-056 2012-057

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
93.568	Low-Income Home Energy Assistance	Qualified	\$2,843	<u>2012-001</u> <u>2012-002</u> <u>2012-058</u> <u>2012-059</u>
93.658	Foster Care - Title IV-E, including ARRA	Unqualified	(\$59,875)	<u>2012-060</u> <u>2012-061</u> <u>2012-062</u> <u>2012-063</u>
93.659	Adoption Assistance	Qualified	Undeterminable	<u>2012-064</u>
93.667	Social Services Block Grant	Unqualified	\$99,505	<u>2012-006</u> <u>2012-061</u>
93.674	Chafee Foster Care Independence Program	Adverse	\$417,549	<u>2012-008</u> <u>2012-012</u> <u>2012-065</u> <u>2012-066</u> <u>2012-067</u> <u>2012-068</u>
93.767	Children's Health Insurance Program	Unqualified	\$0	Not Applicable
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Unqualified	\$0	Not Applicable
93.994	Maternal and Child Health Services Block Grant to the States	Unqualified	\$0	<u>2012-005</u> <u>2012-013</u>
97.067	Homeland Security Grant Program	Unqualified	\$0	<u>2012-012</u> <u>2012-069</u>

Major Programs Audited by Others

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
14.871	Housing Voucher Cluster	Unqualified	\$0	<u>2012-070</u> <u>2012-071</u>
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	Unqualified	\$0	<u>2012-072</u>
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	Unqualified	\$0	Not Applicable
14.258	ARRA - Tax Credit Assistance Program (Recovery Act Funded)	Unqualified	\$0	Not Applicable
17.225	Unemployment Insurance, including ARRA	Unqualified	\$17,755	<u>2012-073</u> <u>2012-074</u>

Findings Related to Non-Major Programs

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
84.365	English Language Acquisition State Grants	Not Applicable	\$12,965	<u>2012-025</u>
84.378	College Access Challenge Grant Program	Not Applicable	\$74,030	<u>2012-026</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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Thomas H. McTavish, C.P.A.
Auditor General

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

June 28, 2013

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

Dear Mr. Nixon:

This is our single audit report for the State of Michigan for the fiscal year ended September 30, 2012.

This report contains our report summary; a description of the transition to an annual Statewide single audit; the schedule of expenditures of federal awards; 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 State's 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,

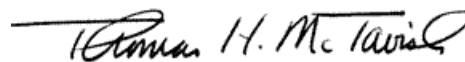

Thomas H. McTavish, C.P.A.
Auditor General

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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 Report on Internal Control, Compliance, and Other Matters for the State of Michigan Comprehensive Annual Financial Report was issued on June 12, 2013 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, there were 37 major programs requiring audit coverage for fiscal year 2011-12. The audit of these programs covered \$20.2 billion (92%) of the \$22.0 billion in expenditures of federal awards.

- The 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 on all prior audit findings. Therefore, the OAG followed up on the status of audit findings reported in each of the prior biennial audits for fiscal year 2010-11 and the Statewide single audit of the transitional agencies for fiscal year 2010-11. 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.

SUPPLEMENTAL FINANCIAL SCHEDULE

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
<u>Financial Assistance</u>		
<u>U.S. Department of Agriculture</u>		
SNAP Cluster:		
Direct Programs:		
Supplemental Nutrition Assistance Program (SNAP) (Note 7)	10.551	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	
Total SNAP Cluster		
Child Nutrition Cluster:		
Direct Programs:		
School Breakfast Program (SBP)	10.553	
National School Lunch Program (NSLP)	10.555	
Special Milk Program for Children (SMP)	10.556	
Summer Food Service Program for Children (SFSPC)	10.559	
Total Child Nutrition Cluster		
Emergency Food Assistance Cluster:		
Direct Programs:		
Emergency Food Assistance Program (Administrative Costs)	10.568	
ARRA - Emergency Food Assistance Program (Administrative Costs)	10.568	
Total Emergency Food Assistance Cluster		
Forest Service Schools and Roads Cluster:		
Direct Program:		
Schools and Roads - Grants to States	10.665	
Total Forest Service Schools and Roads Cluster		
Direct Programs:		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	
Wetlands Reserve Program	10.072	
Voluntary Public Access and Habitat Incentive Program	10.093	
Forest Service Drug Team	10.09-LE-11091000-030	
Market Protection and Promotion	10.163	
Specialty Crop Block Grant Program - Farm Bill	10.170	
Organic Certification Cost Share Programs	10.171	
Grants for Agricultural Research, Special Research Grants	10.200	
Food Safety Cooperative Agreements	10.479	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	
Child and Adult Care Food Program	10.558	
State Administrative Expenses for Child Nutrition	10.560	
Commodity Supplemental Food Program	10.565	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	
Team Nutrition Grants	10.574	
Senior Farmers Market Nutrition Program	10.576	
WIC Grants To States (WGS)	10.578	
Child Nutrition Discretionary Grants Limited Availability	10.579	
Supplemental Nutrition Assistance Program, Outreach/Participation Program	10.580	
Fresh Fruit and Vegetable Program	10.582	
Cooperative Forestry Assistance	10.664	
Urban and Community Forestry Program	10.675	
Forest Legacy Program	10.676	
Forest Stewardship Program	10.678	
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	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 2,990,094,273	\$	\$	\$ 2,990,094,273
122,044,340	24,220,500		146,264,840
<u>\$ 3,112,138,613</u>	<u>\$ 24,220,500</u>	<u>\$ 0</u>	<u>\$ 3,136,359,113</u>
\$ 344,881	\$ 92,486,297	\$	\$ 92,831,178
598,202	279,011,582		279,609,784
	440,056		440,056
188,979	8,795,171		8,984,150
<u>\$ 1,132,062</u>	<u>\$ 380,733,106</u>	<u>\$ 0</u>	<u>\$ 381,865,168</u>
\$ 34,148	\$ 3,083,561	\$	\$ 3,117,709
	(387)		(387)
<u>\$ 34,148</u>	<u>\$ 3,083,174</u>	<u>\$ 0</u>	<u>\$ 3,117,322</u>
\$	\$ 3,870,630	\$	\$ 3,870,630
<u>\$ 0</u>	<u>\$ 3,870,630</u>	<u>\$ 0</u>	<u>\$ 3,870,630</u>
\$ 1,532,059	\$	\$	\$ 1,532,059
	20,855		20,855
327,597			327,597
5,386			5,386
1,977,432			1,977,432
187,131	1,306,320		1,493,451
174,169			174,169
106,706			106,706
170,321			170,321
140,615,702	46,364,277		186,979,979
842,945	61,626,462		62,469,407
5,750,817			5,750,817
114,321	6,454,627		6,568,948
328,293	37,947		366,240
346,994	2,500		349,494
245,558			245,558
	460,000		460,000
1,507,367	61,668		1,569,035
606,746	336,783		943,529
198,008	3,425,155		3,623,163
1,289,150	476,454		1,765,604
140,220	8,228		148,448
30,281			30,281
144,571	16,779		161,350
116,827	95,579		212,406
429,685			429,685
	212,089		212,089
142,116	582,519		724,635

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
Farm and Ranch Lands Protection Program	10.913	
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	307111, 307112
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	
Interjurisdictional Fisheries Act of 1986	11.407	
Coastal Zone Management Administration Awards	11.419	
Applied Meteorological Research	11.468	
Public Safety Interoperable Communications Grant Program	11.555	
Total U.S. Department of Commerce		
<u>U.S. Department of Defense</u>		
Direct Programs:		
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	
Electronic Absentee Systems for Elections	12.217	
Military Construction, National Guard	12.400	
National Guard Military Operations and Maintenance (O&M) Projects:		
Appendix 1 ARNG Facilities Programs	12.401	
Appendix 2 ARNG Environmental Programs Resources Management	12.401	
Appendix 3 ARNG Security Cooperative Agreement	12.401	
Appendix 4 ARNG Electronic Security System (ESS) Installation, Operation & Maintenance (IO&M)	12.401	
Appendix 5 ARNG Command, Control, Communications, Computers, and Information Management (C4IM) Service 15	12.401	
Appendix 7 ARNG Sustainable Range Programs (SRP)	12.401	
Appendix 10 ARNG Antiterrorism Program Coordinator (ATPC) Activities	12.401	
Appendix 14 ARNG Administrative Services Activities	12.401	
Appendix 21 ANG Facilities Operations and Maintenance Activities	12.401	
Appendix 22 ANG Environmental Program Management	12.401	
Appendix 23 ANG Security Cooperative Agreement	12.401	
Appendix 24 ANG Fire Protection Activities	12.401	
Appendix 30 ANG Combat Readiness Training Center (CRTC) Base Operating Support (ANGBOS)	12.401	
Appendix 40 - Army National Guard Distributed Learning Program	12.401	
Air National Guard Services Program	12.401	
Full Time Dining Operations	12.401	
Total National Guard Military Operations and Maintenance (O&M) Projects		
National Guard ChalleNGe Program		
National Guard ChalleNGe Program	12.404	
National Guard Starbase Program	12.404	
Total National Guard ChalleNGe Program		
Estuary Habitat Restoration Program	12.UNKNOWN**	
Defense Activity for Non-Traditional Education Support	12.N3569710MDTSTOP**	
Total U.S. Department of Defense		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 147,900	\$ 2,492	\$	\$ 147,900
\$ 157,478,302	\$ 121,490,734	\$ 0	\$ 278,969,036
\$ 13,601	\$ 0	\$ 0	\$ 13,601
\$ 3,270,796,726	\$ 533,398,144	\$ 0	\$ 3,804,194,870
\$ 84,344	\$	\$	\$ 84,344
7,969			7,969
1,551,917	4,187,269		5,739,186
	275,739		275,739
229,106	4,280,344		4,509,450
\$ 1,873,336	\$ 8,743,352	\$ 0	\$ 10,616,688
\$ 1,017,623	\$	\$	\$ 1,017,623
196,836			196,836
10,657,543			10,657,543
23,246,286		1,788,580	25,034,866
2,071,269		88,122	2,159,391
1,418,899			1,418,899
188,268		5,500	193,768
1,202,307		125,000	1,327,307
1,834,207			1,834,207
101,214			101,214
			0
3,226,366		4,353,601	7,579,967
82,116		80,565	162,681
2,555,111			2,555,111
5,807,606		70,413	5,878,019
29			29
117,062		191,000	308,062
226,771		227,300	454,071
319,607			319,607
\$ 42,397,118	\$ 0	\$ 6,930,081	\$ 49,327,199
\$ 2,456,155	\$ 3,390,641	\$	\$ 2,456,155
\$ 2,456,155	\$ 3,390,641	\$ 0	\$ 5,846,796
\$ 6,063	\$	\$	\$ 6,063
148,118			148,118
\$ 56,879,456	\$ 3,390,641	\$ 6,930,081	\$ 67,200,178

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
<u>U.S. Department of Housing and Urban Development</u>		
Section 8 Project-Based Cluster		
Direct Programs:		
Section 8 Contract Administration	14.182	
Section 8 New Construction and Substantial Rehabilitation	14.182	
Total Section 8 Project-Based Cluster		
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	14.255	
Total CDBG - State-Administered CDBG Cluster		
Housing Voucher Cluster:		
Direct Program:		
Section 8 Housing Choice Vouchers	14.871	
Total Housing Voucher Cluster		
Direct Programs:		
Housing Counseling Assistance Program	14.169	
Emergency Solutions Grant Program	14.231	
Supportive Housing Program	14.235	
Shelter Plus Care	14.238	
Home Investment Partnerships Program	14.239	
Home Investment Partnerships Program - Technical Assistance	14.239	
Housing Opportunities for Persons with AIDS	14.241	
ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	14.256	
ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257	
ARRA - Tax Credit Assistance Program (Recovery Act Funded)	14.258	
Fair Housing Assistance Program-State and Local	14.401	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	
Lead Hazard Reduction Demonstration Grant Program	14.905	
Healthy Homes Technical Studies Grants	14.906	
Total Direct Programs		
Total U.S. Department of Housing and Urban Development		
<u>U.S. Department of the Interior</u>		
Fish and Wildlife Cluster:		
Direct Programs:		
Sport Fish Restoration Program	15.605	
Wildlife Restoration and Basic Hunter Education	15.611	
Total Fish and Wildlife Cluster		
Direct Programs:		
Keweenaw National Historical Park (NHP) and Keweenaw NHP Advisory Commission Partner Enhancement Grants	15.407	
Fish and Wildlife Management Assistance	15.608	
Coastal Wetlands Planning, Protection and Restoration Act	15.614	
Cooperative Endangered Species Conservation Fund	15.615	
Clean Vessel Act	15.616	
Sportfishing and Boating Safety Act	15.622	
Enhanced Hunter Education and Safety Program	15.626	
Coastal Program	15.630	
Landowner Incentive Program	15.633	
State Wildlife Grants	15.634	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 8,957,118	\$ 195,971,685	\$	\$ 204,928,803
	115,083,023		115,083,023
<u>\$ 8,957,118</u>	<u>\$ 311,054,708</u>	<u>\$ 0</u>	<u>\$ 320,011,826</u>
\$ 2,669,464	\$ 53,835,364	\$	\$ 56,504,828
92,957	2,464,690		2,557,647
<u>\$ 2,762,421</u>	<u>\$ 56,300,054</u>	<u>\$ 0</u>	<u>\$ 59,062,475</u>
\$ 16,011,680	\$ 163,504,841	\$ 0	\$ 179,516,521
<u>\$ 16,011,680</u>	<u>\$ 163,504,841</u>	<u>\$ 0</u>	<u>\$ 179,516,521</u>
\$ 109,406	\$	\$	\$ 109,406
	2,781,912		2,781,912
736,609	3,743,858		4,480,467
(158,237)	4,843,437		4,685,200
	15,479,622		15,479,622
	39,454		39,454
(20,103)	1,154,374		1,134,271
21,722,343	96,082,367		117,804,710
	4,224,887		4,224,887
3,943,136			3,943,136
1,039,000			1,039,000
982,119	211,461		1,193,580
15,603	45,290		60,893
125,926	12,495		138,421
<u>\$ 28,495,802</u>	<u>\$ 128,619,157</u>	<u>\$ 0</u>	<u>\$ 157,114,959</u>
\$ 56,227,021	\$ 659,478,760	\$ 0	\$ 715,705,781
\$ 15,870,622	\$	\$	\$ 15,870,622
13,256,564			13,256,564
<u>\$ 29,127,186</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,127,186</u>
\$ 6,052	\$	\$	\$ 6,052
583,327			583,327
155,779	76,100		231,879
222,992			222,992
7,870	211,616		219,486
56,176			56,176
240,000			240,000
1,677			1,677
238,740			238,740
1,138,560	88,265		1,226,825

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
Migratory Bird Joint Ventures	15.637	
Challenge Cost Share	15.642	
Research Grants (Generic)	15.650	
Undesirable/Noxious Plant Species	15.652	
Great Lakes Restoration	15.662	
Historic Preservation Fund Grants-In-Aid	15.904	
Outdoor Recreation-Acquisition, Development and Planning	15.916	
Save America's Treasures	15.929	
Total Direct Programs		
Total U.S. Department of the Interior		
<u>U.S. Department of Justice</u>		
JAG Program Cluster:		
Direct Programs:		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	
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	
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	
Missing Children's Assistance	16.543	
Title V-Delinquency Prevention Program	16.548	
National Criminal History Improvement Program (NCHIP)	16.554	
Crime Victim Assistance	16.575	
Crime Victim Compensation	16.576	
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	
Residential Substance Abuse Treatment for State Prisoners	16.593	
State Criminal Alien Assistance Program	16.606	
Bulletproof Vest Partnership Program	16.607	
Public Safety Partnership and Community Policing Grants	16.710	
Juvenile Mentoring Program	16.726	
Enforcing Underage Drinking Laws Program	16.727	
Statewide Automated Victim Information Notification (SAVIN) Program	16.740	
DNA Backlog Reduction Program	16.741	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	
Capital Case Litigation	16.746	
ARRA - Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	16.800	
ARRA - Recovery Act - State Victim Assistance Formula Grant Program	16.801	
ARRA - Recovery Act Transitional Housing	16.805	
ARRA - Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drugs		
Competitive Grant Program	16.810	
John R. Justice Prosecutors and Defenders Incentive Act	16.816	
Upper Peninsula Safe Trails Task Force (UPSTTF)	16.198E-DE-C100655	
COPS Digital Image Unit Grant	16.2008-CK-WX-0802	
Domestic Cannabis Eradication/Suppression Program (DCE/SP)	16.2011-87	
Domestic Cannabis Eradication/Suppression Program (DCE/SP)	16.2012-81	
Genesee County Safe Streets Task Force (GCSSTF)	16.281D-DE-C98517	
Southeast Michigan Crimes Against Children Task Force (SEMCAAC)	16.31E-DE-C100515	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 42,550	\$	\$	\$ 42,550
12,757			12,757
16,025			16,025
184,658			184,658
234,002	384,170		618,172
1,090,080	98,321		1,188,401
463,894	240,201		704,095
56,665			56,665
<u>\$ 4,751,804</u>	<u>\$ 1,098,673</u>	<u>\$ 0</u>	<u>\$ 5,850,477</u>
\$ 33,878,990	\$ 1,098,673	\$ 0	\$ 34,977,663

\$ 1,716,682	\$ 3,122,579	\$	\$ 4,839,261
3,529,381	8,038,510		11,567,891
<u>\$ 5,246,063</u>	<u>\$ 11,161,089</u>	<u>\$ 0</u>	<u>\$ 16,407,152</u>

\$	\$ 196,651	\$	\$ 196,651
43,389	985,411		1,028,800
3,471	214,896		218,367
10,729	76,662		87,391
752,227	2,010,136		2,762,363
440,995	41,948		482,943
	74,956		74,956
299,763	69,802		369,565
252,215	13,956,412		14,208,627
2,064,035			2,064,035
70,703	2,919,227		2,989,930
525,988	(186,682)		339,306
6,480	438,317		444,797
243,438			243,438
606,958	263,737		870,695
1,715,744			1,715,744
114,348	70,826		185,174
2,505,287			2,505,287
9,661	134,771		144,432
157,889	134,415		292,304
246,816			246,816
1,689,857			1,689,857
163,110			163,110
96,452			96,452
88,738	105,000		193,738
1	74,241		74,242
3,058	608,567		611,625
1,337,546			1,337,546
174,403			174,403
35,548			35,548
83,856			83,856
52,969	14,047		67,016
304,801	49,104		353,905
19,242			19,242
17,826			17,826

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
BAYANET OCDETF	16.GL-MIE-0452	
FANG OCDETF	16.GL-MIE-0454	
FANG OCDETF	16.GL-MIE-0472	
FANG OCDETF	16.GL-MIE-0479	
Tri County Metro OCDETF	16.GL-MIW-125	
UPSET OCDETF	16.GL-MIW-134	
WEMET OCDETF	16.GL-MIW-142	
Weed and Seed Program	16.**	
Equitable Sharing of Federally Forfeited Property	16.**	
Firearms Investigative Team	16.**	
District Fugitive Task Force	16.**	
Straits Area Safe Trails Task Force (SASTT)	16.**	
ATF OT 8th District	16.**	
Detroit Area Corruption Task Force (DACTF)	16.**	
Detroit Violent Gang Task Force (DVGTF)	16.**	
Detroit Major Crimes Task Force (DMCTF)	16.**	
Oakland County Violent Gang Task Force	16.**	
Drug Enforcement Administration - Group 6	16.**	
Joint Terrorism Task Force	16.**	
U.S. Marshal Fugitive Task Force	16.**	
U.S. Marshal Western District	16.**	
U.S. Marshal - Sex Offender Sweeps	16.**	
U.S. Marshal's Service-Detroit Fugitive Apprehension Team	16.**	
ATF Task Force	16.**	
Total Direct Programs		
Pass-Through Program:		
Kent County		
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2009-MU-BX-K038
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	
Disabled Veterans' Outreach Program (DVOP)	17.801	
Local Veterans' Employment Representative (LVER) Program	17.804	
Total Employment Service Cluster		
WIA Cluster:		
Direct Programs:		
WIA Adult Program	17.258	
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	
ARRA - Unemployment Insurance	17.225	
Senior Community Service Employment Program	17.235	
Trade Adjustment Assistance	17.245	
Temporary Labor Certification for Foreign Workers	17.273	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 24,993	\$	\$	\$ 24,993
10,403			10,403
19,587			19,587
9,183			9,183
15,192			15,192
17,914			17,914
701			701
2,412			2,412
88,867			88,867
31,714			31,714
75,333			75,333
7,505			7,505
2,007			2,007
1,877			1,877
33,657			33,657
5,792			5,792
7,612			7,612
14,329			14,329
44,738			44,738
19,815			19,815
10,800			10,800
8,645			8,645
11,000			11,000
7,059			7,059
<u>\$ 14,608,678</u>	<u>\$ 22,252,444</u>	<u>\$ 0</u>	<u>\$ 36,861,122</u>

\$ 8,172	\$	\$	\$ 8,172
<u>\$ 19,862,913</u>	<u>\$ 33,413,533</u>	<u>\$ 0</u>	<u>\$ 53,276,446</u>

\$ 10,681,960	\$ 15,277,787	\$	\$ 25,959,747
2,770,264			2,770,264
3,015,229			3,015,229
<u>\$ 16,467,453</u>	<u>\$ 15,277,787</u>	<u>\$ 0</u>	<u>\$ 31,745,240</u>

\$ 1,040,700	\$ 41,649,351	\$	\$ 42,690,051
1,324,693	43,210,446		44,535,139
2,005,201	3,194,291		5,199,492
23,743	8,784,009		8,807,752
475,637	34,689,412		35,165,049
<u>\$ 4,869,974</u>	<u>\$ 131,527,509</u>	<u>\$ 0</u>	<u>\$ 136,397,483</u>

\$ 2,096,000	\$	\$	\$ 2,096,000
238,400			238,400
2,262,004,156	4,014,419		2,266,018,575
875,211,936			875,211,936
51,955	2,866,364		2,918,319
32,527,411	35,083,246		67,610,657
218,806			218,806

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
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		
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	
Recreational Trails Program	20.219	
Total Direct Programs		
Pass-Through Programs:		
Michigan Fitness Foundation		
Highway Planning and Construction	20.205	20073112
Highway Planning and Construction	20.205	20120752
Total Pass-Through Programs		
Total Highway Planning and Construction Cluster		
Federal Transit Cluster:		
Direct Programs:		
Federal Transit-Capital Investment Grants	20.500	
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		
Highway Safety Cluster:		
Direct Programs:		
State and Community Highway Safety	20.600	
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	
Occupant Protection Incentive Grants	20.602	
State Traffic Safety Information System Improvements Grants	20.610	
Incentive Grant Program to Increase Motorcyclist Safety	20.612	
Child Safety and Child Booster Seat Incentive Grants	20.613	
Total Highway Safety Cluster		
Direct Programs:		
Airport Improvement Program	20.106	
National Motor Carrier Safety	20.218	
Commercial Driver's License Program Improvement Grant	20.232	
Border Enforcement Grants	20.233	
Safety Data Improvement Program	20.234	
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	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 36,046	\$ 1,847,456	\$	\$ 1,883,502
8,039	563,789		571,828
10,291,600			10,291,600
1,641,000			1,641,000
76,498			76,498
<u>\$ 3,184,401,847</u>	<u>\$ 44,375,274</u>	<u>\$ 0</u>	<u>\$ 3,228,777,121</u>
\$ 3,205,739,274	\$ 191,180,570	\$ 0	\$ 3,396,919,844

\$ 1,018,948,236	\$ 41,043,191	\$	\$ 1,059,991,427
21,863,943	2,251,259		24,115,202
2,860,238	891,600		3,751,838
<u>\$ 1,043,672,417</u>	<u>\$ 44,186,050</u>	<u>\$ 0</u>	<u>\$ 1,087,858,467</u>

\$ (2,473)	\$	\$	\$ (2,473)
62,958	98,097		161,055
<u>\$ 60,485</u>	<u>\$ 98,097</u>	<u>\$ 0</u>	<u>\$ 158,582</u>
<u>\$ 1,043,732,902</u>	<u>\$ 44,284,147</u>	<u>\$ 0</u>	<u>\$ 1,088,017,049</u>

\$ 683,344	\$ 9,395,784	\$	\$ 10,079,128
<u>\$ 683,344</u>	<u>\$ 9,395,784</u>	<u>\$ 0</u>	<u>\$ 10,079,128</u>

\$	\$ 4,608,182	\$	\$ 4,608,182
	2,190,446		2,190,446
	1,168,590		1,168,590
<u>\$ 0</u>	<u>\$ 7,967,218</u>	<u>\$ 0</u>	<u>\$ 7,967,218</u>

\$ 4,214,123	\$ 2,036,881	\$	\$ 6,251,004
2,086,495	2,111,185		4,197,680
704,024	74,121		778,145
27,195	770,550		797,745
71,671	100,000		171,671
201,858	155,000		356,858
<u>\$ 7,305,366</u>	<u>\$ 5,247,737</u>	<u>\$ 0</u>	<u>\$ 12,553,103</u>

\$ 23,431,324	\$	\$	\$ 23,431,324
5,959,042	123,527		6,082,569
409,481			409,481
525,289			525,289
208,338			208,338
226,149			226,149
	282,072		282,072
581,703	10,392,514		10,974,217
	2,256,841		2,256,841

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
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	
ARRA - Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523	
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614	
E-911 Grant Program	20.615	
Pipeline Safety Program State Base Grant	20.700	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	
State Damage Prevention Program Grants	20.720	
PHMSA Pipeline Safety Program One Call Grant	20.721	
ARRA - Surface Transportation - Discretionary Grants for Capital Investment	20.932	
Total Direct Programs		
Total U.S. Department of Transportation		
<u>U.S. Department of Treasury</u>		
Direct Programs:		
Equitable Sharing of Federally Forfeited Property	21.**	
Internal Revenue Services - Identity Theft	21.**	
State Small Business Credit Initiative	21.**	
Total Direct Programs		
Pass-Through Program:		
Neighborhood Works		
National Foreclosure Mitigation Counseling	21.**	P112-1095X1350
National Foreclosure Mitigation Counseling	21.**	P112-55:95X1350
Total Pass-Through Program		
Total U.S. Department of Treasury		
<u>Equal Employment Opportunity Commission</u>		
Direct Program:		
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	
Total Equal Employment Opportunity Commission		
<u>General Services Administration</u>		
Direct Program:		
Donation of Federal Surplus Personal Property (Note 10)	39.003	
Total General Services Administration		
<u>National Endowment for the Arts</u>		
Direct Programs:		
Promotion of the Arts-Partnership Agreements	45.025	
Grants to States	45.310	
Total Direct Programs		
Pass-Through Program:		
Michigan Humanities Council		
Promotion of the Humanities-Federal/State Partnership	45.129	GMR11-003
Total National Endowment for the Arts		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 4,207,344	\$ 18,265,023	\$	\$ 22,472,367
5,238	3,087,009		3,092,247
	406,541		406,541
	433,158		433,158
6,827	47,676		54,503
1,267,139			1,267,139
603,813			603,813
569,108			569,108
	27,217		27,217
	30,213		30,213
16,741,097			16,741,097
<u>\$ 54,741,892</u>	<u>\$ 35,351,791</u>	<u>\$ 0</u>	<u>\$ 90,093,683</u>
\$ 1,106,463,504	\$ 102,246,677	\$ 0	\$ 1,208,710,181
\$	\$	\$	\$
229,138			229,138
3,663			3,663
480,618	32,441,349		32,921,967
<u>\$ 713,419</u>	<u>\$ 32,441,349</u>	<u>\$ 0</u>	<u>\$ 33,154,768</u>
\$	\$ 779,395	\$	\$ 779,395
	257,980		257,980
<u>\$ 0</u>	<u>\$ 1,037,375</u>	<u>\$ 0</u>	<u>\$ 1,037,375</u>
\$ 713,419	\$ 33,478,724	\$ 0	\$ 34,192,143
\$ 994,000	\$	\$	\$ 994,000
<u>\$ 994,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 994,000</u>
\$	\$ 334,000	\$	\$ 334,000
<u>\$ 0</u>	<u>\$ 334,000</u>	<u>\$ 0</u>	<u>\$ 334,000</u>
\$	\$ 819,845	\$	\$ 819,845
2,688,035			2,688,035
<u>\$ 2,688,035</u>	<u>\$ 819,845</u>	<u>\$ 0</u>	<u>\$ 3,507,880</u>
\$ 4,305	\$	\$	\$ 4,305
<u>\$ 2,692,340</u>	<u>\$ 819,845</u>	<u>\$ 0</u>	<u>\$ 3,512,185</u>

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
<u>Small Business Administration</u>		
Direct Program:		
State Trade and Export Promotion Pilot Grant Program	59.061	
Total Small Business Administration		
<u>U.S. Department of Veterans Affairs</u>		
Direct Programs:		
Veterans State Domiciliary Care	64.014	
Veterans State Nursing Home Care	64.015	
Veterans Information and Assistance	64.115	
Total U.S. Department of Veterans Affairs		
<u>U.S. Environmental Protection Agency</u>		
Direct Programs:		
Air Pollution Control Program Support	66.001	
State Indoor Radon Grants	66.032	
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034	
State Clean Diesel Grant Program	66.040	
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	
State Public Water System Supervision	66.432	
Water Quality Management Planning	66.454	
Capitalization Grants for Clean Water State Revolving Funds	66.458	
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	
Nonpoint Source Implementation Grants	66.460	
Regional Wetland Program Development Grants	66.461	
Capitalization Grants for Drinking Water State Revolving Funds	66.468	
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	
Great Lakes Program	66.469	
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	
Beach Monitoring and Notification Program Implementation Grants	66.472	
Water Protection Grants to the States	66.474	
Performance Partnership Grants	66.605	
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	
Pollution Prevention Grants Program	66.708	
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716	
Hazardous Waste Management State Program Support	66.801	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	
State and Tribal Response Program Grants	66.817	
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	
Total Direct Programs		
Pass-Through Programs:		
Little River Band of Ottawa Indians		
Training, Investigations, and Special Purpose Activities of Federally-Recognized Indian Tribes Consistent With the Clean Air Act (CAA), Tribal Sovereignty and the Protection and Management of Air Quality	66.038	XA965859-01
Friends of the St. Joe River Association, Inc.		
National Wetland Program Development Grants and Five-Star Restoration Training Grant	66.462	WD83481301

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 715,977	\$ 751,001	\$	\$ 1,466,978
\$ 715,977	\$ 751,001	\$ 0	\$ 1,466,978

\$ 1,190,572	\$	\$	\$ 1,190,572
25,270,059			25,270,059
358,978			358,978
\$ 26,819,609	\$ 0	\$ 0	\$ 26,819,609

\$ 4,477,546	\$ 132,081	\$	\$ 4,609,627
248,900			248,900
1,205,016			1,205,016
40,451	938,065		978,516
268,027			268,027
4,425,000			4,425,000
551,581	140,273		691,854
2,031,872	8,426,673		10,458,545
	5,231,329		5,231,329
819,307	3,060,549		3,879,856
217,760	263,204		480,964
4,255,147	27,312,577		31,567,724
598,354	2,366,987		2,965,341
6,271,484	3,229,801		9,501,285
445,492	69,690		515,182
67,145	181,923		249,068
55,239			55,239
11,797,436			11,797,436
154,045	217,854		371,899
383,642			383,642
49,204	16,577		65,781
55,663			55,663
3,979,009			3,979,009
1,428,350	114,014		1,542,364
1,372,973			1,372,973
2,197,394			2,197,394
125,000			125,000
1,146,823	18,688		1,165,511
1,748			1,748
\$ 48,669,608	\$ 51,720,285	\$ 0	\$ 100,389,893

\$ 2,786	\$	\$	\$ 2,786
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30,018			30,018
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STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA *</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification Number</u>
Central Michigan University Great Lakes Program Total Pass-Through Programs	66.469	GL00E00612
Total U.S. Environmental Protection Agency		
<u>U.S. Department of Energy</u>		
Direct Programs:		
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	
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	
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	
Total U.S. Department of Energy		
<u>U.S. Department of Education</u>		
Student Financial Assistance Cluster (Note 11):		
Direct Programs:		
Federal Supplemental Educational Opportunity Grants (FSEOG)	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 (PELL)	84.063	
Total Student Financial Assistance Cluster		
Title I, Part A Cluster:		
Direct Programs:		
Title I Grants to Local Educational Agencies	84.010	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	
Total Title I, Part A Cluster		
Special Education Cluster (IDEA):		
Direct Programs:		
Special Education-Grants to States	84.027	
Special Education-Preschool Grants	84.173	
ARRA - Special Education Grants to States, Recovery Act	84.391	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	
Total Special Education Cluster (IDEA)		
Vocational Rehabilitation Cluster:		
Direct Program:		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	
Total Vocational Rehabilitation Cluster		
Independent Living State Grants Cluster:		
Direct Program:		
Independent Living - State Grants	84.169	
Total Independent Living State Grants Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 6,001	\$	\$	\$ 6,001
\$ 38,805	\$ 0	\$ 0	\$ 38,805
\$ 48,708,413	\$ 51,720,285	\$ 0	\$ 100,428,698
\$ 2,319,486	\$ 629,968	\$	\$ 2,949,454
1,085,402	20,447,960		21,533,362
132,703	10,679,588		10,812,291
(3,110,557)	71,488,605		68,378,048
	209,284		209,284
29,582	3,176,180		3,205,762
571,550	1,023,287		1,594,837
27,909			27,909
656,844	12,731,709		13,388,553
1,595,202			1,595,202
\$ 3,308,121	\$ 120,386,581	\$ 0	\$ 123,694,702
\$ 27,185	\$	\$	\$ 27,185
138,790,147			138,790,147
(15,656,869)			(15,656,869)
592,892			592,892
\$ 123,753,355	\$ 0	\$ 0	\$ 123,753,355
\$ 6,263,845	\$ 556,532,670	\$	\$ 562,796,515
92,610	11,390,011		11,482,621
\$ 6,356,455	\$ 567,922,681	\$ 0	\$ 574,279,136
\$ 19,125,555	\$ 384,784,720	\$	\$ 403,910,275
784,313	11,778,270		12,562,583
5	15,525,712		15,525,717
	591,435		591,435
\$ 19,909,873	\$ 412,680,137	\$ 0	\$ 432,590,010
\$ 107,093,999	\$ 1,149,240	\$	\$ 108,243,239
\$ 107,093,999	\$ 1,149,240	\$ 0	\$ 108,243,239
\$ 171,975	\$ 565,451	\$	\$ 737,426
\$ 171,975	\$ 565,451	\$ 0	\$ 737,426

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA *</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification Number</u>
Independent Living Services for Older Individuals Who Are Blind Cluster:		
Direct Program:		
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177	
Total Independent Living Services for Older Individuals Who Are Blind Cluster		
Early Intervention Services (IDEA) Cluster:		
Direct Programs:		
Special Education-Grants for Infants and Families	84.181	
ARRA - Special Education - Grants for Infants and Families, Recovery Act	84.393	
Total Early Intervention Services (IDEA) Cluster		
Education of Homeless Children and Youth Cluster:		
Direct Programs:		
Education for Homeless Children and Youth	84.196	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	
Total Education of Homeless Children and Youth Cluster		
Educational Technology State Grants Cluster:		
Direct Programs:		
Educational Technology State Grants	84.318	
ARRA - Educational Technology State Grants, Recovery Act	84.386	
Total Educational Technology State Grants Cluster		
Statewide Data Systems Cluster:		
Direct Programs:		
Statewide Data Systems	84.372	
ARRA - Statewide Data Systems, Recovery Act	84.384	
Total Statewide Data Systems Cluster		
School Improvement Grants Cluster:		
Direct Programs:		
School Improvement Grants	84.377	
ARRA - School Improvement Grants, Recovery Act	84.388	
Total School Improvement Grants Cluster		
State Fiscal Stabilization Fund Cluster:		
Direct Program:		
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (Education Stabilization Fund)	84.394	
Total State Fiscal Stabilization Fund Cluster		
Direct Programs:		
DED Generalist CFDA (9000000100)	84.000	
Adult Education - Basic Grants to States	84.002	
Migrant Education-State Grant Program	84.011	
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	
Career and Technical Education - Basic Grants to States	84.048	
Safe and Drug-Free Schools and Communities-National Programs	84.184	
Byrd Honors Scholarships	84.185A	
Safe and Drug-Free Schools and Communities-State Grants	84.186	
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	
Even Start-State Educational Agencies	84.213	
Assistive Technology	84.224	
Tech-Prep Education	84.243	
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	
Charter Schools	84.282	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 932,877	\$ 75,508	\$	\$ 1,008,385
\$ 932,877	\$ 75,508	\$ 0	\$ 1,008,385
\$ 699,467	\$ 11,870,251	\$	\$ 12,569,718
	1,171,376		1,171,376
\$ 699,467	\$ 13,041,627	\$ 0	\$ 13,741,094
\$ 455,513	\$ 2,854,854	\$	\$ 3,310,367
	332,154		332,154
\$ 455,513	\$ 3,187,008	\$ 0	\$ 3,642,521
\$ 63,523	\$ 4,714,051	\$	\$ 4,777,574
110,183	5,405,418		5,515,601
\$ 173,706	\$ 10,119,469	\$ 0	\$ 10,293,175
\$ 2,316,681	\$	\$	\$ 2,316,681
2,481,832			2,481,832
\$ 4,798,513	\$ 0	\$ 0	\$ 4,798,513
\$ 461,116	\$ 7,889,826	\$	\$ 8,350,942
1,274,732	33,130,672		34,405,404
\$ 1,735,848	\$ 41,020,498	\$ 0	\$ 42,756,346
\$	\$ 806,605	\$	\$ 806,605
\$ 0	\$ 806,605	\$ 0	\$ 806,605
\$ 190,300	\$	\$	\$ 190,300
1,763,707	12,132,498		13,896,205
820,444	7,862,842		8,683,286
317,280			317,280
3,077,188	35,992,378		39,069,566
1,577,939	3,626,452		5,204,391
197,225			197,225
17,419	43,693		61,112
602,204			602,204
16,253	286,068		302,321
1,291	440,075		441,366
	(472)		(472)
191,772			191,772
333,175	9,723,172		10,056,347

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
Twenty-First Century Community Learning Centers	84.287	
Special Education - State Personnel Development	84.323	
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	
Credit Enhancement for Charter School Facilities	84.354	
Reading First State Grants	84.357	
Rural Education	84.358	
English Language Acquisition State Grants	84.365	
Mathematics and Science Partnerships	84.366	
Improving Teacher Quality State Grants	84.367	
Grants for State Assessments and Related Activities	84.369	
Striving Readers	84.371	
Special Education-Technical Assistance on State Data Collection	84.373	
College Access Challenge Grant Program	84.378	
Education Jobs Fund	84.410	
Total Direct Programs		
Total U.S. Department of Education		
<u>National Archives and Records Administration</u>		
Direct Program:		
National Historical Publications and Records Grants	89.003	
Total National Archives and Records Administration		
<u>U.S. Election Assistance Commission</u>		
Direct Program:		
Help America Vote Act Requirements Payments	90.401	
Total U.S. Election Assistance Commission		
<u>U.S. Department of Health and Human Services</u>		
Aging Cluster:		
Direct Programs:		
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	
Nutrition Services Incentive Program	93.053	
Total Aging Cluster		
Health Centers Cluster:		
Direct Program:		
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	
Total Health Centers Cluster		
Immunization Cluster:		
Direct Programs:		
Immunization	93.268	
ARRA - Immunization	93.712	
Total Immunization Cluster		
TANF Cluster:		
Direct Program:		
Temporary Assistance for Needy Families (TANF) State Programs (Note 14)	93.558	
Total TANF Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 1,071,633	\$ 43,721,066 1,349,363	\$	\$ 44,792,699 1,349,363
51,697			51,697
390,169			390,169
376,760	1,836,156		2,212,916
6,722,253			6,722,253
(12)	(13,419)		(13,431)
75,683	2,337,316		2,412,999
593,300	12,452,044		13,045,344
270,639	5,042,204		5,312,843
4,354,144	102,093,219		106,447,363
7,512,399			7,512,399
42,768	350,698		393,466
490,809			490,809
1,163,017	278,712		1,441,729
1,068,360	91,816,387		92,884,747
<u>\$ 33,289,816</u>	<u>\$ 331,370,452</u>	<u>\$ 0</u>	<u>\$ 364,660,268</u>
\$ 299,371,397	\$ 1,381,938,676	\$ 0	\$ 1,681,310,073
\$ 3,266	\$	\$	\$ 3,266
<u>\$ 3,266</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,266</u>
\$ 2,545,003	\$	\$	\$ 2,545,003
<u>\$ 2,545,003</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,545,003</u>
\$ 585,896	\$ 11,019,612	\$	\$ 11,605,508
850,797	19,812,314		20,663,111
	7,257,628		7,257,628
<u>\$ 1,436,693</u>	<u>\$ 38,089,554</u>	<u>\$ 0</u>	<u>\$ 39,526,247</u>
\$ 66,921	\$ 195,014	\$	\$ 261,935
<u>\$ 66,921</u>	<u>\$ 195,014</u>	<u>\$ 0</u>	<u>\$ 261,935</u>
\$ 3,325,540	\$ 5,598,601	\$	\$ 8,924,141
135,651	423,829		559,480
<u>\$ 3,461,191</u>	<u>\$ 6,022,430</u>	<u>\$ 0</u>	<u>\$ 9,483,621</u>
\$ 706,256,039	\$ 105,591,027	\$	\$ 811,847,066
<u>\$ 706,256,039</u>	<u>\$ 105,591,027</u>	<u>\$ 0</u>	<u>\$ 811,847,066</u>

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
CSBG Cluster:		
Direct Programs:		
Community Services Block Grants	93.569	
ARRA - Community Services Block Grants	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	
Total CCDF Cluster		
Head Start Cluster:		
Direct Programs:		
Head Start	93.600	
ARRA - Head Start	93.708	
Total Head Start Cluster		
Medicaid Cluster:		
Direct Programs:		
State Medicaid Fraud Control Units	93.775	
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	
Medical Assistance Program	93.778	
ARRA - Medical Assistance Program	93.778	
Total Medicaid Cluster		
Direct Programs:		
Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	
Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	93.042	
Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	93.043	
Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	93.048	
Alzheimer's Disease Demonstration Grants to States	93.051	
National Family Caregiver Support, Title III, Part E	93.052	
Public Health Emergency Preparedness	93.069	
Environmental Public Health and Emergency Response	93.070	
Emergency System for Advance Registration of Volunteer Health Professionals	93.089	
Guardianship Assistance	93.090	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	
Food and Drug Administration-Research	93.103	
Maternal and Child Health Federal Consolidated Programs	93.110	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	
Emergency Medical Services for Children	93.127	
Projects for Assistance in Transition from Homelessness (PATH)	93.150	
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	
Health Program for Toxic Substances and Disease Registry	93.161	
Grants to States for Loan Repayment Program	93.165	
Disabilities Prevention	93.184	
Family Planning-Services	93.217	
Traumatic Brain Injury State Demonstration Grant Program	93.234	
Affordable Care Act (ACA) Abstinence Education Program	93.235	
State Capacity Building	93.240	
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	
Universal Newborn Hearing Screening	93.251	
Adult Viral Hepatitis Prevention and Control	93.270	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 92,579	\$ 20,378,076	\$	\$ 20,470,655
(155,577)			(155,577)
<u>\$ (62,998)</u>	<u>\$ 20,378,076</u>	<u>\$ 0</u>	<u>\$ 20,315,078</u>
\$ 57,538,388	\$	\$	\$ 57,538,388
83,811,774			83,811,774
<u>\$ 141,350,162</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 141,350,162</u>
\$ 149,424	\$	\$	\$ 149,424
987,923			987,923
<u>\$ 1,137,347</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,137,347</u>
\$ 3,449,456	\$	\$	\$ 3,449,456
12,594,888	2,411,253		15,006,141
8,217,121,146	26,067,158		8,243,188,304
112,880,204	2,027,821		114,908,025
<u>\$ 8,346,045,694</u>	<u>\$ 30,506,232</u>	<u>\$ 0</u>	<u>\$ 8,376,551,926</u>
\$ (453)	\$ 161,418	\$	\$ 160,965
391,241	155,854		547,095
(51,304)	736,036		684,732
(48,856)	327,645		278,789
(58,067)	377,476		319,409
(29,014)	4,947,713		4,918,699
6,789,946	9,247,934		16,037,880
805,518	705,324		1,510,842
132,649			132,649
1,097,375	426		1,097,801
604,349	1,176,829		1,781,178
780,202			780,202
644,632	567,547		1,212,179
839,916			839,916
124,085			124,085
64,221	1,708,038		1,772,259
96,337	1,131,484		1,227,821
149,333	118,019		267,352
287,621			287,621
153,200	84,100		237,300
1,566,223	6,282,609		7,848,832
233,681			233,681
288,098	975,245		1,263,343
410,108			410,108
222,823	1,426,742		1,649,565
348,375	6,000		354,375
106,609			106,609

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA * Number</u>	<u>Pass-Through Identification Number</u>
The Affordable Care Act: Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	
State Partnership Grant Program to Improve Minority Health	93.296	
Small Rural Hospital Improvement Grant Program	93.301	
Nurse Education, Practice Quality and Retention Grants	93.359	
ARRA - State Primary Care Offices	93.414	
Food Safety and Security Monitoring Project	93.448	
Ruminant Feed Ban Support Project	93.449	
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	
PPHF 2012 National Public Health Improvement Initiative	93.507	
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	
Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST)	93.512	
Affordable Care Act - Aging and Disability Resource Center	93.517	
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518	
Affordable Care Act (ACA) - Consumer Assistance Program Grants	93.519	
Centers for Disease Control and Prevention Affordable Care Act (ACA) Communities Putting Prevention to Work	93.520	
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	93.521	
State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges	93.525	
PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	93.539	
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544	
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	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	93.590	
Grants to States for Access and Visitation Programs	93.597	
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	
Developmental Disabilities Basic Support and Advocacy Grants	93.630	
Children's Justice Grants to States	93.643	
Stephanie Tubbs Jones Child Welfare Services Program	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	
Social Services Block Grant	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 - Preventing Healthcare-Associated Infections	93.717	
ARRA - State Grants to Promote Health Information Technology	93.719	
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	
ARRA - Health Information Technology and Public Health	93.729	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 12,408,979	\$ 8,079,412	\$	\$ 20,488,391
(1,552)	143,555		142,003
6,512	407,421		413,933
508			508
108,980	47,970		156,950
1,339			1,339
325,650			325,650
254,605	2,050,883		2,305,488
313,994	206,982		520,976
726,167			726,167
246,020	381,268		627,288
76,553	364,900		441,453
	434,687		434,687
691,745			691,745
139,630	48,033		187,663
2,036,695	111,563		2,148,258
223,445			223,445
95,841	219,500		315,341
188,083	164,905		352,988
5,063,830	8,948,782		14,012,612
47,875,926	102,507,980		150,383,906
167,243	(37,715)		129,528
3,074,780	12,699,076		15,773,856
166,300,649	6,737,976		173,038,625
(7,348)	663,276		655,928
(1,074)			(1,074)
967,831			967,831
(614,857)	1,458,736		843,879
290,530			290,530
(1,287)	1,839,451		1,838,164
3,738,644	197,129		3,935,773
14,912	178,831		193,743
1,371,252	1,357,801		2,729,053
415,594	125,082		540,676
9,626,096			9,626,096
	433,080		433,080
123,334,239	555,998		123,890,237
(7,174)			(7,174)
108,654,765	237,741		108,892,506
129,201,663	2,669,349		131,871,012
135,923	646,729		782,652
136,931	2,413,242		2,550,173
4,329,379	753,059		5,082,438
219,727			219,727
(4,479,044)	4,376,509		(102,535)
442,623	380,895		823,518
10,225	369,929		380,154
293,416			293,416

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA * Number</u>	<u>Pass-Through Identification Number</u>
State Public Health Approaches for Ensuring Quiltline Capacity Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012)	93.735	
Children's Health Insurance Program	93.767	
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	
Money Follows the Person Rebalancing Demonstration	93.791	
State Survey Certification of Health Care Providers and Suppliers (Title XIX) Medicaid	93.796	
National Bioterrorism Hospital Preparedness Program	93.889	
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	
Grants to States for Operation of Offices of Rural Health	93.913	
HIV Emergency Relief Project Grants	93.914	
HIV Care Formula Grants	93.917	
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	
Special Projects of National Significance	93.928	
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	
HIV Prevention Activities-Health Department Based	93.940	
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	
Assistance Programs for Chronic Disease Prevention and Control	93.945	
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	
Block Grants for Community Mental Health Services	93.958	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	
National All Schedules Prescription Electronic Reporting Grant	93.975	
Preventive Health and Health Services Block Grant	93.991	
Maternal and Child Health Services Block Grant to the States	93.994	
State Data Collections (Synectics)	93.999	
Michigan Department of Health Tobacco Inspections	93.999	
Evaluation Associated with HIV Testing	93.999	
Social Security Administration - Birth Record Contract	93.999	
Social Security Administration - Death Records	93.999	
Vital Statistics - CDC MCHS Contract	93.999	
National Death Index	93.999	
Genotyping TB	93.999	
Link Art Data with Vital Records	93.999	
PBB Long Term Study	93.999	
State Demo Dual Eligible	93.999	
ARRA - SEARCH Contract	93.999	
Total Direct Programs		
Pass-Through Programs:		
Association of Public Health Libraries, Inc.		
Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	93.065	56400-200-306-10-10; 56400-200-039-12-08; 20122702
Regents of the University of Michigan		
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	3002169610
Regents of the University of Michigan		
Injury Prevention and Control Research and State and Community Based Programs	93.136	3001128380

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 79,551	\$	\$	\$ 79,551
55,179,409			55,179,409
508,257			508,257
164,158	2,133,365		2,297,523
10,460,277	82,185		10,542,462
6,903,750			6,903,750
2,078,570	8,691,183		10,769,753
21,317	781,988		803,305
56,484	118,206		174,690
714,391			714,391
11,957,703	4,541,003		16,498,706
771,240	762,355		1,533,595
100,000			100,000
649,279	148,954		798,233
417,687	6,166,072		6,583,759
41,560	251,823		293,383
2,393,633	29,002		2,422,635
13,309	7,278		20,587
59,117	60,071		119,188
1,627,881	13,767,470		15,395,351
1,425,948	55,066,853		56,492,801
(18,566)			(18,566)
1,116,810	1,584,568		2,701,378
7,207,786	10,803,941		18,011,727
104,530			104,530
281,190	326,408		607,598
2,527			2,527
271,329			271,329
81,380			81,380
671,684			671,684
40,239			40,239
605,495			605,495
40,388	34,765		75,153
(4,520)	20,896		16,376
306,193			306,193
1,588	260,000		261,588
<u>\$ 740,679,010</u>	<u>\$ 297,948,840</u>	<u>\$ 0</u>	<u>\$ 1,038,627,850</u>

\$ 36,060	\$	\$	\$ 36,060
161,682	30,000		191,682
456,010	1,154,834		1,610,844

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA *</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification Number</u>
Regents of the University of Michigan Research on Healthcare Costs, Quality and Outcomes	93.226	20122985; 3002290116
Michigan State University Occupational Safety and Health Program	93.262	61-0406MDCH
Association of State and Territorial Health Officials The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	8220-07AST9.1
Council of State & Territorial Epidemiologists The Affordable Care Act: Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	20113362; 20123655
National Association of Chronic Disease Directors The Affordable Care Act: Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	1082011
Academy for Educational Development Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	20101917; 20113314
Spectrum Health Hospitals PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	20121955
Michigan State University Allergy, Immunology and Transplantation Research	93.855	61-D049MDCH
Regents of the University of Michigan Allergy, Immunology and Transplantation Research	93.855	3001712828
American College of Obstetricians and Gynecologist HIV Demonstration, Research, Public and Professional Education Projects	93.941	20112300
State of Minnesota National Bioterrorism Hospital Preparedness Program	93.889	B04616/B56658
Safe States Field Triage State Implementation	93.999	200-2009-3175
University of Utah Fetal Alcohol Disorder Prevention	93.999	10019195-02
Michigan State University Michigan State Tobacco Enforcement Contracts	93.999	611407MD
John Snow, Inc. Novel Technologies in Newborn Screening	93.999	13283-1051
Magna Systems, Inc. MSU National Children's Study Center	93.999	N/A

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 25,746	\$	\$	\$ 25,746
144,624			144,624
3,817			3,817
97,180			97,180
(5,190)	27,500		22,310
15,898	77,807		93,705
1,400			1,400
94,427			94,427
25,549			25,549
(7,087)	26,950		19,863
17,151			17,151
	2,605		2,605
36,393	199,980		236,373
31,583			31,583
194,368	19,662		214,030
	16,783		16,783

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2012
Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA * Number</u>	<u>Pass-Through Identification Number</u>
National Association of State Mental Health Program Directors NASMHPD Transformation Transfer Initiative (TTI)	93.999	SC-1026-MI-01; SC-1026-MI-02; SC-1042-MI-01
Northrop Grumman Fetal Alcohol Disorder Prevention	93.999	7500027045
Northrop Grumman New Freedom Initiative Financial Support	93.999	7500027045
Total Pass-Through Programs		
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	
Learn and Serve America-School and Community Based Programs	94.004	
AmeriCorps	94.006	
ARRA - AmeriCorps	94.006	
Program Development and Innovation Grants	94.007	
Training and Technical Assistance	94.009	
Volunteer Generation Fund	94.021	
Total U.S. Corporation for National and Community Service		
<u>Executive Office of the President</u>		
Direct Program:		
High Intensity Drug Trafficking Areas Program	95.001	
Total Executive Office of the President		
<u>Social Security Administration</u>		
Disability Insurance/SSI Cluster:		
Direct Program:		
Social Security-Disability Insurance	96.001	
Total Social Security Administration		
<u>U.S. Department of Homeland Security</u>		
Direct Programs:		
Interoperable Emergency Communications Grant Program	97.001	
Non-Profit Security Program	97.008	
Boating Safety Financial Assistance	97.012	
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	
Flood Mitigation Assistance	97.029	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	
Hazard Mitigation Grant	97.039	
National Dam Safety Program	97.041	
Emergency Management Performance Grants	97.042	
State Fire Training Systems Grants	97.043	
Cooperating Technical Partners	97.045	
Pre-Disaster Mitigation	97.047	
Interoperable Emergency Communications	97.055	
Port Security Grant Program	97.056	
Homeland Security Grant Program	97.067	
Rail and Transit Security Grant Program	97.075	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 87,485	\$	\$	\$ 87,485
(638)			(638)
16,098			16,098
\$ 1,432,556	\$ 1,556,121	\$ 0	\$ 2,988,677
\$ 9,941,802,615	\$ 500,287,294	\$ 0	\$ 10,442,089,909
\$ 245,250	\$ 5,397	\$	\$ 250,647
127,275	167,115		294,390
(151,390)	6,545,767		6,394,377
(999)			(999)
48,867			48,867
80,266			80,266
1,216	432,612		433,828
\$ 350,485	\$ 7,150,891	\$ 0	\$ 7,501,376
\$ 590,466	\$	\$	\$ 590,466
\$ 590,466	\$ 0	\$ 0	\$ 590,466
\$ 81,665,630	\$	\$	\$ 81,665,630
\$ 81,665,630	\$ 0	\$ 0	\$ 81,665,630
\$ 705	\$ 383,799	\$	\$ 384,504
53	297,403		297,456
5,054,484			5,054,484
232,120			232,120
	10,341		10,341
1,787	49,326		51,113
24,082	918,328		942,410
112,059			112,059
7,218,059	2,208,702		9,426,761
10,007			10,007
98,694			98,694
	441,477		441,477
59,641	397,940		457,581
334,899			334,899
3,637,340	36,343,855		39,981,195
	156,868		156,868

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
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Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number
Buffer Zone Protection Program (BZPP)	97.078	
Homeland Security Biowatch Program	97.091	
National Incident Management System (NIMS)	97.107	
ARRA - Port Security Grant Program (ARRA)	97.116A	
Border Interoperability Demonstration Project	97.120	
U.S. Customs and Immigration Enforcement	97.**	
Total U.S. Department of Homeland Security		
TOTAL FINANCIAL ASSISTANCE		
<u>Nonfinancial Assistance (Note 6):</u>		
<u>U.S. Department of Agriculture</u>		
Child Nutrition Cluster:		
School Breakfast Program (SBP)	10.553	
Summer Food Service Program for Children (SFSPC)	10.559	
Total Child Nutrition Cluster		
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	
Total Emergency Food Assistance Cluster		
Direct Program:		
Commodity Supplemental Food Program	10.565	
Total Direct Program		
Total U.S. Department of Agriculture		
<u>U.S. Department of Health and Human Services</u>		
Immunization Cluster:		
Immunization Cooperative Agreements	93.268	
Total Immunization Cluster		
Direct Programs:		
Public Health Emergency Preparedness	93.069	
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	
Total Direct Programs		
Total U.S. Department of Health and Human Services		
TOTAL NONFINANCIAL ASSISTANCE		
TOTAL EXPENDITURES OF FEDERAL AWARDS		

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

** CFDA number not available. Number derived from federal agency number or contract number.

The accompanying notes are an integral part of this schedule.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$	\$ 956,066	\$	\$ 956,066
1,236,409	362,688		1,599,097
3,527	8,134		11,661
1,114,026			1,114,026
16,348	637,293		653,641
4,980			4,980
\$ 19,159,220	\$ 43,172,220	\$ 0	\$ 62,331,440
\$ 18,181,161,181	\$ 3,672,989,867	\$ 6,930,081	\$ 21,861,081,129
\$ 2,219	\$ 30,963,585	\$	\$ 30,965,804
	66,637		66,637
\$ 2,219	\$ 31,030,222	\$ 0	\$ 31,032,441
\$	\$ 15,528,724	\$	\$ 15,528,724
\$ 0	\$ 15,528,724	\$ 0	\$ 15,528,724
\$	\$ 21,360,204	\$	\$ 21,360,204
\$ 0	\$ 21,360,204	\$ 0	\$ 21,360,204
\$ 2,219	\$ 67,919,150	\$ 0	\$ 67,921,369
\$ 86,302,823	\$	\$	\$ 86,302,823
\$ 86,302,823	\$ 0	\$ 0	\$ 86,302,823
\$ 175,871	\$	\$	\$ 175,871
62,835			62,835
\$ 238,706	\$ 0	\$ 0	\$ 238,706
\$ 86,541,529	\$ 0	\$ 0	\$ 86,541,529
\$ 86,543,748	\$ 67,919,150	\$ 0	\$ 154,462,898
\$ 18,267,704,929	\$ 3,740,909,017	\$ 6,930,081	\$ 22,015,544,027

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 in the following paragraph. 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. They 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. 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 State's ten public universities have been excluded from the reporting entity for fiscal year 2011-12. The universities obtained separate audits in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profits Organizations*.

Note 2 Fiscal Year-Ends

The State of Michigan and discretely presented component units included within the fiscal year 2011-12 reporting entity are reported using fiscal years which end on September 30, except for the Michigan State Housing Development Authority (MSHDA), which utilizes a June 30 year-end.

The following programs include MSHDA expenditures, which are reported as of June 30, 2012. In addition, some of the programs noted below also include the Department of Community Health, Michigan Department of Transportation, Michigan Strategic Fund, and Land Bank Fast Track Authority (Other State Agencies) expenditures, which are reported as of September 30, 2012.

<i>CFDA</i>	Program	MSHDA Expenditures as of June 30, 2012	Other State Agencies' Expenditures as of September 30, 2012	Total (as Reported on the SEFA)
14.169	Housing Counseling Assistance Program	\$ 109,406	\$ 0	\$ 109,406
14.182	Section 8 Contract Administration	\$204,928,803	\$ 0	\$ 204,928,803
14.182	Section 8 New Construction and Substantial Rehabilitation	\$115,083,023	\$ 0	\$ 115,083,023
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$ 33,629,510	\$ 22,875,318	\$ 56,504,828
14.231	Emergency Solutions Grant Program	\$ 2,781,912	\$ 0	\$ 2,781,912
14.235	Supportive Housing Program	\$ 540,500	\$ 3,939,967	\$ 4,480,467
14.239	Home Investment Partnerships Program	\$ 15,479,622	\$ 0	\$ 15,479,622
14.239	Home Investment Partnerships Program - Technical Assistance	\$ 39,454	\$ 0	\$ 39,454
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	\$108,318,583	\$ 9,486,126	\$ 117,804,710
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	\$ 4,224,887	\$ 0	\$ 4,224,887
14.258	ARRA - Tax Credit Assistance Program (Recovery Act Funded)	\$ 3,943,136	\$ 0	\$ 3,943,136
14.871	Section 8 Housing Choice Vouchers	\$179,516,521	\$ 0	\$ 179,516,521
15.904	Historic Preservation Fund Grants-In-Aid	\$ 1,188,401	\$ 0	\$ 1,188,401
15.929	Save America's Treasures	\$ 56,665	\$ 0	\$ 56,665
20.205	Highway Planning and Construction	\$ 45,323	\$ 1,084,219,888	\$1,084,265,211

<i>CFDA</i>	Program	MSHDA Expenditures as of June 30, 2012	Other State Agencies' Expenditures as of September 30, 2012	Total (as Reported on the SEFA)
21.**	National Foreclosure Mitigation Counseling	\$ 1,037,375	\$ 0	\$ 1,037,375
81.042A	ARRA - Weatherization Assistance for Low-Income Persons	\$ 105,538	\$ 68,272,510	\$ 68,378,048

Note 3 Basis of Presentation

The SEFA presents the federal grant activity of the State of Michigan in accordance with the requirements of OMB Circular A-133.

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 the modified accrual basis of accounting. For entities with proprietary or fiduciary funds, expenditures are presented on the accrual basis of accounting. Differences will exist between federal expenditures shown on the SEFA and related federal expenditures on federal financial reports because of additional accrual amounts recorded after the preparation of 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 subrecipient 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 are included in the SEFA.

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. These conditions prevent 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 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 10.95% of the USDA's total expenditures for SNAP benefits in the federal fiscal year ended September 30, 2012.

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

* See glossary at end of report for definition.

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 2011-12, the total amount of federal and State contributions and interest earnings totaled \$22,914,115.

No loans were disbursed in fiscal year 2011-12.

Note 9 Airport Improvement Program

Federal expenditures of \$76,521,927 for the Airport Improvement Program (CFDA 20.106) channeled to primary airports for fiscal year 2011-12 are not included in the SEFA. Included in this amount are ARRA expenditures of \$852,190. The Federal Aviation Administration (FAA) determined that MDOT has no oversight responsibility for grants to primary airports. Also, compliance with federal regulations is the responsibility of the primary airport and not MDOT. Therefore, MDOT is channeling the FAA funds to the primary airports, in accordance with Act 327, P.A. 1945.

Note 10 Donation of Surplus Property

The amount distributed to subrecipients for the Donation of Federal Surplus Personal Property (CFDA 39.003) is 23.3% of the acquisition value of donated property 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 2011-12 were \$144,172.

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, 2012, the outstanding original principal balance of loans guaranteed under the FFEL Program - Guaranty Agency (CFDA 84.032G) by the Michigan Finance Authority was \$2.8 billion. In addition, as of September 30, 2012, \$1.1 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 the 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 2011-12.

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:

Annual Default Rate	Federal Reinsurance
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%

The FFEL Program - Guaranty Agency activity for fiscal year 2011-12 was:

Federal Program Title	CFDA Number	Federal Expenditures
Federal Family Education Loans - Guaranty Agency	84.032G	
Loan Loss Reinsured by USDOE		\$119,266,367
Account Maintenance Fees		1,699,764
Loan Recoveries - Net of Amounts Returned to USDOE		3,750,878
Loans Repurchased and Rehabilitated		14,073,138
Total Federal Family Education Loans - Guaranty Agency		<u>\$138,790,147</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 to ensure 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 USDOE.

The FFEL Program - Lender activity for fiscal year 2011-12 was:

Federal Program Title	CFDA Number	Federal Expenditures
Federal Family Education Loans - Lender	84.032L	
Interest Subsidy Payments		\$ 7,832,263
Special Allowance Payments		(23,489,131)
Total Federal Family Education Loans - Lender		<u>\$ (15,656,869)</u>

Note 14 Department of Human Services (DHS) Federal Claims

- a. Federal claims exceeded their grant award authorizations by more than \$500,000 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).

Social Services Block Grant (CFDA 93.667)	\$27,815,000
Low-Income Home Energy Assistance (CFDA 93.568)	\$10,713,000
Stephanie Tubbs Jones Child Welfare Services Program (CFDA 93.645)	\$53,364,000
Community-Based Child Abuse Prevention Grants (CFDA 93.590) (Children's Trust Fund)	\$ 1,611,000

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

Note 15 National Guard In-Kind Assistance

As part of the National Guard Bureau Cooperative Agreement, the U.S. Department of Defense provided in-kind assistance in the form of direct federal payment for services and supplies for military operations and maintenance projects (CFDA 12.401). The in-kind assistance dollar amounts reported in the SEFA were determined and obtained from the United States Property and Fiscal Office for Michigan.

Note 16 Medicare and Medicaid Revenue

The Grand Rapids Home for Veterans and the D.J. Jacobetti Home for Veterans received federal Medicare revenue totaling \$1,691,589 in fiscal year 2011-12. The Grand Rapids Home for Veterans and the D.J. Jacobetti Home for Veterans received federal Medicaid revenue totaling \$27,579 in fiscal year 2011-12. Medicare and Medicaid revenue is not considered federal assistance, but rather a purchase of services provided by the Homes. Therefore, a purchase of service funded by Medicare and Medicaid revenue is not included in the SEFA.

INDEPENDENT AUDITOR'S REPORT



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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 State of Michigan's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the fiscal year ended September 30, 2012. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the State's 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 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 \$1.4 billion in federal awards for the fiscal year ended September 30, 2012. These agencies were not considered by the State to be part of the single audit reporting entity. Each of these agencies obtained separate audits in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

We did not audit the following major federal programs or percentages of federal programs listed below. These programs were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to compliance requirements for these programs, is based on the reports of the other auditors.

CFDA Number(s)	Program or Cluster	Percentage Audited by Other Auditors	Total Expenditures
14.228 14.255	CDBG - State-Administered CDBG Cluster	57%	\$ 59,062,475
14.871	Housing Voucher Cluster	100%	\$ 179,516,521
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	100%	\$ 117,804,710

CFDA Number(s)	Program or Cluster	Percentage Audited by Other Auditors	Total Expenditures
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	100%	\$ 4,224,887
14.258	ARRA - Tax Credit Assistance Program (Recovery Act Funded)	100%	\$ 3,943,136
17.225	Unemployment Insurance	100%	\$2,266,018,575
17.225	ARRA - Unemployment Insurance	100%	\$ 875,211,936
93.575 93.596	CCDF Cluster	9%	\$ 141,350,162

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 - Guaranty Agency, CFDA 84.032G, and Federal Family Education Loans - Lender, CFDA 84.032L: 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 - Lender, 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., NelNet, Inc., and Sallie Mae, Inc. lender audits covered the periods January 1, 2011 through December 31, 2011 and January 1, 2012 through December 31, 2012. 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. 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	TANF Cluster	Special Tests and Provisions - Income Eligibility and Verification System	2012-003
U.S. Department of Health and Human Services	93.575 93.596	CCDF Cluster	Special Tests and Provisions - Health and Safety Requirements	2012-043
U.S. Department of Agriculture	10.551 10.561	SNAP Cluster	Special Tests and Provisions - ADP System for SNAP	2012-003

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	TANF Cluster	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Special Tests and Provisions - Penalty for Refusal to Work	2012-028 2012-031 2012-032 2012-034 2012-038
U.S. Department of Health and Human Services	93.575 93.596	CCDF Cluster	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	2012-040
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; and Procurement and Suspension and Debarment	2012-065 2012-066 2012-068
U.S. Department of Housing and Urban Development	14.228 14.255	CDBG - State-Administered CDBG Cluster	Reporting	2012-017 2012-018

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirement(s)	Finding Number(s)
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	2012-058
U.S. Department of Health and Human Services	93.659	Adoption Assistance	Activities Allowed or Unallowed and Eligibility	2012-064
U.S. Department of Transportation	20.205 20.219	Highway Planning and Construction Cluster	Reporting	2012-022
U.S. Department of Agriculture	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Reporting	2012-004
U.S. Department of Agriculture	10.558	Child and Adult Care Food Program	Reporting	2012-004
U.S. Department of Health and Human Services	93.775 93.777 93.778	Medicaid Cluster	Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	2012-044 2012-045 2012-046
U.S. Department of Health and Human Services	93.563	Child Support Enforcement	Reporting	2012-006
U.S. Department of Health and Human Services	93.566	Refugee and Entrant Assistance - State Administered Programs	Eligibility	2012-054

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, based on our audit and the reports of other auditors, 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, Chafee Foster Care Independence Program, and Medicaid Cluster. 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) related to the income eligibility and verification system; the CCDF Cluster (CFDA 93.575 and 93.596) 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, 2012. 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 2012-004, 2012-005, 2012-006, 2012-007, 2012-008, 2012-009, 2012-010, 2012-011, 2012-012, 2012-013, 2012-014, 2012-015, 2012-016, 2012-019, 2012-020, 2012-023, 2012-025, 2012-026, 2012-027, 2012-029, 2012-030, 2012-036, 2012-039, 2012-040, 2012-041, 2012-047, 2012-048, 2012-049, 2012-051, 2012-052, 2012-054, 2012-057, 2012-060, 2012-061, 2012-062, 2012-063, and 2012-069.

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 2012-001, 2012-002, 2012-003, 2012-004, 2012-006, 2012-017, 2012-018, 2012-022, 2012-028, 2012-031, 2012-032, 2012-034, 2012-038, 2012-040, 2012-043, 2012-044, 2012-045, 2012-046, 2012-054, 2012-058, 2012-065, 2012-066, and 2012-068 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 2012-004, 2012-005, 2012-006, 2012-007, 2012-008, 2012-009, 2012-010, 2012-011, 2012-012, 2012-013, 2012-014, 2012-015, 2012-016, 2012-019, 2012-020, 2012-021, 2012-023, 2012-024, 2012-025, 2012-026, 2012-027, 2012-029, 2012-030, 2012-033, 2012-035, 2012-036, 2012-037, 2012-039, 2012-040, 2012-041, 2012-042, 2012-047, 2012-048, 2012-049, 2012-050, 2012-051, 2012-052, 2012-053, 2012-054, 2012-055, 2012-056, 2012-057, 2012-059, 2012-060, 2012-061, 2012-062, 2012-063, 2012-067, and 2012-069 to be significant deficiencies.

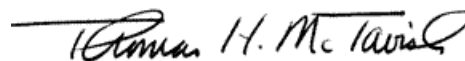
Schedule of Expenditures of Federal Awards

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, 2012 and have issued our report thereon dated February 28, 2013, which contained unqualified opinions on those financial statements and 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements 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 27, 2013

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>2012-001</u> <u>2012-002</u> <u>2012-003</u>
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster	Qualified	\$0	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u> <u>2012-014</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Unqualified	\$0	<u>2012-005</u> <u>2012-013</u>

* See glossary at end of report for definition.

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
10.558	Child and Adult Care Food Program	Qualified	\$0	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u>
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Unqualified	\$955,952	<u>2012-015</u> <u>2012-016</u>
14.228 and 14.255	CDBG - State-Administered CDBG Cluster, including ARRA	Qualified	\$0	<u>2012-017</u> <u>2012-018</u> <u>2012-019</u> <u>2012-020</u> <u>2012-072</u>
20.205 and 20.219	Highway Planning and Construction Cluster, including ARRA	Qualified	\$0	<u>2012-012</u> <u>2012-021</u> <u>2012-022</u>
81.042	Weatherization Assistance for Low-Income Persons, including ARRA	Unqualified	\$0	<u>2012-006</u> <u>2012-012</u>
84.007, 84.032G, 84.032L, and 84.063	Student Financial Assistance Cluster	Unqualified	\$0	Not Applicable
84.010 and 84.389	Title I, Part A Cluster, including ARRA	Unqualified	\$0	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u>
84.027, 84.173, 84.391, and 84.392	Special Education Cluster (IDEA), including ARRA	Unqualified	Undeterminable	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u> <u>2012-023</u>
84.126	Vocational Rehabilitation Cluster	Unqualified	\$0	Not Applicable

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
84.377 and 84.388	School Improvement Grants Cluster, including ARRA	Unqualified	\$0	<u>2012-009</u> <u>2012-010</u> <u>2012-011</u> <u>2012-024</u>
84.048	Career and Technical Education - Basic Grants to States	Unqualified	\$0	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u>
84.287	Twenty-First Century Community Learning Centers	Unqualified	\$0	<u>2012-004</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u>
84.367	Improving Teacher Quality State Grants	Unqualified	\$0	<u>2012-004</u> <u>2012-007</u> <u>2012-009</u> <u>2012-010</u> <u>2012-011</u>
84.410	Education Jobs Fund	Unqualified	\$0	<u>2012-009</u> <u>2012-010</u> <u>2012-011</u>
93.044, 93.045, and 93.053	Aging Cluster	Unqualified	\$0	<u>2012-005</u> <u>2012-027</u>
93.558	TANF Cluster (<i>Continued on next page</i>)	Adverse*	\$3,788,952	<u>2012-001</u> <u>2012-002</u> <u>2012-003</u> <u>2012-006</u> <u>2012-008</u> <u>2012-012</u> <u>2012-013</u> <u>2012-028</u> <u>2012-029</u> <u>2012-030</u>

* See glossary at end of report for definition.

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
	TANF Cluster (<i>Continued</i>)			<u>2012-031</u> <u>2012-032</u> <u>2012-033</u> <u>2012-034</u> <u>2012-035</u> <u>2012-036</u> <u>2012-037</u> <u>2012-038</u> <u>2012-039</u>
93.575 and 93.596	CCDF Cluster	Adverse	\$2,307	<u>2012-001</u> <u>2012-002</u> <u>2012-040</u> <u>2012-041</u> <u>2012-042</u> <u>2012-043</u>
93.775, 93.777, and 93.778	Medicaid Cluster, including ARRA	Adverse	\$6,962,774	<u>2012-001</u> <u>2012-002</u> <u>2012-003</u> <u>2012-013</u> <u>2012-044</u> <u>2012-045</u> <u>2012-046</u> <u>2012-047</u> <u>2012-048</u> <u>2012-049</u> <u>2012-050</u> <u>2012-051</u> <u>2012-052</u> <u>2012-053</u>
93.563	Child Support Enforcement	Qualified	\$0	<u>2012-006</u> <u>2012-008</u> <u>2012-012</u>

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
93.566	Refugee and Entrant Assistance - State Administered Programs	Qualified	\$9,252	<u>2012-001</u> <u>2012-002</u> <u>2012-012</u> <u>2012-054</u> <u>2012-055</u> <u>2012-056</u> <u>2012-057</u>
93.568	Low-Income Home Energy Assistance	Qualified	\$2,843	<u>2012-001</u> <u>2012-002</u> <u>2012-058</u> <u>2012-059</u>
93.658	Foster Care - Title IV-E, including ARRA	Unqualified	(\$59,875)	<u>2012-060</u> <u>2012-061</u> <u>2012-062</u> <u>2012-063</u>
93.659	Adoption Assistance	Qualified	Undeterminable	<u>2012-064</u>
93.667	Social Services Block Grant	Unqualified	\$99,505	<u>2012-006</u> <u>2012-061</u>
93.674	Chafee Foster Care Independence Program	Adverse	\$417,549	<u>2012-008</u> <u>2012-012</u> <u>2012-065</u> <u>2012-066</u> <u>2012-067</u> <u>2012-068</u>
93.767	Children's Health Insurance Program	Unqualified	\$0	Not Applicable
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Unqualified	\$0	Not Applicable
93.994	Maternal and Child Health Services Block Grant to the States	Unqualified	\$0	<u>2012-005</u> <u>2012-013</u>
97.067	Homeland Security Grant Program	Unqualified	\$0	<u>2012-012</u> <u>2012-069</u>

Major Programs Audited by Others

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
14.871	Housing Voucher Cluster	Unqualified	\$0	<u>2012-070</u> <u>2012-071</u>
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	Unqualified	\$0	<u>2012-072</u>
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	Unqualified	\$0	Not Applicable
14.258	ARRA - Tax Credit Assistance Program (Recovery Act Funded)	Unqualified	\$0	Not Applicable
17.225	Unemployment Insurance, including ARRA	Unqualified	\$17,755	<u>2012-073</u> <u>2012-074</u>

Findings Related to Non-Major Programs

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
84.365	English Language Acquisition State Grants	Not Applicable	\$12,965	<u>2012-025</u>
84.378	College Access Challenge Grant Program	Not Applicable	\$74,030	<u>2012-026</u>

Dollar threshold used to distinguish between type A and type B programs: \$37,187,485

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

* See glossary at end of report for definition.

exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, Circular A-133 requires the auditor to report in 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 Report on Internal Control, Compliance, and Other Matters for the State of Michigan Comprehensive Annual Financial Report (071-0010-13), located at <http://audgen.michigan.gov/finalpdfs/12_13/r071001013.pdf>.

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

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING 2012-001

DHS Bridges Interface and Change Controls

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and <i>CFDA</i> Number	SNAP Cluster, Including ARRA: <i>CFDA</i> 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 EBT 2012 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$3,136,359,113
Total ARRA Expenditures	\$456,701,947
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	2011-001
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 <i>CFDA</i> Number	TANF Cluster: <i>CFDA</i> 93.558
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
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	2011-001
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 and 93.596
Award Identification Number and Year	G 12 03 MI CCDF 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$141,350,162
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	2011-001
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	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking
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	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	G09AAMI5100 10/01/2008 - 09/30/2009 G10AAMI5100 10/01/2009 - 09/30/2010 G11AAMI5100 10/01/2010 - 09/30/2011 G12AAMI5100 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$15,773,856
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

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 11 B1 MI LIEA 10/01/2010 - 09/30/2012 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013
Total Expenditures of Federal Award	\$173,038,625
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	2011-001
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 an 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 DTMB internal control over federal programs did not provide reasonable assurance that they were managing federal awards in compliance with program requirements related to eligibility and benefit level for the SNAP Cluster, TANF Cluster,

* See glossary at end of report for definition.

CCDF Cluster, Medicaid Cluster, Refugee and Entrant Assistance - State Administered Programs, and Low-Income Home Energy Assistance Program (LIHEAP).

For purposes of the 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 audit 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 in testing 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), 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 and the TANF Cluster - Special Tests and Provisions - Income Eligibility and Verification System (see Finding 2012-003).

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, Medicaid Cluster, Refugee and Entrant Assistance - State Administered Programs, 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 2012-002

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 EBT 2012 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$3,136,359,113
Total ARRA Expenditures	\$456,701,947
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	2011-002
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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, 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	2011-002
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 and 93.596
Award Identification Number and Year	G 12 03 MI CCDF 10/01/2011 - 09/30/2012

Total Expenditures of Federal Awards	\$141,350,162
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	2011-002
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	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking
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	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	G09AAMI5100 10/01/2008 - 09/30/2009 G10AAMI5100 10/01/2009 - 09/30/2010 G11AAMI5100 10/01/2010 - 09/30/2011 G12AAMI5100 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$15,773,856
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

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 11 B1 MI LIEA 10/01/2010 - 09/30/2012 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013
Total Expenditures of Federal Award	\$173,038,625
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	2011-002
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. In addition, DHS did not periodically monitor other high-risk activity of local office users.
- b. DTMB had not established effective access controls over the Bridges database management system, including DTMB had not established unique accounts for the Bridges database administrators, did not configure the database management system to log privileged activity, did not effectively configure database security settings such as profiles that control account lockout and password settings, had not assigned system and table privileges in accordance with best practices, and had not removed 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 34 users with access to Bridges and requested a copy of each user's Bridges Application Security Agreement (DHS-173). Our review disclosed that DHS was unable to locate a DHS-173 for 3 (9%) of the 34 users sampled with access to Bridges. In addition, DHS did not ensure that the local office security coordinators signed and dated 2 (6%) of 31 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. Governmental 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 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, the TANF Cluster, CCDF Cluster, Medicaid Cluster, Refugee and Entrant Assistance - State Administered Programs, and LIHEAP.

Known Questioned Costs

We did not identify questioned costs related to this finding.

* See glossary at end of report for definition.

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.

Corrective Action Plan:

- 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:

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 2012-003

DHS and DTMB - Income Eligibility and Verification System

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 EBT 2012 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$3,136,359,113
Total ARRA Expenditures	\$456,701,947
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	2011-005
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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Special Tests and Provisions - Income Eligibility and Verification System
Type of Finding	Material Weakness, Scope Limitation
Known Questioned Costs	Undeterminable
Repeat Finding	2011-026
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	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025

Compliance Requirement(s)	Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort and Earmarking
Type of Finding	Material weakness, Scope Limitation (with respect to Income Eligibility and Verification System eligibility testing)
Known Questioned Costs	Undeterminable
Repeat Finding	Not Applicable
State Agencies	Department of Community Health, Department of Human Services and Department of Technology, Management, and Budget

Background

DHS's Automated Data Processing (ADP) System for the SNAP, TANF, and Medicaid Clusters is Bridges. Bridges obtains and utilizes information from the Income Eligibility and Verification System (IEVS) to verify the eligibility and benefit levels of applicants and participating households for these federal programs. 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' DHS local office caseworkers to determine the recipients' eligibility and benefit level for the SNAP, TANF, and Medicaid Clusters.

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 the SNAP, TANF, and Medicaid Cluster recipients. In addition, DHS's internal control did not ensure that local office caseworkers considered and used IEVS information when making eligibility and benefit level determinations for these programs. We noted:

- a. DHS and DTMB could not provide documentation to support that DHS and DTMB included each applicable recipient in the IEVS interfaces, stored each recipient's information obtained from the IEVS interfaces in Bridges, and considered and utilized the IEVS information to determine eligibility and benefit level for each recipient.
- b. 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 a recipient's eligibility for SNAP, TANF, and Medicaid Cluster benefits (see Finding 2012-001, 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 for these programs based on information obtained through IEVS.
- d. DHS had not established a process to review and monitor the electronic notifications provided to local office caseworkers to ensure that the local office caseworkers utilized the IEVS information to determine the recipient's eligibility. We noted that, for some data matches, local office caseworkers could manually delete the electronic notifications without utilizing the IEVS information to determine the recipient's eligibility.
- e. For the TANF Cluster, DHS did not include all recipients funded by the TANF Cluster adoption subsidies in the IEVS data matches conducted during the audit period.

Criteria

Title 7, Part 272, section 10 of the *Code of Federal Regulations (CFR)* requires all state agencies to sufficiently automate their food program operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information. 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. In addition, federal regulation 7 *CFR* 273.2(f)(9) permits state agencies to obtain information through IEVS from provider agencies and use it to verify the eligibility and benefit levels of applicants and participating households. Also, federal regulation 7 *CFR* 273.2 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.

Federal regulations 45 *CFR* 205.55 and 42 *CFR* 435.948 for the TANF and Medicaid Clusters, respectively, require 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. Also, federal regulations 45 *CFR* 205.56 and 42 *CFR* 435.948 require states to use the IEVS information to determine an individual's eligibility and the amount of assistance available.

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. Also, DHS and DTMB informed us that there were various reasons why they had not established effective controls over Bridges interface processes (see Finding 2012-001, DHS Bridges Interface and Change Controls).

In addition, 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 recipients' eligibility.

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

Effect

DHS and DTMB were unable to demonstrate compliance with the IEVS special tests and provisions compliance requirement for the SNAP and TANF Clusters. Also, 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. We consider this to be a scope limitation.

DHS may have provided SNAP Cluster and TANF Cluster benefits to ineligible recipients, and DCH may have paid Medicaid providers for services provided to ineligible beneficiaries. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

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 the SNAP, TANF, and Medicaid Cluster recipients.

We also recommend that DHS implement internal control to ensure that local office caseworkers consider and use IEVS information when making eligibility and benefit level determinations for these programs.

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).
- e. TANF funded adoption subsidies will be included with the IEVS data matches when Michigan Statewide Automated Welfare Information System (MISACWIS) is operational.

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 2012-004

MDE, Reporting - FFATA Reporting

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Nutrition Cluster: CFDA 10.553, 10.555, 10.556, and 10.559
Award Identification Number and Year	2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$381,865,168
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 Education

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child and Adult Care Food Program: CFDA 10.558
Award Identification Number and Year	2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012 2MI300069 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$62,469,407
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 Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Title I, Part A Cluster: CFDA 84.010 and 84.389 (ARRA)
Award Identification Number and Year	S010A100022A 07/01/2010 - 09/30/2011 S010A110022 07/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$574,279,136
Total ARRA Expenditures	\$11,482,621
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Special Education Cluster (IDEA): CFDA 84.027, 84.173, 84.391 (ARRA), and 84.392 (ARRA)
Award Identification Number and Year	H027A100110 07/01/2010 - 09/30/2011 H173A100117 07/01/2010 - 09/30/2011 H027A110110 07/01/2011 - 09/30/2012 H027A120110 07/01/2012 - 09/30/2013 H173A110117 07/01/2011 - 09/30/2012 H173A120117 07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$432,590,010
Total ARRA Expenditures	\$16,117,152
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Career and Technical Education - Basic Grants to States: CFDA 84.048
Award Identification Number and Year	V048A100022 07/01/2010 - 09/30/2011 V048A110022 07/01/2011 - 09/28/2012 V048A120022 07/01/2012 - 09/30/2013 V048A120022-12A 07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$39,069,566
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency and Noncompliance

Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Twenty-First Century Community Learning Centers: CFDA 84.287
Award Identification Number and Year	S287C100022-10A 07/01/2010 - 09/30/2011 S287C110022-11A 07/01/2011 - 09/30/2012 S287C120022 07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$44,792,699
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Improving Teacher Quality State Grants: CFDA 84.367
Award Identification Number and Year	S367A100021 07/01/2010 - 09/30/2011 S367A100021A 07/01/2010 - 09/30/2011 S367B100019 07/01/2010 - 09/30/2011 S367B100019A 07/01/2010 - 09/30/2011 S367A110021 07/01/2011 - 09/30/2012 S367B110019 07/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$106,447,363
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

The Michigan Department of Education (MDE) did not report any subaward information for the Child Nutrition Cluster or the Child and Adult Care Food Program as required by the Federal Funding Accountability and Transparency Act of 2006 (FFATA). In addition, MDE did not timely report subaward information for 81 (100%) of 81 sampled

subrecipients* from the Title I, Part A Cluster; Special Education Cluster; Career and Technical Education - Basic Grants to States; Twenty-First Century Community Learning Centers; and Improving Teacher Quality State Grants. MDE submitted FFATA reports an average of 203 days past the report due date.

Criteria

Federal regulation 2 *CFR* 170 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.

Cause

MDE informed us that a lack of resources and staff, coupled with competing priorities, resulted in late reporting for programs administered by the U.S. Department of Education (USDOE) and no reporting for programs administered by the U.S. Department of Agriculture (USDA).

Effect

MDE grant information was not available or not timely 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 MDE report subaward information as required by FFATA.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

** See glossary at end of report for definition.*

Planned Corrective Action:

MDE has created a reporting process to ensure timely reporting for all child nutrition grant awards in the Child Nutrition Cluster and Child and Adult Food Care Program. MDE has implemented procedures to ensure that all federal grants are properly reported in the Federal Subrecipient Reporting System (FSRS). Priority will be given to reporting all current year awards on time. MDE will also complete reports for all previous federal awards.

Anticipated Completion Date:

Education grant reporting process has been implemented. USDA reporting requirements will be in full compliance by August 31, 2013.

Responsible Individual:

Louis Burgess, Department of Education

FINDING 2012-005

DCH, Reporting - FFATA Reporting

Federal Agency	U.S. Department of Agriculture	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557	
Award Identification Number and Year	2MI700003	10/01/2011 - 09/30/2012
	2MI730003	03/29/2012 - 09/30/2012
Total Expenditures of Federal Awards	\$186,979,979	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	3911201	
State Agency	Department of Community Health	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Aging Cluster: CFDA 93.044, 93.045, and 93.053	
Award Identification Number and Year	12AAMIT3SP	10/01/2011 - 09/30/2012
	12AAMINSIP	10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$39,526,247	

Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3911202, part b.
State Agency	Department of Community Health

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
Award Identification Number and Year	1 B04MC23387-01-00	10/01/2011 - 09/30/2013
	6 B04MC23387-01-01	10/01/2011 - 09/30/2013
	6 B04MC23387-01-02	10/01/2011 - 09/30/2013
	6 B04MC23387-01-03	10/01/2011 - 09/30/2013
	6 B04MC23387-01-04	10/01/2011 - 09/30/2013
	6 B04MC23387-01-05	10/01/2011 - 09/30/2013
	6 B04MC23387-01-06	10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$18,011,727	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	3911211, part c.	
State Agency	Department of Community Health	

Condition

The Department of Community Health (DCH) did not timely submit FFATA reports for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Program, the Aging Cluster, and the Maternal and Child Health Services Block Grant to the States (MCHSBG). DCH submitted the WIC Program reports 1 to 5 months late, the Aging Cluster reports 5 months late, and the MCHSBG reports 1 to 4 months late.

Criteria

Federal regulation 2 *CFR* 170 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.

Cause

DCH indicated that the delay was due to a number of barriers: the federal Web site had not populated the awards timely, the federal government had provided only limited instructions for posting to the federal Web site, DCH had to cross-reference the unique federal award numbers to accounting records to ensure that appropriate data was reported, and DCH had to gather the data for FFATA reporting from various contract files and systems.

Effect

DCH grant information was not available or not timely 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 DCH timely submit FFATA reports for the WIC Program, the Aging Cluster, and the MCHSBG.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that FFATA reporting was not done on a timely basis for the first six months of fiscal year 2011-12. It should be noted that, although corrective action has been implemented, there continues to be limited instructions and opportunities for technical assistance regarding FFATA reporting from the federal government. In addition, the Federal Award Identification Number used in the FFATA reporting do not exist in State of Michigan MAIN databases, and the location of all of the data for reporting is not in a single contract file or system, which adds to the complexity of the reporting.

Planned Corrective Action:

In March 2012, DCH modified its procedures for reviewing the federal reporting system. Since May 2012, DCH has been current with its FFATA reporting.

Anticipated Completion Date:
Completed

Responsible Individual(s):
Kristi Broessel, Department of Community Health

FINDING 2012-006

DHS, Reporting - FFATA Reporting

Federal Agency	U.S. Department of Energy
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Weatherization Assistance for Low-Income Persons: CFDA 81.042 and 81.042 (ARRA)
Award Identification Number and Year	DE-EE0000076 04/01/2009 - 03/31/2014 DE-EE0000098 04/01/2009 - 09/30/2013
Total Expenditures of Federal Awards	\$79,190,339
Total ARRA Expenditures	\$68,378,048
Compliance Requirement(s)	Reporting
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	TANF Cluster: CFDA 93.558
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
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	1204MI4005 10/01/2011 - 09/30/2012

Total Expenditures of Federal Awards	\$150,383,906
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

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-1201MISOSR 10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$131,871,012
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
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 report any subaward information for the Weatherization Assistance for Low-Income Persons Program, Child Support Enforcement, and Social Services Block Grant, as required. Also, DHS did not report subaward information for 4 of 5 sampled TANF Cluster subawards. In addition, DHS did not accurately and timely report subaward information for 1 of 5 sampled TANF Cluster subawards, as required.

Criteria

Federal regulation 2 *CFR* 170 implemented the FFATA requirements for reporting information on subawards and requires that DHS must 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.

Cause

DHS had not implemented a process to accumulate the required information to report to the federal government until May 2012. DHS did not file a FFATA report until August 2012 and that report did not include all required subawards made for federal awards received by DHS. In addition, DHS was not aware that contract amendments over \$25,000 were also required to be reported.

Effect

DHS 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 DHS report subaward information as required by FFATA.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS is working to identify all grants that require FFATA reporting. Once this is completed, DHS will complete the FFATA reporting if the grant is available in the FFATA Subaward Reporting System Web site located at <<https://www.fsr.gov>>. If the grant is not available on the federal Web site, then DHS will contact the appropriate federal agency and request access to the grant for reporting purposes.

Anticipated Completion Date:

October 1, 2013 for grant identification.

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

FINDING 2012-007

MDE, Subrecipient Monitoring - DUNS Numbers

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable

Program Title and CFDA Number	Child Nutrition Cluster: CFDA 10.553, 10.555, 10.556, and 10.559
Award Identification Number and Year	2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$381,865,168
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	Michigan Department of Education

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child and Adult Care Food Program: CFDA 10.558
Award Identification Number and Year	2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012 2MI300069 10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$62,469,407
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	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Title I, Part A Cluster: CFDA 84.010 and 84.389 (ARRA)
Award Identification Number and Year	S010A100022A 07/01/2010 - 09/30/2011 S010A110022 07/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$574,279,136
Total ARRA Expenditures	\$11,482,621
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable

Program Title and CFDA Number	Special Education Cluster (IDEA): CFDA 84.027, 84.173, 84.391 (ARRA), and 84.392 (ARRA)
Award Identification Number and Year	H027A100110 07/01/2010 - 09/30/2011 H173A100117 07/01/2010 - 09/30/2011 H027A110110 07/01/2011 - 09/30/2012 H027A120110 07/01/2012 - 09/30/2013 H173A110117 07/01/2011 - 09/30/2012 H173A120117 07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$432,590,010
Total ARRA Expenditures	\$16,117,152
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Career and Technical Education - Basic Grants to States: CFDA 84.048
Award Identification Number and Year	V048A100022 07/01/2010 - 09/30/2011 V048A110022 07/01/2011 - 09/28/2012 V048A120022 07/01/2012 - 09/30/2013 V048A120022-12A 07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$39,069,566
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	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Improving Teacher Quality State Grants: CFDA 84.367
Award Identification Number and Year	S367A100021 07/01/2010 - 09/30/2011 S367A100021A 07/01/2010 - 09/30/2011 S367B100019 07/01/2010 - 09/30/2011 S367B100019A 07/01/2010 - 09/30/2011 S367A110021 07/01/2011 - 09/30/2012 S367B110019 07/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$106,447,363
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	Michigan Department of Education

Condition

MDE did not obtain Data Universal Numbering System (DUNS) numbers for its subrecipients before it issued awards to the subrecipients.

Criteria

Federal regulation 2 *CFR* 25 requires that agencies only make a subaward to a subrecipient that provided its DUNS number prior to 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 business addresses, point of contact information, and transparency reporting.

Cause

MDE informed us that miscommunication among the various offices within MDE resulted in controls not being designed at the program level to ensure that a DUNS number was obtained prior to awarding funds to a subrecipient.

Effect

MDE could have potentially provided a subaward to a subrecipient that was not eligible to receive a subaward. 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 MDE obtain DUNS numbers for its subrecipients before it issues awards to the subrecipients.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

MDE is implementing controls in the Michigan Electronic Grants System Plus (MEGS+) and the Cash Management System (CMS) to ensure that no funds are released if the subrecipient has not provided a DUNS number. The control in MEGS+ will prevent MDE staff from awarding funds to subrecipients that have not provided a DUNS number. The control in CMS will prevent subrecipients that have not provided a DUNS number to MDE from drawing grant funds. This control is necessary as not all grants are approved through MEGS+. A control for all Child Nutrition Program (CNP) applications in MEGS+ has also been designed to prevent an applicant that has not provided its DUNS number from submitting the grant application.

Anticipated Completion Date:

Corrective action for MEGS+ has been completed.

Corrective action for CNP applications is anticipated to be completed by September 30, 2013.

Corrective action for CMS is anticipated to be completed by October 31, 2013.

Responsible Individual(s):

Louis Burgess, Department of Education

FINDING 2012-008

DHS, Subrecipient Monitoring - DUNS Number

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	
Award Identification Number and Year	11 02 MI TANF	10/01/2010 - Until expended
	12 02 MI TANF	10/01/2011 - Until expended

Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2011-004
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	1204MI4005 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$150,383,906
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2011-004
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 G 11 01 MI 1420 10/01/2010 - 09/30/2012
Total Expenditures of Federal Awards	\$5,082,438
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2011-004
State Agency	Department of Human Services

Condition

DHS did not ensure that it obtained the subrecipients' DUNS number for all of its TANF, Child Support Enforcement, and Chafee Foster Care Independence Program (CFCIP) subrecipients before it issued awards and annual funding amendments to subrecipients in fiscal year 2011-12.

We noted the following during our review:

<i>CFDA</i>	Number of Subawards to		Total Amount of Subaward(s) for Which DHS Did Not Obtain a DUNS Number
	Subrecipients Reviewed	Subrecipients Without a DUNS Prior to Subaward	
93.558	25	10	\$ 3,874,998
93.563	8	8	\$38,225,018
93.674	3	1	\$ 127,395

Criteria

Federal regulation 2 *CFR* 25 requires that agencies only make a subaward to a subrecipient that provided its DUNS number prior to issuance of the subaward.

Cause

DHS did not have a process in place to obtain a DUNS number prior to making fiscal year 2011-12 subawards to DHS subrecipients. 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.

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 a DUNS number 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 2012-009

MDE, Subrecipient Monitoring - Obtaining Subrecipient Single Audit Reports

Federal Agency	U.S. Department of Agriculture	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Child Nutrition Cluster: CFDA 10.553, 10.555, 10.556, and 10.559	
Award Identification Number and Year	2MI300060	10/01/2006 - 09/30/2007
	2MI300060	10/01/2007 - 09/30/2008
	2MI300060	10/01/2009 - 09/30/2010
	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$381,865,168	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	3131217, part a.	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child and Adult Care Food Program: CFDA 10.558
Award Identification Number and Year	2MI300060 10/01/2002 - 09/30/2003 2MI300060 10/01/2004 - 09/30/2005 2MI300060 10/01/2008 - 09/30/2009 2MI300060 10/01/2009 - 09/30/2010 2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012 2MI300069 10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$62,469,407
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3131217, part a.
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Title I, Part A Cluster: CFDA 84.010 and 84.389 (ARRA)
Award Identification Number and Year	S010A090022A 07/01/2009 - 09/30/2010 S389A090022A 02/17/2009 - 09/30/2010 S010A100022A 07/01/2010 - 09/30/2011 S010A110022 07/01/2011 - 09/30/2012 S010A110022-11A 07/01/2011 - 09/30/2012 S010A110022-11B 07/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$574,279,136
Total ARRA Expenditures	\$11,482,621
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	3131217, part a.
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Special Education Cluster (IDEA): CFDA 84.027, 84.173, 84.391 (ARRA), and 84.392 (ARRA)
Award Identification Number and Year	H027A060110 07/01/2006 - 09/30/2007 H027A090110 07/01/2009 - 09/30/2010 H027A100110 07/01/2010 - 09/30/2011 H027A110110 07/01/2011 - 09/30/2012 H027A120110 07/01/2012 - 09/30/2013

	H173A060117	07/01/2006 - 09/30/2007
	H173A090117	07/01/2009 - 09/30/2010
	H173A100117	07/01/2010 - 09/30/2011
	H173A110117	07/01/2011 - 09/30/2012
	H173A120117	07/01/2012 - 09/30/2013
	H391A090110	02/17/2009 - 09/30/2010
	H392A090117	02/17/2009 - 09/30/2010
Total Expenditures of Federal Awards	\$432,590,010	
Total ARRA Expenditures	\$16,117,152	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	3131217, part a.	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Career and Technical Education - Basic Grants to States: CFDA 84.048	
Award Identification Number and Year	V048A100022	07/01/2010 - 09/30/2011
	V048A110022	07/01/2011 - 09/28/2012
	V048A110022-11A	07/01/2011 - 09/30/2012
	V048A110022-11B	07/01/2011 - 09/30/2012
	V048A120022	07/01/2012 - 09/30/2013
	V048A120022-12A	07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$39,069,566	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Twenty-First Century Community Learning Centers: CFDA 84.287	
Award Identification Number and Year	S287C100022-10A	07/01/2010 - 09/30/2011
	S287C110022-11A	07/01/2011 - 09/30/2012
	S287C120022	07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$44,792,699	
Total ARRA Expenditures	Not Applicable	

Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3131217, part a.
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Improving Teacher Quality State Grants: CFDA 84.367
Award Identification Number and Year	S367A090021 07/01/2009 - 09/30/2010 S367A090021A 07/01/2009 - 09/30/2010 S367A100021 07/01/2010 - 09/30/2011 S367A100021A 07/01/2010 - 09/30/2011 S367A110021 07/01/2011 - 09/30/2012 S367A110021-11A 07/01/2011 - 09/30/2012 S367A110021-11B 07/01/2011 - 09/30/2012 S367B090019 07/01/2009 - 09/30/2010 S367B090019A 07/01/2009 - 09/30/2010 S367B100019 07/01/2010 - 09/30/2011 S367B100019A 07/01/2010 - 09/30/2011 S367B110019 07/01/2011 - 09/30/2012 S367B110019-11B 07/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$106,447,363
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	3131217, part a.
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	School Improvement Grants Cluster: CFDA 84.377 and 84.388 (ARRA)
Award Identification Number and Year	S377A090023A 07/01/2009 - 09/30/2013 S388A090023A 02/17/2009 - 09/30/2013 S377A100023 07/01/2010 - 09/30/2013
Total Expenditures of Federal Awards	\$42,756,346
Total ARRA Expenditures	\$34,405,404
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	3131217, part a.
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Education Jobs Fund: CFDA 84.410
Award Identification Number and Year	S410A100023-10A 08/10/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$92,884,747
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	3131217, part a.
State Agency	Michigan Department of Education

Condition

MDE did not identify and obtain 6 (4%) of 156 required non-school district subrecipient single audit reports during fiscal year 2011-12.

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 subrecipients' fiscal year obtain a single audit.

Cause

MDE informed us that the 6 non-school district subrecipients did not have complete and accurate information within the Cash Management System which is necessary for MDE to identify the entity as a subrecipient.

Effect

MDE limited the State's assurance that subrecipients complied with grant requirements and implemented 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 MDE identify and obtain all required subrecipient single audit reports.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

MDE is reviewing the Cash Management System (CMS) to ensure that subrecipients are appropriately identified.

MDE revised its process to perform an initial review of subrecipient audits as they are received to identify those with findings or questioned costs related to federal awards and to review the appropriateness and timeliness of corrective action plans. The program offices are requested to prepare management decisions and recommend recovery of any identified questioned costs.

MDE is also implementing a new web-based Grant Electronic Monitoring System (GEMS). GEMS provides a standardized and systemic method for MDE and its districts to log findings, create and approve corrective action plans, receive and approve documentation or evidence of compliance, and ensure effective communications between MDE and its districts.

Anticipated Completion Date:

MDE is piloting the ability of GEMS to monitor, obtain, and communicate management decisions to subgrantees. It is expected to be fully operational by September 30, 2013.

Responsible Individuals:

Louis Burgess, Department of Education

Naomi Krefman, Department of Education

FINDING 2012-010

MDE, Subrecipient Monitoring - Review of Subrecipient's Single Audit Reports and Issuing Management Decisions

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Nutrition Cluster: CFDA 10.553, 10.555, 10.556, and 10.559
Award Identification Number and Year	2MI300060 10/01/2006 - 09/30/2007 2MI300060 10/01/2007 - 09/30/2008 2MI300060 10/01/2009 - 09/30/2010 2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$381,865,168
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3131217, part b.
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child and Adult Care Food Program: CFDA 10.558
Award Identification Number and Year	2MI300060 10/01/2002 - 09/30/2003 2MI300060 10/01/2004 - 09/30/2005 2MI300060 10/01/2008 - 09/30/2009 2MI300060 10/01/2009 - 09/30/2010 2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012 2MI300069 10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$62,469,407
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3131217, part b.
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Title I, Part A Cluster: CFDA 84.010 and 84.389 (ARRA)

Award Identification Number and Year	S010A090022A	07/01/2009 - 09/30/2010
	S389A090022A	02/17/2009 - 09/30/2010
	S010A100022A	07/01/2010 - 09/30/2011
	S010A110022	07/01/2011 - 09/30/2012
	S010A110022-11A	07/01/2011 - 09/30/2012
	S010A110022-11B	07/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$574,279,136	
Total ARRA Expenditures	\$11,482,621	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	3131217, part b.	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Special Education Cluster (IDEA): CFDA 84.027, 84.173, 84.391 (ARRA), and 84.392 (ARRA)	
Award Identification Number and Year	H027A060110	07/01/2006 - 09/30/2007
	H027A090110	07/01/2009 - 09/30/2010
	H027A100110	07/01/2010 - 09/30/2011
	H027A110110	07/01/2011 - 09/30/2012
	H027A120110	07/01/2012 - 09/30/2013
	H173A060117	07/01/2006 - 09/30/2007
	H173A090117	07/01/2009 - 09/30/2010
	H173A100117	07/01/2010 - 09/30/2011
	H173A110117	07/01/2011 - 09/30/2012
	H173A120117	07/01/2012 - 09/30/2013
	H391A090110	02/17/2009 - 09/30/2010
	H392A090117	02/17/2009 - 09/30/2010
Total Expenditures of Federal Awards	\$432,590,010	
Total ARRA Expenditures	\$16,117,152	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	3131217, part b.	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Career and Technical Education - Basic Grants to States: CFDA 84.048	

Award Identification Number and Year	V048A100022	07/01/2010 - 09/30/2011
	V048A110022	07/01/2011 - 09/28/2012
	V048A110022-11A	07/01/2011 - 09/30/2012
	V048A110022-11B	07/01/2011 - 09/30/2012
	V048A120022	07/01/2012 - 09/30/2013
	V048A120022-12A	07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$39,069,566	
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	Michigan Department of Education	

Federal Agency	U.S. Department of Education				
Pass-Through Entity	Not Applicable				
Program Title and CFDA Number	Twenty-First Century Community Learning Centers: CFDA 84.287				
Award Identification Number and Year	S287C100022-10A		07/01/2010 - 09/30/2011		
	S287C110022-11A		07/01/2011 - 09/30/2012		
	S287C120022		07/01/2012 - 09/30/2013		
Total Expenditures of Federal Awards	\$44,792,699				
Total ARRA Expenditures	Not Applicable				
Compliance Requirement(s)	Subrecipient Monitoring				
Type of Finding	Significant Deficiency and Noncompliance				
Known Questioned Costs	\$0				
Repeat Finding	3131217, part b.				
State Agency	Michigan Department of Education				

Federal Agency	U.S. Department of Education		
Pass-Through Entity	Not Applicable		
Program Title and CFDA Number	Improving Teacher Quality State Grants: CFDA 84.367		
Award Identification Number and Year	S367A090021	07/01/2009 - 09/30/2010	
	S367A090021A	07/01/2009 - 09/30/2010	
	S367A100021	07/01/2010 - 09/30/2011	
	S367A100021A	07/01/2010 - 09/30/2011	
	S367A110021	07/01/2011 - 09/30/2012	
	S367A110021-11A	07/01/2011 - 09/30/2012	
	S367A110021-11B	07/01/2011 - 09/30/2012	
	S367B090019	07/01/2009 - 09/30/2010	
	S367B090019A	07/01/2009 - 09/30/2010	
	S367B100019	07/01/2010 - 09/30/2011	
	S367B100019A	07/01/2010 - 09/30/2011	
	S367B110019	07/01/2011 - 09/30/2012	
	S367B110019-11B	07/01/2011 - 09/30/2012	

Total Expenditures of Federal Awards	\$106,447,363
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3131217, part b.
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	School Improvement Grants Cluster: CFDA 84.377 and 84.388 (ARRA)
Award Identification Number and Year	S377A090023A 07/01/2009 - 09/30/2013 S388A090023A 02/17/2009 - 09/30/2013 S377A100023 07/01/2010 - 09/30/2013
Total Expenditures of Federal Awards	\$42,756,346
Total ARRA Expenditures	\$34,405,404
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3131217, part b.
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Education Jobs Fund: CFDA 84.410
Award Identification Number and Year	S410A100023-10A 08/10/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$92,884,747
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3131217, part b.
State Agency	Michigan Department of Education

Condition

MDE did not complete its reviews of 542 (69%) of 790 subrecipient single audit reports during fiscal year 2011-12 to determine if the audit contained a finding and necessitated a management decision until more than 6 months after the receipt of the reports. On average, MDE did not begin its reviews of these reports until 212 days after receipt of the reports, ranging from 1 to 464 days. Also, MDE did not issue 8 (73%) of 11

management decision letters that we reviewed within the six-month required time frame and did not issue a management decision for 6 (32%) of 19 sampled subrecipient single audit reports that included an audit finding.

Criteria

OMB Circular A-133, Section 405(d) requires MDE to issue a management decision on audit findings within six months after receipt of a subrecipient's single audit report.

Cause

MDE informed us that it did not prioritize the review of subrecipients' audits with findings so that management decisions could be communicated to subrecipients in a timely manner.

Effect

MDE could not ensure that subrecipients complied with grant requirements and implemented corrective action in a timely manner 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 MDE begin its review of subrecipient single audit reports in a timely manner and ensure that it timely issues management decisions for all single audit reports that include an audit finding.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

MDE developed a standard template for program offices to report management decisions to the MDE Office of Financial Management - Audits. The Office of Financial Management - Audits, in turn, issues management decisions to its subrecipients. MDE reviews all corrective action plans for completeness when the audits are received in order to expedite the review process.

MDE is also implementing a new web-based Grant Electronic Monitoring System (GEMS). GEMS provides a standardized and systemic method for MDE and its districts to log findings, create and approve corrective action plans, receive and approve documentation or evidence of compliance, and ensure effective communications between MDE and its districts.

Anticipated Completion Date:

The process to identify subgrantee audits with findings and obtain and communicate management decisions to subgrantees in a timely manner has been implemented. MDE is piloting the ability of GEMS to monitor, obtain, and communicate management decisions to subgrantees. It is expected to be fully operational by September 30, 2013.

Responsible Individuals:

Louis Burgess, Department of Education
Naomi Krefman, Department of Education

FINDING 2012-011

MDE, Subrecipient Monitoring - Notification of Program Areas Affected

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Nutrition Cluster: <i>CFDA</i> 10.553, 10.555, 10.556, and 10.559
Award Identification Number and Year	2MI300060 10/01/2006 - 09/30/2007 2MI300060 10/01/2007 - 09/30/2008 2MI300060 10/01/2009 - 09/30/2010 2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$381,865,168
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	Michigan Department of Education

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child and Adult Care Food Program: CFDA 10.558
Award Identification Number and Year	<div>2MI300060 10/01/2002 - 09/30/2003</div> <div>2MI300060 10/01/2004 - 09/30/2005</div> <div>2MI300060 10/01/2008 - 09/30/2009</div> <div>2MI300060 10/01/2009 - 09/30/2010</div> <div>2MI300060 10/01/2010 - 09/30/2011</div> <div>2MI300060 10/01/2011 - 09/30/2012</div> <div>2MI300069 10/01/2011 - 09/30/2013</div>
Total Expenditures of Federal Awards	\$62,469,407
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Title I, Part A Cluster: CFDA 84.010 and 84.389 (ARRA)
Award Identification Number and Year	<div>S010A090022A 07/01/2009 - 09/30/2010</div> <div>S389A090022A 02/17/2009 - 09/30/2010</div> <div>S010A100022A 07/01/2010 - 09/30/2011</div> <div>S010A110022 07/01/2011 - 09/30/2012</div> <div>S010A110022-11A 07/01/2011 - 09/30/2012</div> <div>S010A110022-11B 07/01/2011 - 09/30/2012</div>
Total Expenditures of Federal Awards	\$574,279,136
Total ARRA Expenditures	\$11,482,621
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Special Education Cluster (IDEA): CFDA 84.027, 84.173, 84.391 (ARRA), and 84.392 (ARRA)
Award Identification Number and Year	<div>H027A060110 07/01/2006 - 09/30/2007</div> <div>H027A090110 07/01/2009 - 09/30/2010</div> <div>H027A100110 07/01/2010 - 09/30/2011</div> <div>H027A110110 07/01/2011 - 09/30/2012</div> <div>H027A120110 07/01/2012 - 09/30/2013</div>

	H173A060117	07/01/2006 - 09/30/2007
	H173A090117	07/01/2009 - 09/30/2010
	H173A100117	07/01/2010 - 09/30/2011
	H173A110117	07/01/2011 - 09/30/2012
	H173A120117	07/01/2012 - 09/30/2013
	H391A090110	02/17/2009 - 09/30/2010
	H392A090117	02/17/2009 - 09/30/2010
Total Expenditures of Federal Awards	\$432,590,010	
Total ARRA Expenditures	\$16,117,152	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Career and Technical Education - Basic Grants to States: CFDA 84.048	
Award Identification Number and Year	V048A100022	07/01/2010 - 09/30/2011
	V048A110022	07/01/2011 - 09/28/2012
	V048A110022-11A	07/01/2011 - 09/30/2012
	V048A110022-11B	07/01/2011 - 09/30/2012
	V048A120022	07/01/2012 - 09/30/2013
	V048A120022-12A	07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$39,069,566	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Twenty-First Century Community Learning Centers: CFDA 84.287	
Award Identification Number and Year	S287C100022-10A	07/01/2010 - 09/30/2011
	S287C110022-11A	07/01/2011 - 09/30/2012
	S287C120022	07/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$44,792,699	
Total ARRA Expenditures	Not Applicable	

Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Improving Teacher Quality State Grants: CFDA 84.367
Award Identification Number and Year	S367A090021 07/01/2009 - 09/30/2010 S367A090021A 07/01/2009 - 09/30/2010 S367A100021 07/01/2010 - 09/30/2011 S367A100021A 07/01/2010 - 09/30/2011 S367A110021 07/01/2011 - 09/30/2012 S367A110021-11A 07/01/2011 - 09/30/2012 S367A110021-11B 07/01/2011 - 09/30/2012 S367B090019 07/01/2009 - 09/30/2010 S367B090019A 07/01/2009 - 09/30/2010 S367B100019 07/01/2010 - 09/30/2011 S367B100019A 07/01/2010 - 09/30/2011 S367B110019 07/01/2011 - 09/30/2012 S367B110019-11B 07/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$106,447,363
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	School Improvement Grants Cluster: CFDA 84.377 and 84.388 (ARRA)
Award Identification Number and Year	S377A090023A 07/01/2009 - 09/30/2013 S388A090023A 02/17/2009 - 09/30/2013 S377A100023 07/01/2010 - 09/30/2013
Total Expenditures of Federal Awards	\$42,756,346
Total ARRA Expenditures	\$34,405,404
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0

Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Education Jobs Fund: CFDA 84.410
Award Identification Number and Year	S410A100023-10A 08/10/2010 - 09/30/2011
Total Expenditures of Federal Awards	\$92,884,747
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

MDE did not notify the applicable program staff of subrecipient single audit findings so that program staff could monitor subrecipients and ensure that they took timely and appropriate corrective action for 2 (7%) of 30 subrecipient audit findings that we reviewed. In addition, of the 30 subrecipient audit findings, MDE did not initiate the recovery of disallowed costs for 1 (14%) of the 7 audit findings that MDE determined required the recovery of disallowed costs as a part of the subrecipient's corrective action plan.

Criteria

OMB Circular A-133, Section 405 (a) provides that the management decisions on audit findings should state the expected auditee action to repay disallowed costs, make financial adjustments, or other action. Also, Section 400(d)(5) requires MDE to ensure that the subrecipients take timely and appropriate corrective action in response to management decisions on audit findings.

Cause

MDE informed us that it did not prioritize the review of subrecipients' audits with findings so that management decisions could be communicated to subrecipients in a timely manner.

Effect

MDE limited the State's 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.

Recommendations

We recommend that MDE notify the applicable program areas of subrecipient audit findings.

We also recommend that MDE initiate the recovery of disallowed costs.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

MDE revised its process to perform an initial review of subrecipient audits as they are received to identify those with findings or questioned costs related to federal awards and to review the appropriateness and timeliness of corrective action plans. The program offices are requested to prepare management decisions and recommend recovery of any identified questioned costs.

MDE is also implementing a new web-based Grant Electronic Monitoring System (GEMS). GEMS provides a standardized and systemic method for MDE and its districts to log findings, create and approve corrective action plans, receive and approve documentation or evidence of compliance, and ensure effective communications between MDE and its districts.

Anticipated Completion Date:

MDE is piloting the ability of GEMS to monitor, obtain, and communicate management decisions to subgrantees. It is expected to be fully operational by September 30, 2013.

Responsible Individuals:

Louis Burgess, Department of Education

Naomi Krefman, Department of Education

FINDING 2012-012

Centralized Subrecipient Monitoring - OMB Circular A-133 Subrecipient Audit Requirements

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, 20.205 (ARRA), and 20.219
Award Identification Number and Year	Various
Total Expenditures of Federal Awards	\$1,088,017,049
Total ARRA Expenditures	\$24,115,202
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2011-012
State Agencies	Accounting Service Center and Michigan Department of Transportation

Federal Agency	U.S. Department of Energy
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Weatherization Assistance for Low-Income Persons: CFDA 81.042 and 81.042 (ARRA)
Award Identification Number and Year	DE-EE0000076 04/01/2009 - 03/31/2014 DE-EE0000098 (ARRA) 04/01/2009 - 09/30/2013
Total Expenditures of Federal Awards	\$79,190,339
Total ARRA Expenditures	\$68,378,048
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Accounting Service Center and Department of Human Services

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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended

Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2011-022
State Agencies	Accounting Service Center and 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	1204MI4005 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$150,383,906
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2011-030
State Agencies	Accounting Service Center and Department of Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	G10AAMI5100 10/01/2009 - 09/30/2010 G11AAMI5100 10/01/2010 - 09/30/2011 G12AAMI5100 10/01/2011 - 09/30/2012 G09AAMI5110 10/01/2008 - 09/30/2010 G10AAMI5110 10/01/2009 - 09/30/2011 G11AAMI5110 10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$15,773,856
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Accounting Service Center and 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
	G 11 01 MI 1420	10/01/2010 - 09/30/2012
Total Expenditures of Federal Awards	\$5,082,438	
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 Agencies	Accounting Service Center and Department of Human Services	

Federal Agency	U.S. Department of Homeland Security	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Homeland Security Grant Program: CFDA 97.067	
Award Identification Number and Year	2008-GE-T8-0052	09/01/2008 - 09/30/2012
	2008-SG-T8-0013	09/01/2008 - 09/30/2012
	2009-SS-T9-0060	08/01/2009 - 01/31/2013
	2009-SJ-T9-0007	07/01/2009 - 12/31/2012
	2010-SS-T0-0009	08/01/2010 - 07/31/2013
	EMW2011-SS-00103	09/01/2011 - 08/31/2014
	EMW-2012-SS-00055	09/01/2012 - 08/31/2014
Total Expenditures of Federal Awards	\$39,981,195	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	5511205	
State Agencies	Accounting Service Center and Michigan Department of State Police	

Condition

The Accounting Service Center (ASC), in conjunction with participating State departments, did not have an adequate process to ensure that subrecipient single audit

reports were received when required or to ensure that management decisions were issued within six months of the receipt of a single audit report. Our review disclosed:

- a. ASC, in conjunction with the participating State departments, did not receive a single audit report or verify that an audit report was not required for 17 (41%) of 42 subrecipients reviewed:

<i>CFDA</i>	Subrecipients Reviewed	Audit Reports Not Received
20.205	12	10
81.042	5	0
93.558	10	4
93.563	8	0
93.566	4	0
93.674	1	1
97.067	7	2

- b. Two of the 25 single audit reports that were received contained a finding with management decisions due during fiscal year 2011-12. However, ASC, in conjunction with DHS, did not document that a management decision was issued within the six-month required time frame for the two audits. The two findings related to the Child Support Enforcement Program.

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 to ensure that the subrecipient takes appropriate and timely corrective action.

Cause

Effective October 1, 2011, service level agreements (SLAs) were established between the newly created ASC, within the Michigan Department of Education, and eight participating State departments for the review and monitoring of subrecipient audits. Participating State departments include the Department of Agriculture and Rural Development, the Department of Human Services, the Department of Licensing and

Regulatory Affairs, the Department of Military and Veterans Affairs, the Department of Environmental Quality, the Department of Natural Resources, the Michigan Department of Transportation, and the Michigan Department of State Police. The SLAs established the responsibilities of ASC and the departments, and there were some difficulties in the implementation of the new centralized subrecipient monitoring process. Because of audit backlogs, ASC did not finish its review of 2011 year-end audit reports. ASC informed us that the audit backlog was partially because of ASC staff turnover, training, and learning curves associated with the new process. In addition, ASC informed us that the participating State departments did not always provide ASC with complete and accurate subrecipient and program information for use in monitoring as stated in the SLAs.

Effect

These issues limit the State's assurance that subrecipients complied with grant requirements and implemented corrective action for audit findings to prevent future sanctions or disallowed costs. 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 ASC, in conjunction with the participating State departments, establish a process to ensure that subrecipient single audit reports are received when required, and to ensure that management decisions are issued within six months of the receipt of a single audit report.

Management Views and Corrective Action Plan

Management Views:

MDE's ASC agrees with the finding.

Planned Corrective Action:

The monitoring of subrecipients was delayed due to the consolidation of reviews within a service center and staffing interruptions during early implementation. ASC

has implemented a plan to ensure that fiscal year 2012-13 subrecipient monitoring complies with federal requirements. ASC requests a management decision from each department when there are findings or questioned costs related to the federal awards provided by that department. ASC tracks the status of these requests and forwards a copy of the management decisions to the subrecipients.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Naomi Krefman, Department of Education

FINDING 2012-013

DCH, Special Tests and Provisions - ADP Security Program

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
Award Identification Number and Year	2MI700003 10/01/2011 - 09/30/2012 2MI730003 03/29/2012 - 09/30/2012
Total Expenditures of Federal Awards	\$186,979,979
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Special Tests and Provisions
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3911212
State Agency	Department of Community Health

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Special Tests and Provisions
Type of Finding	Significant Deficiency and Noncompliance

Known Questioned Costs	\$0
Repeat Finding	3911212
State Agency	Department of Community Health

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
Award Identification Number and Year	1 B04MC23387-01-00	10/01/2011 - 09/30/2013
	6 B04MC23387-01-01	10/01/2011 - 09/30/2013
	6 B04MC23387-01-02	10/01/2011 - 09/30/2013
	6 B04MC23387-01-03	10/01/2011 - 09/30/2013
	6 B04MC23387-01-04	10/01/2011 - 09/30/2013
	6 B04MC23387-01-05	10/01/2011 - 09/30/2013
	6 B04MC23387-01-06	10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$18,011,727	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Special Tests and Provisions	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	3911212	
State Agency	Department of Community Health	

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	
Award Identification Number and Year	11 02 MI TANF	10/01/2010 - Until expended
	12 02 MI TANF	10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Special Tests and Provisions	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	3911212	
State Agency	Department of Community Health and Department of Human Services	

Condition

DCH did not ensure that a comprehensive automated data processing (ADP) security program was established for information systems used to administer its federal programs.

For the 13 significant information systems reviewed, DCH did not have a fully implemented security plan for 4 (31%) systems, did not have a disaster recovery plan for 7 (54%) systems, and did not ensure that documentation was maintained to support the disaster recovery plan testing for 1 (8%) system.

Criteria

Federal regulations 45 *CFR* 95.621 and 7 *CFR* 277.18 make state agencies responsible for the security of all information systems used to administer federal programs. In part, the regulations require state agencies to establish a security plan and policies and procedures to address disaster recovery.

Cause

DTMB assists all State departments with their technology needs, including developing security plans and preparing and testing disaster recovery plans. However, in order to meet federal and State mandates, DCH and DTMB indicated that they have focused on maintaining operational needs and addressing IT security risks highlighted in prior audits. DCH and DTMB indicated that, subsequently, limited resources have caused delays in the completion of a comprehensive ADP security plan.

Effect

DCH cannot demonstrate that it has implemented effective controls to ensure the integrity, availability, and confidentiality of its information systems and, as a result, cannot ensure that it complies with applicable direct and material federal compliance requirements, such as the Medicaid Cluster special tests and provisions - ADP requirement. 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 DCH ensure that a comprehensive ADP security program is established for information systems used to administer its federal programs.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that it does not have an effective system in place to ensure that a comprehensive ADP security program is established for systems used to administer its federal programs.

Planned Corrective Action:

DCH will work with each of the system owners and Michigan Cyber Security to determine the current status of the 4 security plans that have not been completed, the 7 missing disaster recovery plans, and inappropriate documentation for disaster recovery plan testing and develop schedules to complete each.

Anticipated Completion Date:

October 2014

Responsible Individual(s):

DCH Security Office with assistance from the office of Michigan Cyber Security

FINDING 2012-014

Child Nutrition Cluster, CFDA 10.553, 10.555, 10.556, and 10.559, Subrecipient Monitoring - Required Inspections

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Nutrition Cluster: CFDA 10.553, 10.555, 10.556, and 10.559
Award Identification Number and Year	2MI300060 10/01/2006 - 09/30/2007 2MI300060 10/01/2007 - 09/30/2008 2MI300060 10/01/2009 - 09/30/2010 2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$381,865,168
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0

Repeat Finding	3131204, part a.(1)
State Agency	Michigan Department of Education

Condition

MDE did not inspect the off-site food service management company facilities in 1 of the sampled reviews of vended sponsors for the Summer Food Service Program for Children (SFSPC). In our sample of 15, this was the only vended sponsor who prepared food off site.

Criteria

Federal regulation 7 *CFR* 225.7(d)(6) provides that as part of the review of any SFSPC vended sponsor (sponsors that contract for the preparation of meals with a food service management company), state agencies must inspect the food service management company's facilities.

Cause

MDE did not have a process to ensure that inspections were performed for the food service management companies where food is prepared off site.

Effect

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 MDE conduct required inspections of food service management company facilities that prepared meals for SFSPC subrecipients.

Management Views and Corrective Action Plan

Management Views:

MDE disagrees with the finding. The Michigan Department of Agriculture and Rural Development (MDARD) is the authorized Food Program inspection agency for the State of Michigan. MDARD inspects school and food establishments one to

two times each year using the Michigan Food Law of 2000 and the 2009 Food Code provisions. The Office of School Support Services (OSSS) relies on MDARD as the authorized agency, to inspect and license these establishments.

In response to the audit conducted a year ago, MDE management implemented new procedures in summer 2012. OSSS hired a School Nutrition Program (SNP) consultant who serves as the food safety expert to collaborate with MDARD. In addition, as part of the application process for fiscal year 2012-13, all participants that utilize a food service management company are required to submit a copy of the food service management company's current food service license issued by MDARD. Applications will not be approved unless this information has been reviewed by an SNP analyst and is current.

Planned Corrective Action:

MDE disagrees with the finding and does not plan to implement corrective action.

Anticipated Completion Date:

Not applicable

Responsible Individuals:

Diane Golzynski, Department of Education

Marla Moss, Department of Education

FINDING 2012-015

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Period of Availability of Federal Funds - Costs Not Disclosed

Federal Agency	U.S. Department of Defense
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	National Guard Military Operations and Maintenance (O&M) Projects: CFDA 12.401
Award Identification Number and Year	Master Cooperative Agreement: W912JB-04-2-1000 Appendix 1 ARNG Facilities Programs W912JB-04-2-1001 10/01/2008 - 09/30/2009

	Appendix 2 ARNG Environmental Programs Resources Management	
	W912JB-04-2-1002	10/01/2008 - 09/30/2009
	Appendix 7 ARNG Sustainable Range Programs	
	W912JB-04-2-1007	10/01/2008 - 09/30/2009
	Master Cooperative Agreement:	
	W912JB-10-2-1000	
	Appendix 1 ARNG Facilities Programs	
	W912JB-10-2-1001	10/01/2009 - 09/30/2012
	Appendix 2 ARNG Environmental Programs Resources Management	
	W912JB-10-2-1002	10/01/2009 - 09/30/2012
	Appendix 3 ARNG Security Cooperative Agreement	
	W912JB-10-2-1003	10/01/2011 - 09/30/2012
	Appendix 4 ARNG Electronic Security System Installation, Operation & Maintenance	
	W912JB-10-2-1004	10/01/2009 - 09/30/2012
	Appendix 5 ARNG Command, Control, Communications, Computers, and Information Management (C4IM) Service 15	
	W912JB-10-2-1005	10/01/2011 - 09/30/2012
	Appendix 7 ARNG Sustainable Range Programs	
	W912JB-10-2-1007	10/01/2009 - 09/30/2012
	Appendix 10 ARNG Antiterrorism Program Coordinator (ATPC) Activities	
	W912JB-10-2-1010	10/01/2011 - 09/30/2012
	Appendix 21 ANG Facilities Operations and Maintenance Activities	
	W912JB-10-2-1021	10/01/2011 - 09/30/2012
	W912JB-10-2-1021A	10/01/2011 - 09/30/2012
	W912JB-10-2-1021B	10/01/2011 - 09/30/2012
	W912JB-10-2-1021S	10/01/2011 - 09/30/2012
	Appendix 22 ANG Environmental Program Management	
	W912JB-10-2-1022	10/01/2011 - 09/30/2012
	W912JB-10-2-1022A	10/01/2011 - 09/30/2012
	W912JB-10-2-1022S	10/01/2011 - 09/30/2012

	Appendix 23 ANG Security Cooperative Agreement
	W912JB-10-2-1023 10/01/2010 - 09/30/2012
	W912JB-10-2-1023A 10/01/2010 - 09/30/2012
	W912JB-10-2-1023B 10/01/2010 - 09/30/2012
	W912JB-10-2-1023S 10/01 2010 - 09/30/2012
	Appendix 24 ANG Fire Protection Activities
	W912JB-10-2-1024 10/01/2011 - 09/30/2012
	W912JB-10-2-1024A 10/01/2011 - 09/30/2012
	W912JB-10-2-1024B 10/01/2011 - 09/30/2012
	Appendix 30 ANG Combat Readiness Training Center (CRTC) Base Operating Support (ANGBOS)
	W912JB-10-2-1030 10/01/2011 - 09/30/2012
	W912JB-10-2-1030A 10/01/2011 - 09/30/2012
	Appendix 40 Army National Guard Distributed Learning Program
	W912JB-10-2-1040 10/01/2011 - 09/30/2012
	Special Military Project Cooperative Agreement:
	Air National Guard Services Program
	W912JB-11-2-3076 10/01/2011 - 09/30/2012
	Special Military Project Cooperative Agreement:
	Full Time Dining Operations
	W912JB-12-2-3074 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$49,327,199
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Period of Availability of Federal Funds
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$926,798
Repeat Finding	Not Applicable
State Agency	Department of Military and Veterans Affairs

Condition

The Department of Military and Veterans Affairs (DMVA) did not disclose \$926,798 of Appendix 1 expenditures to the United States Property and Fiscal Office (USPFO) within 90 days of the end of the federal fiscal year to ensure that the expenditures would be eligible for federal reimbursement.

Criteria

Chapter 11 of National Guard Regulation 5-1 states that costs incurred in a fiscal year which are not disclosed by DMVA within 90 days of the end of the federal fiscal year shall not be eligible for reimbursement by the National Guard Bureau. The USPFO may extend the 90-day limit for good cause shown.

Cause

DMVA used its completed OMB Standard Form 270s (SF 270) to create a report disclosing costs incurred under Appendix 1 and submitted it to the USPFO in December 2012. However, DMVA did not finalize an SF 270 that included \$926,798 of September 2012 expenditures prior to the preparation of the report. As a result, the report did not include these expenditures. DMVA informed us that it delayed the completion of this SF 270 because it needed additional information from one of its program managers. Subsequent to our request for the SF 270, DMVA finalized it in March 2013.

Effect

Expenditures of \$926,798 may not be eligible for reimbursement by the National Guard Bureau. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs of \$926,798 (W912JB-10-2-1001). The questioned costs represent the total expenditures included on the SF 270 that were not disclosed to the USPFO within 90 days of the end of the federal fiscal year.

Recommendation

We recommend that DMVA disclose all expenditures incurred in a fiscal year to the USPFO within 90 days of the end of the federal fiscal year to ensure that the expenditures are eligible for federal reimbursement.

Management Views and Corrective Action Plan

Management Views:

DMVA agrees with the finding.

Planned Corrective Action:

DMVA has updated its year end closing checklist to include references to the accounts receivable established for the fiscal year to ensure that known obligations are properly disclosed.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Alfred E. Christian, Department of Military and Veterans Affairs

FINDING 2012-016

National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401, Procurement and Suspension and Debarment - Procurement Procedures

Federal Agency	U.S. Department of Defense
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	National Guard Military Operations and Maintenance (O&M) Projects: CFDA 12.401
Award Identification Number and Year	Master Cooperative Agreement: W912JB-04-2-1000 Appendix 1 ARNG Facilities Programs W912JB-04-2-1001 10/01/2008 - 09/30/2009 Appendix 2 ARNG Environmental Programs Resources Management W912JB-04-2-1002 10/01/2008 - 09/30/2009 Appendix 7 ARNG Sustainable Range Programs W912JB-04-2-1007 10/01/2008 - 09/30/2009 Master Cooperative Agreement: W912JB-10-2-1000 Appendix 1 ARNG Facilities Programs W912JB-10-2-1001 10/01/2009 - 09/30/2012 Appendix 2 ARNG Environmental Programs Resources Management W912JB-10-2-1002 10/01/2009 - 09/30/2012

	Appendix 3 ARNG Security Cooperative Agreement	
	W912JB-10-2-1003	10/01/2011 - 09/30/2012
	Appendix 4 ARNG Electronic Security System Installation, Operation & Maintenance	
	W912JB-10-2-1004	10/01/2009 - 09/30/2012
	Appendix 5 ARNG Command, Control, Communications, Computers, and Information Management (C4IM) Service 15	
	W912JB-10-2-1005	10/01/2011 - 09/30/2012
	Appendix 7 ARNG Sustainable Range Programs	
	W912JB-10-2-1007	10/01/2009 - 09/30/2012
	Appendix 10 ARNG Antiterrorism Program Coordinator (ATPC) Activities	
	W912JB-10-2-1010	10/01/2011 - 09/30/2012
	Appendix 21 ANG Facilities Operations and Maintenance Activities	
	W912JB-10-2-1021	10/01/2011 - 09/30/2012
	W912JB-10-2-1021A	10/01/2011 - 09/30/2012
	W912JB-10-2-1021B	10/01/2011 - 09/30/2012
	W912JB-10-2-1021S	10/01/2011 - 09/30/2012
	Appendix 22 ANG Environmental Program Management	
	W912JB-10-2-1022	10/01/2011 - 09/30/2012
	W912JB-10-2-1022A	10/01/2011 - 09/30/2012
	W912JB-10-2-1022S	10/01/2011 - 09/30/2012
	Appendix 23 ANG Security Cooperative Agreement	
	W912JB-10-2-1023	10/01/2010 - 09/30/2012
	W912JB-10-2-1023A	10/01/2010 - 09/30/2012
	W912JB-10-2-1023B	10/01/2010 - 09/30/2012
	W912JB-10-2-1023S	10/01 2010 - 09/30/2012
	Appendix 24 ANG Fire Protection Activities	
	W912JB-10-2-1024	10/01/2011 - 09/30/2012
	W912JB-10-2-1024A	10/01/2011 - 09/30/2012
	W912JB-10-2-1024B	10/01/2011 - 09/30/2012
	Appendix 30 ANG Combat Readiness Training Center (CRTC) Base Operating Support (ANGBOS)	
	W912JB-10-2-1030	10/01/2011 - 09/30/2012
	W912JB-10-2-1030A	10/01/2011 - 09/30/2012

	Appendix 40 Army National Guard Distributed Learning Program W912JB-10-2-1040 10/01/2011 - 09/30/2012 Special Military Project Cooperative Agreement: Air National Guard Services Program W912JB-11-2-3076 10/01/2011 - 09/30/2012 Special Military Project Cooperative Agreement: Full Time Dining Operations W912JB-12-2-3074 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$49,327,199
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Procurement and Suspension and Debarment
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$29,154
Repeat Finding	Not Applicable
State Agency	Department of Military and Veterans Affairs

Condition

DMVA did not comply with DTMB Administrative Guide procedure 0510.01 for 5 (12%) of 43 procurements reviewed. Specifically, DMVA did not obtain competitive bids or the DTMB Procurement Director's approval to use a method other than competitive bidding for 4 procurements reviewed. In addition, DMVA did not use Bid4Michigan* or obtain a waiver from using Bid4Michigan for 1 procurement reviewed.

DTMB Procurement delegates purchasing authority to State departments for procurements up to \$25,000 or other amounts as delegated and authorized by DTMB. DMVA had the authority to procure for goods and services for 11 (26%) of the 43 procurements reviewed.

Criteria

Federal regulation 32 *CFR* 33.36 requires that DMVA use the same State policies and procedures used for procurements from non-federal funds when procuring property and services using federal funds. DTMB Administrative Guide procedure 0510.01 requires approval from the DTMB Procurement Director to use a procurement method other than competitive bidding to establish fair and reasonable pricing. Also, DMVA must use Bid4Michigan to obtain competitive bids for the purchase of goods or services between

* See glossary at end of report for definition.

\$10,001 and \$25,000. Exceptions to the use of the Bid4Michigan system can be granted from the DTMB Procurement Director.

Cause

For two procurements, DMVA stated that only one vendor could provide the required products for each procurement, so it did not competitively bid for these products. DMVA also stated that it was unaware that this required DTMB Procurement Director approval. For two other procurements, DMVA stated that it considered the procurements to be for recurring services, for example lawn maintenance, and that its process was to use the same companies for these services generally until the companies increased the prices. In addition, for one procurement, DMVA stated that it did not use Bid4Michigan because it initially thought that the procurement would be less than \$10,000. DMVA stated that ultimately, the bids it obtained were greater than \$10,000, but DMVA determined that it was not necessary to use Bid4Michigan because it had already obtained competitive bids.

Effect

DMVA could not ensure that it had obtained fair and reasonable pricing and that it had utilized the best source for services and products purchased. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified \$29,154 in questioned costs, which represents \$14,554 (\$7,182 charged to award W912JB-10-2-1007 and \$7,372 charged to award W912-JB-10-2-1001) of expenditures for the 4 procurements that were not competitively bid and \$14,600 (W912-JB-10-2-1001) of expenditures for the 1 procurement where DMVA did not use Bid4Michigan.

Recommendation

We recommend that DMVA comply with DTMB Administrative Guide procedure 0510.01.

Management Views and Corrective Action Plan

Management Views:

DMVA agrees with the finding.

DMVA's internal policy for recurring services was that as long as the contractor was performing ground and snow services according to the contract requirements and pricing was the same, it continued the services without re-bidding them. By maintaining that continuity of service, DMVA believed it was providing the best value to DMVA and the State.

Planned Corrective Action:

DMVA has revised its processes for obtaining competitive bids and/or obtaining proper approval from DTMB's Procurement Director to waive the Bid4Michigan process in accordance with DTMB Administrative Guide procedure 0510.01. Going forward all POs/contracts will have proper quotations and/or be competitively bid, with a corresponding approved Purchase Request Form 6-1. All emergency purchases will be documented utilizing the EP doc type when generating the PO and referencing the emergency in detail in the MAIN notepad.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Alfred E. Christian, Department of Military and Veterans Affairs

FINDING 2012-017

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-11-DC-26-0001	07/01/2011 - Until expended
	B-10-DC-26-0001	07/01/2010 - Until expended
	B-09-DY-26-0001	06/29/2009 - 09/30/2012
Total Expenditures of Federal Awards	\$59,062,475	
Total ARRA Expenditures	\$2,557,647	
Compliance Requirement(s)	Reporting	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	2011-006	
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). Also, MSF did not review the Section 3 Summary Report prepared by Michigan State Housing Development Authority (MSHDA), the subrecipient responsible for administering the housing component of the Michigan Community Development Block Grants (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 2011-12 noted that 11 (44%) grants included funding for projects that met the threshold for reporting on the Section 3 Summary Report. Construction expenditures for these 11 grants totaled approximately \$16.6 million during fiscal year 2011-12; however, the Section 3 Summary Report submitted for the period July 1, 2011 through June 30, 2012 included only MSHDA construction contract awards for housing projects.

Criteria

Federal regulation 24 *CFR* 135.90 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 only applied 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 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 which 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 2012-018

CDBG - State-Administered CDBG Cluster, CFDA 14.228 and 14.255 (ARRA), Reporting - FFATA Reporting

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-11-DC-26-0001 07/01/2011 - Until expended B-10-DC-26-0001 07/01/2010 - Until expended B-09-DY-26-0001 06/29/2009 - 09/30/2012
Total Expenditures of Federal Awards	\$59,062,475
Total ARRA Expenditures	\$2,557,647
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

MSF did not report any CDBG - State-Administered CDBG Cluster subaward information as required by the Federal Funding Accountability and Transparency Act of 2006 (FFATA).

Criteria

Federal regulation 2 CFR 170 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.

Cause

MSF informed us that it did not understand the reporting system requirements.

Effect

MSF 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 MSF report CDBG - State-Administered CDBG Cluster subaward information as required by FFATA.

Management Views and Corrective Action Plan

Management Views:

MSF agrees that it did not report any CDBG - State-Administered CDBG Cluster sub-award information as required by the Federal Funding Accountability and Transparency Act of 2006 (FFATA). However, it should be noted that MSF staff contacted the HUD field office for assistance with the FFATA system several times as staff continued to have difficulty entering information into the system.

Planned Corrective Action:

MSF staff have been informed by HUD that many of the program issues have been addressed and plan to enter all grant awards for this time period within the next 90 days. Moving forward, program managers will be required to file a FFATA sub-award report by the end of the month following the month in which the MSF awards any grant equal to or greater than \$25,000.

Anticipated Completion Date:

September 30, 2013.

Responsible Individual(s):

Deborah Stuart, Michigan Strategic Fund

FINDING 2012-019

CDBG - State-Administered CDBG Cluster, CFDA 14.228 and 14.255 (ARRA), Subrecipient Monitoring - Monitoring Subrecipients for Section 3 Requirements

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-11-DC-26-0001 07/01/2011 - Until expended B-10-DC-26-0001 07/01/2010 - Until expended B-09-DY-26-0001 06/29/2009 - 09/30/2012
Total Expenditures of Federal Awards	\$59,062,475
Total ARRA Expenditures	\$2,557,647
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2011-007
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.

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.

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 the Housing and Urban Development Act of 1968, as amended.

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 which 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 assure 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 2012-020

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

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-11-DC-26-0001 07/01/2011 - Until expended B-10-DC-26-0001 07/01/2010 - Until expended B-09-DY-26-0001 06/29/2009 - 09/30/2012
Total Expenditures of Federal Awards	\$59,062,475
Total ARRA Expenditures	\$2,557,647
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 its subrecipients receiving ARRA funding maintained current registrations in the Central Contractor Registration (CCR).

We tested all 8 subrecipients receiving ARRA funding to determine whether subrecipients maintained an active registration during fiscal year 2011-12. We noted that 4 (50%) subrecipients' CCR registrations expired either prior to or during fiscal year 2011-12.

Criteria

Federal regulation 2 CFR 176.50 requires subrecipients to maintain current CCRs if they have active federal awards funded with ARRA.

Cause

MSF's requirement that subrecipients report CCR registration numbers on quarterly reports was not sufficient to ensure that all subrecipients maintained an active CCR.

Effect

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 its subrecipients receiving ARRA funding maintain current registrations in the CCR.

Management Views and Corrective Action Plan

Management Views:

MSF agrees that compliance related to Central Contractor Registration could be improved.

Planned Corrective Action:

For future projects of this nature, the subrecipient will be requested to certify in the quarterly progress report to the State that their registration in the CCR is current. If the subrecipient fails to make this certification, any subsequent payment requests will be denied and held until the certification has been made by the subrecipient.

Anticipated Completion Date:

July 1, 2013

Responsible Individual(s):

Deborah Stuart, Michigan Strategic Fund

FINDING 2012-021

Highway Planning and Construction Cluster, CFDA 20.205, 20.205 (ARRA), and 20.219, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Davis-Bacon Act - Construction Pay Estimate Reports Not Properly Approved

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, 20.205 (ARRA), and 20.219
Award Identification Number and Year	Various
Total Expenditures of Federal Awards	\$1,088,017,049
Total ARRA Expenditures	\$24,115,202
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Davis-Bacon Act
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Transportation

Condition

The Michigan Department of Transportation's (MDOT's) project engineers did not sign and date construction pay estimate reports prior to paying construction contractors for 2 (5%) of 43 construction pay estimate reports reviewed. These construction pay estimate reports totaled \$6.1 million. Expenditures processed using construction pay estimate reports represented at least \$712.6 million (66%) of \$1.1 billion in total Highway Planning and Construction Cluster expenditures for fiscal year 2011-12.

Criteria

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

MDOT informed us that a project engineer's signature and date on a construction pay estimate report represents the project engineer's assurance that construction contractors performed the proper work on projects, that the costs being charged to the project were allowable, and that the construction contractor submitted weekly certified payrolls required by the Davis-Bacon Act.

Cause

Office technicians or project engineers throughout the State use MDOT's construction reporting software to generate and electronically submit construction pay estimate reports to MDOT's central office for payment to construction contractors. MDOT stated that, because its construction reporting software does not have electronic approvals, its central office assumes that the project engineer has reviewed and approved the construction pay estimate reports prior to submitting the reports for payment.

Effect

Lack of proper approval on construction pay estimate reports before payment to construction contractors may result in payments to contractors for activities and costs that are not allowed. Also, without the proper approval, MDOT does not have assurance that it obtained weekly certified payrolls from the construction contractors required by the Davis-Bacon Act.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that MDOT improve its internal control over the Highway Planning and Construction Cluster to ensure that the project engineers sign and date construction pay estimate reports prior to paying construction contractors.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees that internal controls could be improved.

Planned Corrective Action:

MDOT will continue to improve its internal control over the Highway Planning and Construction Cluster to ensure that the project engineers sign and date construction pay estimate reports prior to paying construction contractors.

Anticipated Completion Date:

December 31, 2013

Responsible Individual(s):

Dee Parker, Department of Transportation

FINDING 2012-022

Highway Planning and Construction Cluster, CFDA 20.205, 20.205 (ARRA), and 20.219, Reporting - FFATA Reporting

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, 20.205 (ARRA), and 20.219
Award Identification Number and Year	Various
Total Expenditures of Federal Awards	\$1,088,017,049
Total ARRA Expenditures	\$24,115,202
Compliance Requirement(s)	Reporting
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2011-003
State Agency	Michigan Department of Transportation

Condition

MDOT did not report any Highway Planning and Construction Cluster subaward information as required by the Federal Funding Accountability and Transparency Act of 2006 (FFATA).

Criteria

Federal regulation 2 *CFR* 170 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.

Cause

MDOT informed us that it did not report any of the required Highway Planning and Construction Cluster subaward information during fiscal year 2011-12 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 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 2012-023

MDE, Special Education Cluster (IDEA), CFDA 84.027, 84.173, 84.391 (ARRA), and 84.392 (ARRA),
Special Tests and Provisions - Allocation to Charter Schools

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Special Education Cluster (IDEA): CFDA 84.027, 84.173, 84.391 (ARRA), and 84.392 (ARRA)

Award Identification Number and Year	H027A060110	07/01/2006 - 09/30/2007
	H027A090110	07/01/2009 - 09/30/2010
	H027A100110	07/01/2010 - 09/30/2011
	H027A110110	07/01/2011 - 09/30/2012
	H027A120110	07/01/2012 - 09/30/2013
	H173A060117	07/01/2006 - 09/30/2007
	H173A090117	07/01/2009 - 09/30/2010
	H173A100117	07/01/2010 - 09/30/2011
	H173A110117	07/01/2011 - 09/30/2012
	H173A120117	07/01/2012 - 09/30/2013
	H391A090110	02/17/2009 - 09/30/2010
	H392A090117	02/17/2009 - 09/30/2010
Total Expenditures of Federal Awards	\$432,590,010	
Total ARRA Expenditures	\$16,117,152	
Compliance Requirement(s)	Special Tests and Provisions	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	Undeterminable	
Repeat Finding	3131208, part b.	
State Agency	Michigan Department of Education	

Condition

MDE did not monitor intermediate school districts (ISDs) to ensure that the ISDs properly allocated program funds to new or significantly expanded charter schools. Our review disclosed that MDE did not ensure that 19 new charter schools and 10 significantly expanded charter schools received the funds for which they were eligible to receive.

Criteria

Federal regulation 34 *CFR* 76.792 requires that the states must implement procedures to ensure that new or significantly expanding charter schools receive the proportionate amount of funds for which the charter schools are eligible.

Cause

MDE informed us that it did not consistently communicate about the status of new or significantly expanded charter schools among MDE offices in a timely manner.

Effect

MDE did not ensure that the 19 new charter schools and 10 significantly expanded charter schools received the funds for which they were eligible. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Questioned costs were undeterminable.

Recommendation

We recommend that MDE monitor ISDs to ensure that they properly allocate program funds to new or significantly expanded charter schools.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

MDE is continuing to improve the process to monitor subrecipients' distribution of funds through consistent communications and internal controls within the grant approval process.

Anticipated Completion Date:

September 30, 2013

Responsible Individual:

John Andrejack, Department of Education

Mark Eitrem, Department of Education

FINDING 2012-024

School Improvement Grants Cluster, CFDA 84.377 and 84.388 (ARRA), Procurement and Suspension and Debarment - Subrecipient Certifications

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	School Improvement Grants Cluster: CFDA 84.377 and 84.388 (ARRA)	
Award Identification Number and Year	S377A090023A	07/01/2009 - 09/30/2013
	S388A090023A	02/17/2009 - 09/30/2013
	S377A100023	07/01/2010 - 09/30/2013
Total Expenditures of Federal Awards	\$42,756,346	
Total ARRA Expenditures	\$34,405,404	

Compliance Requirement(s)	Procurement and Suspension and Debarment
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	3131214, part a.
State Agency	Michigan Department of Education

Condition

MDE did not obtain a signed certification asserting that the subrecipient was not suspended or debarred for 1 (25%) of 4 subrecipient applications sampled. Expenditures related to this grant award accounted for 24% of the amounts distributed to subrecipients during the fiscal year ended September 30, 2012.

Criteria

Federal regulation 34 *CFR* 74.13 restricts subawards and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participating in federal assistance programs or activities. Federal regulation 34 *CFR* 85.300 identifies the acceptable methods by which the awarding agency should verify that a recipient is not suspended or debarred, including checking the Excluded Parties List System (EPLS), collecting a certification from the subrecipient, or adding a clause or condition to the agreement with the subrecipient.

Cause

MDE informed us that this was an error and that it inadvertently processed the subrecipient's application without obtaining a signed assurance and certification form.

Effect

Failure to obtain signed certifications asserting that the subrecipient was not suspended or debarred increases the risk that MDE could provide grant funds to recipients that were suspended or debarred, which could result in the federal grantor agency issuing sanctions or disallowances.

Known Questioned Costs

We verified, through review of the EPLS, that the subrecipient was not suspended or debarred and, therefore, we did not identify questioned costs related to this finding.

Recommendation

We recommend that MDE ensure that it has a signed assurance and certification before distributing the funds.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

Effective November 2012, the Office of Education Improvement and Innovation (OEII) unit supervisors were reminded of the requirement to ensure compliance with federal laws and regulations regarding suspension and debarment. OEII directed that all grant applications contain the requirement that there be a subgrantee certification that ensures applicants have utilized the EPLS prior to submission. Unit supervisors will monitor to ensure this requirement is contained in all requests for proposals.

Anticipated Completion Date:

Completed

Responsible Individual:

Linda Forward, Department of Education

FINDING 2012-025

English Language Acquisition State Grants, CFDA 84.365, Allowable Costs/Cost Principles and Subrecipient Monitoring - Monitoring Subrecipients' Administrative Expenditures

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	English Language Acquisition State Grants: CFDA 84.365
Award Identification Number and Year	S365A090022A 07/01/2009 - 09/30/2010 S365A100022 07/01/2010 - 09/30/2011 S365A110022 07/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$13,045,344
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles and Subrecipient Monitoring
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$12,965
Repeat Finding	3131213, parts a.(2) and b.
State Agency	Michigan Department of Education

Condition

MDE approved budgets for 9 (39%) of 23 sampled subrecipients which contained budgeted administrative expenditures that exceeded the 2% limitation on administrative expenditures. In addition, for 8 (35%) of 23 sampled subrecipients, actual administrative expenditures exceeded 2% of their grant award.

Criteria

Title 20, Section 6825(b) of the *United States Code (USC)* states that local educational agencies (LEAs) receiving Limited English Proficient awards under the English Language Acquisition State Grants Program may use no more than 2% of their grants for administrative costs.

Cause

MDE informed us that it did not always account for indirect costs when approving the LEA's budgets for administrative costs. In addition, the Michigan Electronic Grants System (MEGS+) does not contain edit checks to identify budgets that exceed the earmarking limitation.

Effect

MDE reduced the amount of funding available for nonadministrative activities by allowing the LEAs to spend more of the funds on administrative expenditures. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs totaling \$12,965, which represent the difference between the total administrative expenditures reported on the subrecipients' final expenditure reports and 2% of the award amount for the 8 subrecipients noted.

Recommendation

We recommend that MDE ensure that LEAs comply with the administrative earmarking requirement.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

Effective May 2013, MDE made changes to MEGS+ to prevent LEAs from exceeding the 2% limit for administrative costs. Error checks are now programmed into the system to prevent submission of an application that exceeds the 2% administration. MDE consultants will also provide verification.

Anticipated Completion Date:

Completed

Responsible Individuals:

Shereen Tabrizi, Department of Education

Margaret Madigan, Department of Education

FINDING 2012-026

College Access Challenge Grant Program, CFDA 84.378, Matching, Level of Effort, and Earmarking - Monitoring Administrative Costs

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	College Access Challenge Grant Program: CFDA 84.378
Award Identification Number and Year	P378A100022 08/14/2010 - 08/13/2012
Total Expenditures of Federal Awards	\$1,441,729
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$74,030
Repeat Finding	3131215, part a.(3)
State Agency	Michigan Department of Education

Condition

MDE exceeded the federal 6% administrative earmark threshold by \$74,030. Our review disclosed that MDE's administrative expenditures for the grant period were \$458,199 and that its administrative earmark threshold was \$384,169.

Criteria

Federal statute under the Higher Education Act of 1965, as amended (Title VII, Part E) requires that a grantee use not more than 6% of the total amount of the sum of the federal share provided and the non-federal share required for administrative purposes.

Cause

MDE informed us that it inadvertently did not include all the categories of indirect administrative expenditures into its calculation of administrative earmark expenditures.

Effect

MDE reduced the amount of funding available for non-administrative activities by allowing more of the College Access Challenge Grant Program funds to be spent on administrative expenditures than was allowed by federal regulations. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs of \$74,030. These known questioned costs represent the 2010 grant award administrative expenditures that exceeded 6% of the total Program expenditures (State and federal).

Recommendation

We recommend that MDE implement controls to ensure that it does not exceed the administrative earmarking threshold for future awards.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

In May 2013, MDE reclassified \$79,811 that was originally charged as administrative costs to outreach activities. The duties of the supervisor of the College Access Challenge Grants were properly classified as Statewide activities. These outreach activities included participating in conferences and workshops, serving on State and local boards, and the development and management of a Web portal to serve high school students. Thirty percent of the supervisor's time can be categorized as outreach. The supervisor's wages and benefits for the two-year grant period were \$266,035 resulting in an amount of \$79,811, which exceeds all questioned costs.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Louis Burgess, Department of Education

FINDING 2012-027

Aging Cluster, CFDA 93.044, 93.045, and 93.053, Procurement and Suspension and Debarment - Verification of Subrecipients Suspended or Debarred Status

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Aging Cluster: CFDA 93.044, 93.045, and 93.053
Award Identification Number and Year	12AAMIT3SP 10/01/2011 - 09/30/2012 12AAMINSIP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$39,526,247
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Procurement and Suspension and Debarment
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3911202, part a.
State Agency	Department of Community Health

Condition

DCH did not establish a process to verify that its 16 Aging Cluster subrecipients were not suspended or debarred from participating in federally funded grants.

Criteria

Federal regulation 10 *CFR* 600 restricts subawards and contracts with 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 EPLS, or collecting a certification from the recipient, or adding a clause or condition to the agreement with the recipient.

Cause

DCH indicated that it relied on the prior-year single audit of its Aging Cluster subrecipients' suspension and debarment status. However, external auditors are not a part of an internal control process.

Effect

Failure to obtain signed certifications increases the risk that DCH could provide Aging Cluster grant funds to subrecipients that were suspended or debarred from participating in federally funded grants. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We verified, through review of the EPLS, that DCH's 16 Aging Cluster subrecipients were not suspended or debarred and, therefore, we did not identify questioned costs.

Recommendation

We recommend that DCH establish a process to verify that its Aging Cluster subrecipients were not suspended or debarred from participating in federally funded grants.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that it did not verify that area agencies on aging (AAAs) were not suspended or debarred. However, DCH did this purposefully as reliance was placed on the OAG's prior-year single audit testing.

Planned Corrective Action:

DCH now requires a suspension and debarment certification form to be submitted annually by AAAs as part of the State's requirements for annual implementation plans. The addition of suspension and debarment certification language was added to the requirements for the fiscal year 2012-13 annual implementation plans. Furthermore, DCH also tests each AAA annually for suspension and debarment, including a test performed in February 2012 using the EPLS/SAM for its fiscal year 2012-13 AAA agency assessment process.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Scott Wamsley, Department of Community Health

FINDING 2012-028

TANF Cluster, CFDA 93.558, 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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
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	2011-014
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 circuit court or 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 county incurs 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

Federal law 42 *USC* 604(a)(2) allows DHS to use TANF Cluster funds in any manner that DHS was authorized to use amounts received under an AFDC State Plan in effect on September 30, 1995 or, at State option, 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 2012-029

TANF Cluster, CFDA 93.558, 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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
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 Questioned Costs	\$2,678,256
Repeat Finding	2011-015
State Agency	Department of Human Services

Condition

DHS claimed \$2,678,256 of juvenile justice expenditures from 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 amounts received under an AFDC Plan in effect on September 30, 1995 or, at State option, 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 did 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 two 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 \$2,678,256, which represent the total fiscal year 2011-12 expenditures of the two 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 these expenditures to be for 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; 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 2 county Child Care Fund (CCF) fiscal year 2011-12 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 that 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 2012-030

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Lack of Survey 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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
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 Questioned Costs	\$1,100,000
Repeat Finding	2011-016
State Agency	Department of Human Services and Michigan Department of Transportation

Condition

DHS did not maintain survey documentation to support TANF 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 a survey to help ensure that assistance was provided only to needy individuals. Our review disclosed that the survey did not ask needy recipients the purpose for the commute to the shopping mall to ensure 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 one of the purposes is to provide assistance to needy families 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

We noted during our review that DHS and MDOT revised the survey used in prior fiscal years to ask needy recipients the purpose for the commute to the shopping mall to ensure that the transportation was used to commute to work or job related activities; however, DHS and MDOT did not use the revised survey in fiscal year 2011-12. DHS also did not have compensating controls to ensure that individuals using the public transportation were needy and commuting to work or job related activities.

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 2011-12 expenditures paid to MDOT under the interagency agreement.

Recommendation

We recommend that DHS maintain survey documentation to support TANF 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 2012-031

TANF Cluster, CFDA 93.558, 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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
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	\$2,155
Repeat Finding	2011-017
State Agency	Department of Human Services

Condition

DHS did not maintain sufficient case record documentation to support client eligibility for 29 (55%) of 53 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 on the case record in order to demonstrate that the 29 families were in need of TANF Cluster assistance.

In addition, we noted that DHS counted all 29 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 45 *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 \$2,155 for the TANF Cluster federal share. These questioned costs represent the amount of the 29 sampled cases noted for which DHS did not maintain case record documentation to support client eligibility. In addition, we identified \$762 of State expenditures that should not have been counted as State MOE.

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 2012-032

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Lack of Eligibility Redeterminations for TANF-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	
Award Identification Number and Year	11 02 MI TANF	10/01/2010 - Until expended
	12 02 MI TANF	10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066	

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	\$2,574
Repeat Finding	2011-018
State Agency	Department of Human Services

Condition

DHS did not conduct annual eligibility redeterminations to ensure that adoptive families met eligibility requirements for 4 (40%) of 10 sampled TANF Cluster-funded adoption subsidy case records.

We randomly selected 63 TANF Cluster client case records for review, of which 10 clients received TANF Cluster-funded adoption subsidies. In three instances, the adopted child's birthday was after the date of the adoption subsidy payment and the annual redetermination report was not completed as of the date of our review. In the other instance, the child's birthday was before the date of the adoption subsidy payment, but 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 adoption subsidy payments to families who did 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 \$2,574. The questioned costs represent the 4 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 redeterminations 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 MISACWIS system 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, Manager, Department of Human Services

FINDING 2012-033

TANF Cluster, CFDA 93.558, Eligibility - Lack of Process to Identify Drug 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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2011-019
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 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 probation or parole 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.

Recommendations

We recommend that DHS established 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 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 case workers.

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 2012-034

TANF Cluster, CFDA 93.558, 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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
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	2011-020
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 \$152,926,718 from the new spending test used to meet the State's maintenance of effort (MOE) requirement in fiscal year 2011-12.

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 non-instructional 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 2011-12 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 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 1995 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 1995 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 was a new program initiated in FY 2009 Public Act 268. 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.

Corrective Action Plan:

DHS disagrees with the finding and does not plan to implement corrective 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 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 DC. 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 3 programs from the 1995 statutory limitation.

FINDING 2012-035

TANF Cluster, CFDA 93.558, Matching, Level of Effort, and Earmarking - Time on Assistance Earmark

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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Background

DHS, in conjunction with DTMB, hired a contractor to update and incorporate the federal time limit counter into Bridges. The federal time limit counter requirements and design documents indicate that all Family Independence Program (FIP) cash assistance payments, including initial FIP payments, would increase the time limit counter. The federal time limit counter requirements and design documents also indicate that supplemental FIP cash assistance payments would not increase the time limit counter. Local office caseworkers can authorize an initial payment to a recipient for the first

month a client is eligible for benefits based on the date the recipient is eligible. Local office caseworkers can also authorize supplemental payments to increase FIP benefits because of a change in recipient circumstances for a month the recipient is already eligible.

Condition

DHS did not ensure that each month of federally funded FIP cash assistance received by a household was counted toward the 60-month federal time limit.

We compared federally funded FIP cash assistance payments to the federal time limit counter in Bridges for 25 sampled FIP cases. We noted 3 (12%) of the 25 sampled FIP cases contained an inaccurate federal time limit counter as compared to the number of federally funded FIP cash assistance payments received.

Criteria

Federal law 42 USC 608(a)(7)(A) states that DHS may not use TANF Cluster funds to provide assistance to a family that includes an adult who has received assistance under any State program funded by the TANF Cluster for 60 months (whether or not consecutive). Also, DHS's TANF State Plan indicates that an adult head of household is ineligible for federally funded FIP cash assistance after 60 months. DHS's policies indicate that for each month an adult head of household receives federally funded FIP cash assistance, the adult head of household will receive a count of one month in the Bridges federal time limit counter.

Cause

DHS informed us that the reason initial FIP payments were sometimes coded as supplemental payments was due to local office caseworker error when entering the payment reason code into the client information system in place prior to Bridges. Also, some initial FIP payments were incorrectly coded as supplemental payments with an "other" payment reason in the FIP payment history files maintained by DHS and DTMB. Bridges was programmed not to include payments with an "other" payment reason in the 60 month time counter.

Effect

DHS cannot ensure that it is providing TANF Cluster assistance to individuals who have not exceeded the 60 month federal time limit. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs because we did not identify any sampled adult head of household that had reached the 60-month federal time limit for FIP benefits as of the date of our review.

Recommendation

We recommend that DHS identify all federally funded FIP initial payments with a payment reason of "other" for active and closed FIP cases whose federal time limit is less than 60 months and review those payments to determine if the payments should be included in the federal time limit counter.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS will run an ad-hoc report that will identify all federally funded FIP initial payments with a payment reason of "other" for active and closed FIP cases whose federal time limit is less than 60 months, and review those payments to determine if the payments should be included in the federal time limit counter. Currently Bridges determines the payment type and case workers cannot issue supplemental payments.

Anticipated Completion Date:

January 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 2012-036

TANF Cluster, CFDA 93.558, Reporting - Accuracy of Reports

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
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2011-021
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 accurately report federal and State MOE expenditures in its quarterly TANF Financial Report (ACF-196) for fiscal year 2011-12. We reviewed the fourth quarter ACF-196 for fiscal year 2011-12 and noted that DHS overstated total federal expenditures by \$4,801,557 and understated total State MOE expenditures by \$4,740,957.
- b. DHS did not report accurate State MOE expenditures and other required program information in its Annual Report on State Maintenance of Effort Programs (ACF-204) for fiscal year 2011-12. We noted:
 - (1) DHS did not accurately report the total State expenditures for 4 (24%) of the 17 State MOE programs. DHS understated total annual State MOE expenditures by \$743,946.
 - (2) DHS did not accurately report the total State expenditures for 4 (24%) of the 17 State MOE programs. DHS overstated total State expenditures by \$232,195.

- (3) DHS did not accurately report or maintain documentation to support the total number of families served for 3 (18%) of 17 State MOE programs. DHS overstated the total number of families served by 22,584.
- (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 17 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, federal regulation 45 *CFR* 92.20 requires financial reports to be accurate.

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 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, Director, Financial Services

Marilyn Carey, Acting Director, Accounting Division

FINDING 2012-037

TANF Cluster, CFDA 93.558, Subrecipient Monitoring - Lack of 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	
Award Identification Number and Year	11 02 MI TANF	10/01/2010 - Until expended
	12 02 MI TANF	10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	

Repeat Finding	2011-023
State Agency	Department of Human Services

Condition

DHS did not conduct annual site visits for 5 of 6 Families First of Michigan and Family Reunification sampled subrecipients. Our review of 25 randomly selected subrecipients included 6 Families First of Michigan and Family Reunification 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 subrecipient monitoring procedures require annual site visits of Families First of Michigan and Family Reunification subrecipients. These site visits should 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 should also include a review of any critical incidence reports to ensure the subrecipient took appropriate steps to address risks and safeguard the family and child. A critical incidence 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 Families First of Michigan and Family Reunification 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. In addition, 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 plan to implement corrective action.

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Steve Yager, Department of Human Services
Suzanne Stiles Burke, Department of Human Services
Colin Parks, Director, 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 onsite 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 onsite monitoring visit per year. Only after the OAG 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 2012-038

TANF Cluster, CFDA 93.558, Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Penalty for Refusal to Work

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA	TANF Cluster: CFDA 93.558
Award Identification Number and Year	11 02 MI TANF 10/01/2010 - Until expended 12 02 MI TANF 10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Penalty for Refusal to Work
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$5,681
Repeat Finding	2011-024
State Agency	Department of Human Services

Condition

DHS did not ensure that it appropriately and timely sanctioned 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 cooperating in employment-related activities during fiscal year 2011-12. In 16 (27%) 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 a recipient's case record, or did not sanction the recipients on a timely basis.

DHS also granted good cause during fiscal year 2011-12 to recipients who did not comply with employment-related activities 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 are 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 \$5,681 that were federally funded. These questioned costs represent the total expenditures to the family for the first unqualified month after

the date that the families were determined to be not cooperating in employment-related activities. In addition, we identified \$1,456 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 2012-039

TANF Cluster, CFDA 93.558, 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	
Award Identification Number and Year	11 02 MI TANF	10/01/2010 - Until expended
	12 02 MI TANF	10/01/2011 - Until expended
Total Expenditures of Federal Awards	\$811,847,066	
Total ARRA Expenditures	Not Applicable	

Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Child Support Noncooperation
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$286
Repeat Finding	2011-025
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 2 (3%) of the 60 case records. In one instance, DHS was unable to locate the client's case record. In the other instance, DHS scheduled an administrative hearing 9 months after it was requested by the client. DHS does not stop benefits when a hearing is requested until the hearing can be held. DHS subsequently stopped benefits for this client for failure to attend the administrative hearing.

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, DHS policies require local office caseworkers to document follow-up on noncooperation information or determine if the client met good cause criteria for not cooperating.

In addition, 45 *CFR* 205.10(a)(16) states that prompt, definitive, and final administrative action shall be taken within 90 days from the date of the request for a hearing for denial of benefits.

Further, 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 informed us that internal controls and monitoring activities were insufficient to detect that required follow-up and/or good cause documentation was not maintained in the client's case record.

In addition, the State had a backlog of requests for administrative hearings and was not able to schedule hearings within 90 days of a client's hearing request.

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 \$286 that were federally funded. These questioned costs represent the total expenditures to the family 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 \$73 of State expenditures that could not be counted as State MOE.

Recommendation

We recommend that DHS improve its internal control to ensure that it sanctions 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 non-cooperation records by posting the compliance record. This also increased the number of non-cooperation 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 2012-040

CCDF Cluster, CFDA 93.575 and 93.596, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - 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 and 93.596
Award Identification Number and Year	G 12 03 MI CCDF 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$141,350,162
Total ARRA Expenditures	Not Applicable
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 Requirements (part d.)
Type of Finding	Material Weakness and Material Noncompliance (Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking) Significant Deficiency and Noncompliance (Special Tests and Provisions)
Known Questioned Costs	\$2,307
Repeat Finding	2011-027
State Agencies	Michigan Department of Education and Department of Human Services

Background

Executive Order No. 2011-8 transferred the Child Care and Development Fund (CCDF) responsibility from DHS to MDE effective August 2011. In accordance with the memorandum of understanding between MDE and DHS, DHS remained responsible for most client and provider eligibility determinations.

Condition

MDE and 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. 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 16 (27%) of the 60 sampled 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 client's need reason for child care services.
- b. DHS did not maintain case record documentation to support client eligibility for the Temporary Assistance for Needy Families (TANF) - Family Independence Program (FIP). MDE's CCDF State Plan allows DHS local office caseworkers to determine financial eligibility for child care services based on the client's or child's eligibility determination for TANF - FIP. We noted that 33% of the total CCDF Cluster child care payments MDE made during fiscal year 2011-12 were 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 24 (67%) of 36 TANF - FIP payments sampled for fiscal year 2011-12. 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 documentation to support the client's need for the number of hours of child care DHS authorized in Bridges for 7 (12%) of 60 sampled CCDF Cluster child care payments. DHS authorized hours of care in Bridges that exceeded the client's documented need for hours of care child care services.

- d. MDE and DHS did not maintain case record documentation to support provider eligibility. Our review disclosed:
- (1) MDE did not maintain documentation to support that 8 (24%) of 34 unlicensed child care providers that received CCDF Cluster child care payments received the health and safety training required for provider eligibility per the CCDF State Plan.
 - (2) DHS did not maintain the provider's application for 1 of 7 unlicensed child care providers sampled that enrolled after October 17, 2011. As a result, DHS and MDE could not ensure that the unlicensed provider was eligible with regard to required background checks of the provider's adult household members. Without the provider's application, DHS and MDE could not determine that all adult household members of this unlicensed child care provider received the background checks that MDE required per the CCDF State Plan. We performed additional audit procedures and independently verified that the remaining 6 unlicensed child care providers and disclosed household members sampled did not have unsuitable backgrounds based on program requirements that would result in provider ineligibility.
- 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 20 (33%) of 60 sampled CCDF Cluster child care payments.

Criteria

Federal law 42 *USC* 9858c(c)(2)(A) allows MDE to use CCDF Cluster funds for child care services in the form of certificates, grants, or contracts on behalf of eligible children and providers. Federal regulation 45 *CFR* 98.20 provides eligibility requirements for child care services and permits MDE 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 MDE identify additional eligibility requirements in its CCDF State Plan. MDE's CCDF State Plan Sections 2.3 and 3.1 provide specific requirements for client, child, and provider eligibility. Also, 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. CCDF program policy requires documentation of 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.

The CCDF State Plan requires that all unlicensed providers receive health and safety training. Also, federal regulation 45 *CFR* 98.41 requires MDE 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. The U.S. Department of Health and Human Services Administration for Children and Families (ACF) considers background checks to be encompassed within the building and physical premises safety standard in the statute. MDE's CCDF State Plan Section 3.1 provides further detail regarding specific requirements and enforcement procedures. CCDF program policy requires provider enrollment prior to payment, which includes an application, age verification, and background checks for all unlicensed providers and adult household members.

In addition, federal regulation 45 *CFR* 98.67 requires that MDE's fiscal control and accounting procedures permit the tracing of CCDF Cluster funds to document that MDE 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 State Plan. In order to receive federal matching funds for a fiscal year, states must also expend an amount of non-federal funds for child care activities in the state that is at least equal to the state's share of expenditures for fiscal years 1993-94 or 1994-95 (whichever is greater) under sections 402(g) and (i) of the Social Security Act as these sections were in effect before October 1, 1995, and the expenditures must be for allowable services or activities, as described in the approved State Plan.

Cause

For parts a., b., c., d.(2), and e., MDE and DHS informed us that their internal control and monitoring activities were insufficient to detect that MDE and 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 d.(1), MDE contracted with the Early Childhood Investment Corporation (ECIC), a component unit of the State of Michigan, to administer basic health and safety training to unlicensed child care providers. During fiscal year 2011-12, ECIC subcontracted with an external entity to conduct the health and safety training sessions for unlicensed child care providers in 3 counties. MDE informed us that this external entity required training participants to sign in to demonstrate the providers' attendance at the health and safety training; however, the entity is no longer in business and did not retain the sign-in sheets.

Effect

MDE may have made payments that do not qualify for CCDF Cluster. In addition, based on the exceptions noted, it is likely that MDE did not meet the CCDF Cluster MOE requirement. 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 \$2,307 and \$779 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 MDE and DHS maintain sufficient documentation to support client, child, and/or provider eligibility; client need for the number of hours authorized; and proper authorization of providers to render services.

Management Views and Corrective Action Plan

Management Views:

DHS and MDE agree with the finding.

Planned Corrective Action:

For parts a, b, c, and d(2), 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.

For part d(1), MDE centralized unlicensed provider enrollment in a unit within the Office of Great Start/Child Development and Care program, effective January 1, 2013. All unlicensed provider applications and background checks (provider and adult household members) are processed within this unit to ensure proper enrollment. All applications processed by the unit will be stored electronically and will be incorporated into the Electronic Document Management process in Bridges once this enhancement has been fully rolled out by DHS.

Additionally, beginning October 17, 2011, the background clearance process was automated within Bridges to ensure completion as part of the enrollment process.

The external agencies with whom ECIC contracts to conduct unlicensed provider trainings will be notified of the retention requirements for training sign-in sheets formally and in writing.

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

Lisa Brewer Walraven, Michigan Department of Education

FINDING 2012-041

CCDF Cluster, CFDA 93.575 and 93.596, Eligibility - Disqualification of Clients

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 and 93.596
Award Identification Number and Year	G 12 03 MI CCDF 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$141,350,162
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Education and Department of Human Services

Condition

MDE did not have a process to disqualify clients who violated CCDF program rules, including clients for which DHS's Office of Inspector General (OIG) identified as having known violations, from receiving CCDF child care benefits.

We reviewed a sample of 19 client child care cases investigated by DHS's OIG for program violations. Our review noted that MDE did not have a process in place to disqualify the 11 clients that the OIG identified with known child care program violations after April 10, 2012.

Criteria

MDE's 2012-2013 CCDF State Plan requires that a program group containing a client who intentionally fails to cooperate with program rules will be determined ineligible for a minimum of 6 months. Effective April 10, 2012, the *Michigan Administrative Code* required the disqualification of clients who violated CCDF program rules. MDE incorporated these changes into its 2012-2013 CCDF State Plan.

Federal regulation 45 *CFR* 98.20 provides eligibility requirements for child care services and permits MDE 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 MDE identify additional eligibility requirements in its CCDF State Plan.

Cause

MDE informed us that it did not establish a process to disqualify clients and did not obtain the investigations from the OIG because Bridges did not have the functionality to disqualify the client. On October 25, 2011, a Bridges work request was submitted for the implementation of client disqualifications. Due to lack of Bridges technology support, MDE and DHS had not implemented a process to disqualify clients as of September 2012.

Effect

MDE could issue child care benefits on behalf of clients who have a known history of program violations. 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 because none of the 11 clients received CCDF child care benefits on their behalf for the period April 10, 2012 through September 30, 2012.

Recommendation

We recommend that MDE establish a process to disqualify clients who violate CCDF program rules from receiving CCDF child care benefits.

Management Views and Corrective Action Plan

Management Views:

MDE and DHS agree with the finding.

Planned Corrective Action:

MDE and DHS are evaluating the costs and benefits associated with all options related to the disqualifications of clients. These options range from manual solutions to fully automated technology solutions in order to ensure compliance with this requirement.

Anticipated Completion Date:

November 2013

Responsible Individual(s):

DHS Technological Executive Committee
Lisa Brewer-Walraven, Department of Education

FINDING 2012-042

CCDF Cluster, CFDA 93.575 and 93.596, 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	CCDF Cluster: CFDA 93.575 and 93.596
Award Identification Number and Year	G 12 03 MI CCDF 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$141,350,162
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2011-028
State Agencies	Michigan Department of Education and Department of Human Services

Background

Executive Order No. 2011-8 transferred CCDF responsibility from DHS to MDE, effective August 2011. In accordance with the memorandum of understanding between MDE and DHS, DHS remained responsible for accepting, reviewing, and investigating, as appropriate, client and provider fraud complaints. In addition, DHS remained responsible for overpayments and claims establishment.

The 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

MDE and DHS did not have sufficient processes to ensure that they initiated and pursued repayment efforts for all fraudulent child care payments. We noted:

- a. MDE and DHS did not have a process to reconcile OIG identified cases of fraud to the claims the RS established on the BRS for recoupment to ensure that all cases of fraud would be pursued for repayment.
- b. MDE and 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. MDE and DHS did not have a process to routinely send automated notices to providers and clients who were late in remitting payment. In addition, MDE and DHS did not regularly submit delinquent claims to the Michigan Department of Treasury for additional collection efforts.

Criteria

Federal regulation 45 *CFR* 98.60 requires MDE 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 2011-12. 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 processes described above increase the risk that MDE and DHS did not take steps to recover all fraudulent child care payments. 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 MDE and DHS develop and implement sufficient processes to help ensure that MDE and DHS initiate and pursue repayment efforts for all fraudulent child care payments.

Management Views and Corrective Action Plan

Management Views:

MDE and DHS agree with the finding.

Planned Corrective Action:

Corrective action includes a reconciliation of OIG paper disposition packets for Provider CDC IPV that the Reconciliation and Recoupment Unit receives weekly from the county-based OIG field agents against a master list of all OIG dispositions State-wide 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 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.

The Reconciliation and Recoupment Section 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.

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 Treasury awaits completion and summary evaluation of a minimum six-month special project involving 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:

The prioritization for work request is anticipated by October 1, 2013.

Responsible Individuals:

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Lisa Brewer-Walraven, Michigan Department of Education

FINDING 2012-043

CCDF Cluster, CFDA 93.575 and 93.596, 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 and 93.596
Award Identification Number and Year	G 12 03 MI CCDF 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$141,350,162
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Special Tests and Provisions - Health and Safety Requirements
Type of Finding	Material Weakness and Scope Limitation on Compliance
Known Questioned Costs	Undeterminable
Repeat Finding	2011-029
State Agencies	Michigan Department of Education and Department of Human Services

Background

Executive Order No. 2011-8 transferred CCDF responsibility from DHS to MDE, effective August 2011. In accordance with the memorandum of understanding between MDE and DHS, DHS remained responsible for the licensure of center-based, group home, and family home child care providers.

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 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 reviewed caregiver health and safety training records maintained by the providers during the inspections.

Criteria

Federal regulation 45 *CFR* 98.41 requires MDE 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. MDE's CCDF State Plan Section 3.1 provides 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 could not provide sufficient 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.

As a result, we were not able to satisfy ourselves that DHS complied with the requirements through other auditing procedures. We consider this to be a scope limitation.

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 test and provision 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:

MDE and DHS partially agree with the finding. The Licensing Study Report 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 Licensing Study Report describing what is included in the record review.

Anticipated Completion Date:

Completed

Responsible Individuals:

Jim Gale, Department of Human Services

Lisa Brewer-Walraven, Department of Education

FINDING 2012-044

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Under Age 21 Eligibility Group

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)

Award Identification Number and Year	05-1205MI5ADM	10/01/2011 - 09/30/2012
	05-1205MI5MAP	10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926	
Total ARRA Expenditures	\$114,908,025	
Compliance Requirement(s)	Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs	\$6,336,690	
Repeat Finding	Not Applicable	
State Agency	Department of Community Health	

Condition

DCH and DHS did not perform timely eligibility reviews for beneficiaries in the "under age 21" Medicaid eligibility group to determine if Medicaid eligibility should be continued after the beneficiaries' 21st birthday.

Criteria

Federal regulation 42 *CFR* 435.10 requires DCH to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. DCH's Medicaid State Plan states that it provides Medicaid coverage for financially eligible individuals who are under the age of 21. DCH and DHS jointly developed policies and procedures related to the "under age 21" eligibility group that require DHS to consider eligibility for all other Medicaid categories at least 90 days before a beneficiary reaches age 21. Further, federal regulation 42 *CFR* 435.1002(b) indicates that federal funding is available only for services provided to eligible beneficiaries.

Cause

DHS indicated that caseworkers may not have acted on alerts from Bridges.

Effect

DCH paid Medicaid providers \$9,581,121 (\$3,244,167 General Fund/general purpose) during fiscal year 2011-12 on behalf of 10,032 beneficiaries in the "under age 21" Medicaid eligibility group for medical services provided after the beneficiaries' 21st birthday. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs totaling \$6,336,954, of which \$264 is questioned in Finding 2012-045. The questioned costs represent the federal share of payments made to providers.

Recommendation

We recommend that DCH and DHS perform timely eligibility reviews for beneficiaries in the "under age 21" Medicaid eligibility group to determine if Medicaid eligibility should be continued after the beneficiaries' 21st birthday.

Management Views and Corrective Action Plan

Management Views:

DCH and DHS agree that timely reviews were not conducted for beneficiaries in the "under age 21" Medicaid eligibility group. DCH will review impacted claims to determine if the beneficiaries were eligible for other aid categories.

Planned Corrective Action:

DHS's data management unit recently provided a new version of the Bridges Information Management Mart (BRIMM) which will enable each county office to run an ad-hoc report that will identify individuals who have aged out of the G2U aid category. In addition, DHS is currently working on a standardized monthly process for counties to follow utilizing BRIMM to ensure that cases close timely.

DCH will also monitor timely closure of the G2U aid category using an ad-hoc query against DCH's data warehouse. If timely closure continues to be problematic, DCH will work with DHS to determine other necessary corrective actions.

Anticipated Completion Date:

January 2014

Responsible Individual(s):

Logan Dreasky, Department of Community Health
Dan Ridge, Department of Community Health
Terry Beurer, Department of Human Services

FINDING 2012-045

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Ineligible Medicaid Beneficiaries

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$6,667
Repeat Finding	3911205, part a.
State Agency	Department of Community Health

Condition

DCH and DHS did not determine beneficiary eligibility in accordance with eligibility requirements for 7 (12%) of 60 Medicaid cases reviewed.

Criteria

Federal regulation 42 *CFR* 435.10 requires DCH to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. DCH's Medicaid State Plan states that DCH meets all requirements for processing applications, determining eligibility, and furnishing Medicaid. Also, DCH and DHS have an interagency agreement that DHS is responsible for determining beneficiary eligibility in accordance with eligibility requirements defined in jointly approved DCH and DHS policies. In addition, federal regulation 42 *CFR* 435.1002(b) indicates that federal funding is available only for services provided to eligible beneficiaries.

Cause

DHS did not properly consider all available beneficiary information when determining beneficiary eligibility. For example:

- For 1 beneficiary, DHS deducted an incorrect medical expense amount from the beneficiary's total income calculation. Therefore, DHS incorrectly concluded that the beneficiary was eligible when, in fact, the beneficiary was not eligible.
- For 1 beneficiary, DHS did not have documentation to support the beneficiary's employment, although employment was a requirement of the beneficiary's eligibility group.
- For 2 beneficiaries, DHS did not properly account for the beneficiaries' assets. Therefore, DHS incorrectly concluded that the beneficiaries were eligible when, in fact, they were not eligible.
- For 2 beneficiaries, DHS incorrectly concluded that the beneficiaries were eligible when, in fact, the case record information indicated that both beneficiaries exceeded the age limit.
- For 1 beneficiary, DHS did not consider Adult Home Help income paid to the beneficiary by DCH for a six-month period. Our review disclosed that the Adult Home Help income caused the beneficiary to be ineligible.

Effect

DCH paid Medicaid providers \$10,080 (\$3,413 General Fund/general purpose) for medical services provided to the 7 ineligible beneficiaries for the sampled dates of service. 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 totaling \$6,667. The questioned costs represent the federal share of payments made to providers on behalf of the 7 ineligible beneficiaries for the sampled dates of service.

Recommendation

We recommend that DCH and DHS properly consider Medicaid eligibility documentation in accordance with the eligibility requirements.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that DCH/DHS did not determine beneficiary eligibility in accordance with eligibility requirements.

Planned Corrective Action:

DCH will work with DHS to determine necessary corrective actions to ensure that the DHS eligibility worker appropriately considers all necessary eligibility documentation in conjunction with eligibility requirements.

Anticipated Completion Date:

January 2014

Responsible Individual(s):

Logan Dreasky, Department of Community Health
Dan Ridge, Department of Community Health
Terry Beurer, Department of Human Services

FINDING 2012-046

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Insufficient Eligibility Documentation

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
Award Identification Number and Year	05-1205MI5ADM	10/01/2011 - 09/30/2012
	05-1205MI5MAP	10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926	
Total ARRA Expenditures	\$114,908,025	

Compliance Requirement(s)	Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$5,522
Repeat Finding	3911205, part b.
State Agency	Department of Community Health

Condition

DCH and DHS did not maintain documentation to support that beneficiary eligibility was determined in accordance with eligibility requirements for 7 (12%) of 60 cases that we selected for review. DCH paid Medicaid providers \$8,348 (\$2,826 General Fund/general purpose) for medical services provided to the 7 beneficiaries for the sampled dates of service.

Criteria

Federal regulation 42 *CFR* 435.1002(b) indicates that federal funding is available only for services provided to eligible beneficiaries. To ensure that beneficiaries meet financial and categorical eligibility requirements for Medicaid, federal regulation 42 *CFR* 435.913 requires that case record documentation be maintained to support the eligibility decision. Also, DCH has an interagency agreement with DHS in which DHS is responsible for determining beneficiary eligibility in accordance with eligibility requirements and for maintaining case record documentation that supports Medicaid eligibility decisions.

Cause

DCH and DHS indicated that internal control was not sufficient to ensure that documentation was retained.

Effect

DHS cannot demonstrate that it determined eligibility in accordance with established eligibility policies and procedures. Therefore, DCH cannot ensure that payments were made only on behalf of eligible beneficiaries. 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 totaling \$5,522. The questioned costs represent the federal share of payments made to providers on behalf of the 7 beneficiaries for the sampled dates of service.

Recommendation

We recommend that DCH and DHS maintain documentation to support that beneficiary eligibility was determined in accordance with eligibility requirements.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that DCH/DHS did not maintain sufficient documentation to support that eligibility was determined in accordance with established policies/procedures. However, this does not necessarily mean that the beneficiary was not Medicaid eligible at the time of service.

Planned Corrective Action:

DCH will work with DHS to determine necessary corrective actions to ensure that the DHS eligibility specialist maintains sufficient documentation in case files to support beneficiary eligibility determination.

Anticipated Completion Date:

January 2014

Responsible Individual(s):

Logan Dreasky, Department of Community Health
Dan Ridge, Department of Community Health
Terry Beurer, Department of Human Services

FINDING 2012-047

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Improper DMEPOS Payments

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$241,842
Repeat Finding	Not Applicable
State Agency	Department of Community Health

Condition

As reported in our performance audit of Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS), Department of Community Health (391-0717-12), DCH did not ensure proper payment of DMEPOS. The first objective of that audit was to assess the effectiveness of DCH's efforts to ensure proper payment as defined by selected DCH policies for DMEPOS. We concluded that DCH's efforts to ensure proper payment as defined by selected DCH policies for DMEPOS were moderately effective. Our assessment disclosed five reportable conditions related to claims paid for dually enrolled beneficiaries, duplicate payments, claims paid for beneficiaries in nursing facilities, incontinence supplies, and claims paid for beneficiaries enrolled in a Medicaid Health Plan (Findings 1 through 5).

Criteria

According to its Medicaid State Plan, DCH provides coverage of DMEPOS for eligible Medicaid beneficiaries. Also, DCH's policy contained in its Medicaid Provider Manual establishes limitations, restrictions, and other requirements that must be met in order for DCH to reimburse Medicaid DMEPOS claims. In addition, Appendix A of OMB Circular A-87 (federal regulation 2 CFR 225) requires that costs conform to any limitations, exclusions, or conditions and be consistent with policies that apply to the federal award.

Cause

Specific causes for each finding can be found in the performance audit of Durable Medical Equipment, Prosthetics, Orthotics, and Supplies, Department of Community Health. Some examples of the causes of improper DMEPOS payments include system edits not in place or not operational, system edits not properly designed to consider certain claims elements, and an error in DCH's internal manual review instructions.

Effect

Based on the results of our performance audit, we determined that DCH made improper DMEPOS payments of \$365,652 (\$123,810 General Fund/general purpose) for dates of service from October 1, 2011 through June 30, 2012.

Known Questioned Costs

We identified questioned costs of \$241,842 for the single audit period October 1, 2011 through September 30, 2012. The questioned costs represent the federal share of improper payments made to providers for dates of service from October 1, 2011 through June 30, 2012.

Recommendation

We recommend that DCH ensure proper payment of DMEPOS for the Medicaid Cluster.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that it did not always ensure proper payment of DMEPOS claims.

Planned Corrective Action:

DCH reviewed the identified claims and has recouped a significant amount of dollars associated with the findings where applicable. In addition, DCH also modified system functionality to ensure proper processing of claims through CHAMPS.

Anticipated Completion Date:

September 30, 2013

Responsible Individual(s):

John Spitzley, Department of Community Health

Jackie Prokop, Department of Community Health

FINDING 2012-048

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Practitioner Adjuster Payments

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$418,903
Repeat Finding	Not Applicable
State Agency	Department of Community Health

Condition

DCH did not accurately calculate practitioner adjuster payments.

Criteria

DCH's Medicaid State Plan states that payment adjustments will be made for practitioner services provided through select public entities. It also states that practitioners will receive a base payment equal to the established Medicaid rates and will subsequently receive payment adjustments equal to the lesser of (1) the difference between 95.7% of the average commercial rate for services provided on or after January 17, 2010 and all payments previously made to practitioners or (2) the difference between the established Medicaid rates and the practitioner's customary charge.

Cause

DCH performed data queries of payment data and used the resulting data to calculate the practitioner adjuster payments. However, DCH's data queries contained an error that caused subsequent errors in its calculation of practitioner adjuster payments.

Effect

DCH overpaid practitioners \$633,359 (\$214,456 General Fund/General Purpose) in practitioner adjuster payments. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

We identified questioned costs totaling \$418,903. The questioned costs represent the federal share of overpayments to providers.

Recommendation

We recommend that DCH accurately calculate practitioner adjuster payments.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that there was a flaw in the data query used to calculate physician adjuster payments for fiscal year 2012. However, DCH disagrees that the amount identified should be considered questioned costs.

DCH utilizes prospective reconciliation language contained in the Medicaid State Plan approved by CMS. DCH has established a reconciliation process that will occur for the audit period and as necessary during future physician adjuster payment calculations. As part of this process, DCH will perform a look-back reconciliation process to off-set federal financial participation for claims that may have been calculated incorrectly. DCH's Medicaid State Plan allows for any retroactive issues to be corrected through a reconciliation process.

Planned Corrective Action:

Completed

Anticipated Completion Date:

Not Applicable

Responsible Individual(s):

Julie DuPuis, Department of Community Health

FINDING 2012-049

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Pharmacy Rebates

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	(\$46,850)
Repeat Finding	Not Applicable
State Agency	Department of Community Health

Condition

DCH credited \$70,833 (\$23,983 General Fund/general purpose) to the Medicaid Cluster for pharmacy rebates received for drug claims paid on behalf of non-Medicaid beneficiaries.

Criteria

Section 1927(a)(1) of the Social Security Act requires drug manufacturers to enter into rebate agreements with the federal government if they intend their drugs to be available for payment under Medicaid.

Cause

DCH indicated that it inadvertently identified a non-Medicaid funded program as Medicaid-funded and, therefore, the related drug claims were included in the Medicaid rebate invoicing process.

Effect

DCH did not request \$46,850 of federal reimbursement for Medicaid Cluster expenditures.

Known Questioned Costs

We identified negative questioned costs totaling \$46,850. The negative questioned costs represent the federal share of rebates that were incorrectly received and credited to the Medicaid Cluster.

Recommendations

We recommend that DCH properly identify Medicaid-funded programs to enable proper manufacturers' drug rebate invoicing.

We also recommend that DCH reimburse the drug manufacturers and seek federal reimbursement for rebates improperly received.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that it credited \$70,833 to the Medicaid Cluster for pharmacy rebates received for drug claims paid on behalf of non-Medicaid beneficiaries.

Planned Corrective Action:

DCH modified rebate invoicing processes in early fiscal year 2012-13 to eliminate potential prospective issues.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Trish O'Keefe, Department of Community Health

FINDING 2012-050

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles - Third Party Liabilities

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	3911204, part e.
State Agency	Department of Community Health

Condition

DCH did not report all pregnancy and birthing-related Medicaid costs to the Friend of the Court or the local prosecuting attorney office responsible for establishing paternity and for seeking court-ordered child support. According to DCH's Paternity Casualty Recovery System, DCH reported \$28.2 million of pregnancy and birthing-related Medicaid costs; however, it did not report \$821,000 of additional pregnancy and birthing-related costs during the audit period.

Criteria

Federal regulation 42 *CFR* 433.138 requires DCH to develop a methodology for identifying third parties, determining third party liabilities, and recovering reimbursement from third parties for services paid for under the Medicaid State Plan. Also, Section 722.712 of the *Michigan Compiled Laws* allows for the father of a child not born to a marriage to be charged for up to 100% of the mother's pregnancy and birthing-related Medicaid costs.

Cause

DCH indicated that it determined which services would be incorporated into its pregnancy and birthing-related cost recovery methodology and has consistently followed that methodology for several years. DCH also indicated that adding other

maternal and infant health program costs would not significantly affect the third party's liability amount.

Effect

DCH did not recover up to \$821,000 of pregnancy and birthing-related Medicaid costs from third parties. 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 because the portion that would be collectible is not determinable.

Recommendation

We recommend that DCH report all pregnancy and birthing-related Medicaid costs to the Friend of the Court or the local prosecuting attorney office responsible for establishing paternity and for seeking court-ordered child support.

Management Views and Corrective Action Plan

Management Views:

DCH disagrees that it is required to report all pregnancy and birthing-related Medicaid costs to the Friend of the Court. MCL 722.712 allows for the father of a child not born to a marriage to be charged for up to 100% of the mother's pregnancy and birthing-related costs. However, DCH has developed a methodology for identifying third parties for services paid for under the Medicaid State Plan which specifically excludes some birthing-related Medicaid costs. DCH made a conscious decision as to what services would be incorporated into its pregnancy and birthing-related cost methodology, which it has been consistently following for several years. Furthermore, adding the maternal and infant health program costs to the reported birth expenses would not, in the vast majority of cases, increase the obligation amount included in the child support order after the reported amount is subjected to the "Birth Expense Obligation" formula required by federal law. This formula, which assesses the payer's "ability to pay" child support, establishes a maximum obligation amount based on the percentage of the payer's income that can be used for birth expenses, and because that amount of payer income is in most cases lower than the reported expenses, increasing the reported

expenses amount with inclusion of the maternal and infant health program costs would not increase the obligation amount.

Planned Corrective Action:

DCH disagrees with the finding and does not plan to implement corrective action.

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Dan Voss, Department of Community Health

FINDING 2012-051

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Provider Disclosures

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Special Tests and Provisions
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	3911209, part c.
State Agency	Department of Community Health

Condition

DCH did not have a process to obtain all required disclosures from Medicaid providers, such as identification information of the owners, agents, and managing employees and information on the ownership and control interest in the providers' subcontractors.

Criteria

Federal regulations 42 *CFR* 455.104 and 42 *CFR* 455.106 require DCH to obtain certain identifying information from Medicaid providers. Also, these regulations state that federal assistance is not available to providers who fail to disclose the information.

Cause

DCH indicated that it did not collect the required disclosures because it took longer than expected to implement the required changes to the Community Health Automated Medicaid Processing System (CHAMPS).

Effect

DCH could potentially reimburse ineligible Medicaid providers for medical services. 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 DCH establish a process to obtain all disclosures from Medicaid providers as required by federal regulations.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that during the audit period all of the required disclosures from Medicaid providers had not been implemented.

Planned Corrective Action:

As of December 2012 this has been corrected in CHAMPS.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Teri Chamberlain, Department of Community Health

FINDING 2012-052

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - County Health Plan Monitoring

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Special Tests and Provisions
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Community Health

Condition

DCH did not monitor the county health plans' (CHPs') process for ensuring that their providers were properly licensed to participate in Medicaid and made required disclosures.

DCH contracts with CHPs to administer Adult Benefits Waiver (ABW) medical services to childless adult Medicaid beneficiaries. The CHPs subsequently employ and enroll medical providers to provide medical services to the Medicaid ABW beneficiaries. In its contract with the CHPs, DCH requires the CHPs to establish and maintain written policies and procedures that ensure that medical providers are licensed by the State and have not been subject to federal or State health care program sanctions.

DCH made ABW payments to CHPs totaling \$123.9 million during the audit period.

Criteria

Federal regulation 42 *CFR* 440.260 requires states to include in their state plans the methods and standards used to ensure that Medicaid services are of high quality. In its Medicaid State Plan, DCH provides an assurance that all Medicaid providers are properly licensed. Also, federal regulations 42 *CFR* 455.104 through 42 *CFR* 455.106 require that providers make certain disclosures to the state in order to receive Medicaid payments. In addition, federal regulation 42 *CFR* 438.66 requires DCH to have procedures for monitoring the CHPs' operations.

Cause

DCH indicated that it lacks adequate funding to perform monitoring of CHPs.

Effect

DCH could potentially reimburse CHPs for medical services provided by ineligible providers. 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 DCH monitor the CHPs' process for ensuring that their providers are properly licensed to participate in Medicaid and make required disclosures.

Management Views and Corrective Action Plan

Management Views:

The Department of Community Health disagrees, in part, with the finding. DCH agrees the Comprehensive Health Plan Division does not have a formal monitoring program for the CHPs similar to the Medicaid Health Plan (MHP) annual compliance review.

However, DCH relies upon several proxy factors to ensure that the CHP network providers meet the required criteria.

- (1) All CHP providers must have admitting privileges at a minimum of one hospital. Hospitals are required to verify licensure prior to granting admitting privileges. Therefore, using hospital admitting privileges as a proxy, DCH determines that all CHP providers are appropriately licensed.
- (2) Eighty-five (85%) of the providers in the CHP network are also Medicaid fee-for-service (FFS) providers. Medicaid FFS ensures that Medicaid providers:
 - Are not excluded or suspended from participation in federal or state programs
 - Are properly licensed
 - Have made the appropriate disclosures.

(3) Additionally, approximately 10% of the CHP providers who are not enrolled in Medicaid FFS are in the MHP Provider network. MHPs ensure that the MHP network providers:

- Are not excluded or suspended from participation in federal or state programs
- Are properly licensed
- Have made the appropriate disclosures.

(4) Several of the CHPs utilize MHPs to perform third-party administrative functions for the CHP such as claims payment and credentialing. The MHPs perform the required checks for these CHP providers.

DCH believes that there is a negligible possibility that DCH made capitation payments to CHPs who paid for medical services provided by ineligible providers.

Planned Corrective Action:

DCH is currently enrolling or registering all MHP and CHP network providers into the CHAMPS FFS provider system. Upon enrollment or registration in the CHAMPS system, FFS will perform the required checks on all providers.

Anticipated Completion Date:

July 1, 2013

Responsible Individual(s):

Samantha Wolf, Department of Community Health

Office of the Auditor General Epilogue

Management states:

DCH relies upon several proxy factors to ensure that the CHP network providers meet the required criteria.

The proxy factors identified may support compliance with required criteria. However, DCH was unable to provide us with documentation to support these factors.

FINDING 2012-053

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Utilization Control and Program Integrity, Pharmacy Audit Recoveries

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1205MI5ADM 10/01/2011 - 09/30/2012 05-1205MI5MAP 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$8,376,551,926
Total ARRA Expenditures	\$114,908,025
Compliance Requirement(s)	Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Department of Community Health

Condition

DCH did not verify that its pharmacy benefits manager (PBM) recovered overpayments identified by pharmacy audits.

DCH requested that its PBM recover \$1.2 million of pharmacy overpayments during the audit period.

Criteria

Federal regulation 42 *CFR* 450.22 requires DCH to have procedures for the ongoing evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services. As part of this process, DCH contracted the performance of pharmacy audits to identify overpayments from inappropriate billings by pharmacies. As of June 28, 2012, federal regulation 42 *CFR* 433.316 requires DCH to make recoveries of overpayments within one year.

Cause

DCH indicated that it did not verify that its PBM recovered the overpayments because of organizational changes and budget constraints. DCH also indicated that it hired an individual to manage the pharmacy audit contract in October 2012.

Effect

Untimely recovery of overpayments could result in the federal grantor agency issuing sanctions or disallowances related to noncompliance.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DCH verify that its PBM recovers pharmacy overpayments identified by pharmacy audits.

Management Views and Corrective Action Plan

Management Views:

DCH agrees that during fiscal year 2012 it was developing a mechanism to ensure that the pharmacy benefits manager gross adjusted every overpayment identified. However, during fiscal year 2013, the contract manager reviewed audits performed in fiscal year 2012 and 2013 and worked with the pharmacy benefits manager to ensure that overpaid dollars identified by the audit vendor were gross adjusted. Providers for whom gross adjustments could not be completed by the pharmacy benefits manager have been sent to DCH Accounting to either gross adjust or send to the Department of Treasury in order to make all attempts to recoup the overpaid dollar amounts.

Planned Corrective Action:

Completed

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Michele Warstler, Department of Community Health

FINDING 2012-054

Refugee and Entrant Assistance - State Administered Programs, CFDA 93.566, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - REAP Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	G09AAMI5100 10/01/2008 - 09/30/2009 G10AAMI5100 10/01/2009 - 09/30/2010 G11AAMI5100 10/01/2010 - 09/30/2011 G12AAMI5100 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$15,773,856
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Eligibility: Material Weakness and Material Noncompliance Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Significant Deficiency and Noncompliance
Known Questioned Costs	\$9,227
Repeat Finding	4311105, parts b. and c.
State Agency	Department of Human Services

Condition

DHS did not maintain documentation to support client eligibility and/or did not limit Refugee and Entrant Assistance - State Administered Programs (REAP) eligibility to a period of less than 8 months as required by HHS's Office of Refugee Resettlement (ORR). Also, DHS did not review detailed invoices to determine the allowability of REAP administrative expenditures. Our review disclosed:

- a. For 10 (17%) of 60 REAP case records sampled, DHS did not maintain documentation to support that clients receiving refugee medical assistance and/or refugee cash assistance were not enrolled in an institution of higher learning, were not receiving other federally funded financial assistance, and were in compliance with work registry requirements.
- b. For 5 (8%) of 60 REAP case records sampled, DHS paid for services that were incurred after the client's 8-month eligibility period.

- c. For 1 (6%) of 17 sampled expenditures, DHS incorrectly paid Michigan general sales tax for a REAP administrative expenditure. This item did not impact eligibility.

Criteria

Federal regulations 45 *CFR* 400.53, 45 *CFR* 400.75(a), and 45 *CFR* 400.100 require refugees to meet general eligibility requirements for refugee medical assistance and refugee cash assistance, including requirements that eligible refugees reside in the United States less than the eligibility period determined by ORR; cannot be a full-time student in an institution of higher learning; cannot be eligible for other federally funded cash assistance or medical assistance; and cannot, without good cause, fail or refuse to meet the work registry requirements. Also, federal regulation 45 *CFR* 400.28 requires that DHS provide for the maintenance of operational records as necessary for federal monitoring of the State's REAP.

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. Further, Section 205.54h of the *Michigan Compiled Laws* indicates that the State or its departments are exempt from the Michigan general sales tax.

Cause

DHS informed us that internal control and monitoring activities were not sufficient to detect that required verification documentation was not maintained in the client's case record. DHS also informed us that local office caseworkers may not have always closed refugee medical assistance and refugee cash assistance cases at the end of the 8-month eligibility period when Bridges sent the automatic notification. In addition, DHS informed us that it relied on a summary invoice for an administrative expenditure and did not review the detailed invoices that indicated other charges that included Michigan general sales tax.

Effect

DHS provided assistance to, or on behalf of, clients whose eligibility for refugee medical assistance and refugee cash assistance it could not support. The federal grantor agency could issue sanctions or disallowances related to assistance to ineligible clients.

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 \$9,227, which represent sampled payments selected from our case record and administrative expenditure review.

Recommendations

We recommend that DHS maintain documentation to support client eligibility and limit client eligibility to a period of less than 8 months as required by HHS's ORR.

We also recommend that DHS review detailed invoices to determine the allowability of REAP administrative expenditures prior to initiating payment.

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.

In addition, a query has been developed to identify cases at 8 months for local office case action. Bridges will be automated to close cases at 8 months with Release 7.6.

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

Al Horn, Department of Human Services

FINDING 2012-055

Refugee and Entrant Assistance - State Administered Programs, CFDA 93.566, Activities Allowed or Unallowed, Cash Management, Reporting, and Subrecipient Monitoring - Contract Coding

Federal Agency	U.S. Department of Health and Human Services												
Pass-Through Entity	Not Applicable												
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566												
Award Identification Number and Year	<table> <tr> <td>G09AAMI5100</td><td>10/01/2008 - 09/30/2009</td></tr> <tr> <td>G10AAMI5100</td><td>10/01/2009 - 09/30/2010</td></tr> <tr> <td>G11AAMI5100</td><td>10/01/2010 - 09/30/2011</td></tr> <tr> <td>G12AAMI5100</td><td>10/01/2011 - 09/30/2012</td></tr> <tr> <td>G10AAMI5110</td><td>10/01/2009 - 09/30/2011</td></tr> <tr> <td>G11AAMI5110</td><td>10/01/2011 - 09/30/2012</td></tr> </table>	G09AAMI5100	10/01/2008 - 09/30/2009	G10AAMI5100	10/01/2009 - 09/30/2010	G11AAMI5100	10/01/2010 - 09/30/2011	G12AAMI5100	10/01/2011 - 09/30/2012	G10AAMI5110	10/01/2009 - 09/30/2011	G11AAMI5110	10/01/2011 - 09/30/2012
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G11AAMI5100	10/01/2010 - 09/30/2011												
G12AAMI5100	10/01/2011 - 09/30/2012												
G10AAMI5110	10/01/2009 - 09/30/2011												
G11AAMI5110	10/01/2011 - 09/30/2012												
Total Expenditures of Federal Awards	\$15,773,856												
Total ARRA Expenditures	Not Applicable												
Compliance Requirement(s)	Activities Allowed or Unallowed, Cash Management, Reporting, and Subrecipient Monitoring												
Type of Finding	Significant Deficiency												
Known Questioned Costs	\$0												
Repeat Finding	Not Applicable												
State Agency	Department of Human Services												

Condition

DHS's internal control was not effective in ensuring that DHS appropriately charged expenditures totaling \$92,576 for a subrecipient's health screening services subaward to the REAP Refugee Social Services grant.

Criteria

Federal regulation 45 *CFR* 400.146 indicates that Refugee Social Services grants must be used primarily for employability service designed to enable refugees to obtain jobs. Also, federal regulation 45 *CFR* 400.154 does not define employability services to include health screening services. In addition, federal regulations 45 *CFR* 400.11 and 45 *CFR* 400.210 indicate that DHS must submit financial reports on the expenditures for the REAP grants.

Cause

DHS informed us that the expenditures were charged to the wrong grant because DHS inadvertently entered the wrong grant coding in its contract payment and tracking system for this subaward. DHS uses grant coding within its accounting and federal reporting systems to record and identify REAP grant costs to make REAP cash draws and complete REAP financial reports.

Effect

DHS's internal control is not sufficiently designed to detect mispayments and correct them in a timely manner. Without sufficiently designed internal control, DHS could make payments for ineligible activities.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS improve its internal control to ensure that it appropriately charges refugee expenditures to the REAP grants.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

The program office has added a step to its contract review process. The program office will track payments when they are posted to MAIN and review them to ensure that they are billed to the correct grant and account. The coding was corrected and a journal voucher was processed to correct the billing.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Terry Beurer, Department of Human Services
Al Horn, Department of Human Services

FINDING 2012-056

Refugee and Entrant Assistance - State Administered Programs, CFDA 93.566, Eligibility - Accuracy of Eligibility Budget Calculations

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566	
Award Identification Number and Year	G09AAMI5100	10/01/2008 - 09/30/2009
	G10AAMI5100	10/01/2009 - 09/30/2010
	G11AAMI5100	10/01/2010 - 09/30/2011
	G12AAMI5100	10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$15,773,856	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Eligibility	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Department of Human Services	

Condition

DHS did not ensure the accuracy of REAP budget calculations. Our review disclosed:

- a. Bridges did not exclude exempt assets and income amounts in the refugee medical assistance and refugee cash assistance budget calculations for 7 (12%) of 60 sampled case records.

- b. DHS local office caseworkers improperly entered a client's assets into Bridges for 2 (3%) of the 60 sampled case records.

Criteria

Federal regulations 45 *CFR* 59(d) and 45 *CFR* 66(d) state that a cash grant received by a refugee under federal reception and placement programs may not be considered in determining refugee cash assistance eligibility. Also, federal regulations 45 *CFR* 400.102(b) and 45 *CFR* 400.102(c) state that a state may not consider in-kind services provided by a sponsor or local resettlement agency and cash assistance payments provided to a refugee in determining refugee medical assistance eligibility.

DHS policies require that cash assistance given to a refugee from a local resettlement agency not be treated as an asset in determining client eligibility for refugee cash assistance. DHS policies also require that income from refugee resettlement assistance and refugee matching grants be excluded from income for both refugee medical assistance and refugee cash assistance.

Cause

DHS improperly designed its eligibility determination system (Bridges) to include exempt assets and income in the client's refugee medical assistance and refugee cash assistance budget calculations.

Effect

DHS could incorrectly deny a client REAP benefits when Bridges includes exempt assets and income.

Known Questioned Costs

We did not question the costs of REAP benefits for the 9 clients because the inclusion of the exempt assets and income did not make the clients ineligible for REAP.

Recommendation

We recommend that DHS ensure the accuracy of REAP budget calculations.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

A Bridges work request has been prepared to include Refugee Matching Grant and Refugee Resettlement Income as income types. As included income types, they will be programmed to budget correctly for refugee cases.

In addition, the program office will work with the local DHS offices to develop a pilot for refugee specific workers and/or units.

Anticipated Completion Date:

January 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services
Jane Goetschy, Department of Human Services
Local Office Directors, Department of Human Services
Al Horn, Department of Human Services
Teresa Spalding, Department of Human Services

FINDING 2012-057

Refugee and Entrant Assistance - State Administered Programs, CFDA 93.566, Period of Availability - Services Provided Prior to the Period of Availability

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566	
Award Identification Number and Year	G09AAMI5100	10/01/2008 - 09/30/2009
	G10AAMI5100	10/01/2009 - 09/30/2010
	G11AAMI5100	10/01/2010 - 09/30/2011
	G12AAMI5100	10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$15,773,856	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Period of Availability	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$25	
Repeat Finding	Not Applicable	
State Agency	Department of Human Services	

Condition

DHS did not have a process to identify and obligate REAP Cash, Medical, and Administrative (CMA) grant funds for services incurred, but not yet paid, at the end of the REAP CMA grant award year.

Our review disclosed that DHS paid a medical provider using the fiscal year 2011-12 REAP CMA grant funds for services that were provided in the fiscal year 2007-08 funding period. In this instance, DHS expended REAP CMA funds for services provided prior to the period of availability for the REAP CMA grant.

Criteria

Federal regulation 45 *CFR* 400.210(a) states that a grantee must use its REAP CMA grants for costs attributable to the federal fiscal year in which HHS awarded the grant and all REAP CMA funds must be expended by the end of the federal fiscal year following the federal fiscal year in which the grant was awarded. 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, and similar transactions during a funding period that will require payment during the same or future period.

Cause

DHS informed us that it relied on DCH to process claims for refugee medical assistance services. DHS did not perform its own review of the dates of services to ensure that the services were within the period of availability or to consider the need to obligate REAP CMA grant funds for services incurred, but not yet paid, at the end of the REAP CMA grant award year.

Effect

DHS made refugee medical assistance payments that do not qualify for federal REAP reimbursement within the REAP CMA grant to which the expenditures were charged. 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 \$25 related to the payment made to the provider outside the period of availability.

Recommendations

We recommend that DHS implement a process to identify and obligate refugee medical assistance expenditures in the appropriate REAP CMA grant award year.

We also recommend that DHS review the dates the refugee medical assistance services are provided to ensure that the expenditures are charged to the appropriate REAP CMA grant within the period of availability.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS will work with DCH to emphasize service dates and the period of availability of funds.

Anticipated Completion Date:

October 1, 2013

Responsible Individual(s):

Terry Beurer, Department of Human Services
Al Horn, Department of Human Services
Susan Kangas, Department of Human Services
Marilyn Carey, Department of Human Services

FINDING 2012-058

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 11 B1 MI LIEA 10/01/2010 - 09/30/2012 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$173,038,625
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	\$2,843
Repeat Finding	2011-031
State Agency	Department of Human Services

Condition

DHS did not maintain sufficient documentation to support that households receiving assistance were eligible in 9 (19%) of 47 sampled State Emergency Relief (SER) energy payments. Also, DHS did not document that it considered all client assets when determining client eligibility for SER energy payments.

We randomly selected 47 SER energy payments, of which 32 payments were for clients who were categorically eligible and 15 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. We noted:

- a. DHS did not ensure that 4 (27%) of the 15 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 \$2,023.

- b. DHS did not ensure that 2 (6%) 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 \$171.
- c. DHS did not ensure that all household members on the SER applications for 2 (6%) of the 32 clients who were categorically eligible were not disqualified from the household's Family Independence Program, Food Assistance Program, or Supplemental Security Income benefits as required by the LIHEAP State Plan. We questioned costs of \$485.
- d. DHS did not document that it considered all assets for 1 (7%) of the 15 clients who were not categorically eligible and had an SER benefit period on or after May 1, 2012. We questioned costs of \$164.

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. Also, 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.

Effective May 1, 2012, the LIHEAP State Plan and DHS policy required local office caseworkers to verify and include certain assets of SER group members to determine eligibility for SER energy services.

Cause

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

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 of \$2,843.

Recommendations

We recommend that DHS maintain sufficient documentation to support that SER energy payments are made on behalf of eligible clients.

We also recommend that DHS document that it considered all client assets when determining client eligibility for SER energy payments.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

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 2012-059

**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 11 B1 MI LIEA 10/01/2010 - 09/30/2012 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$173,038,625
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2011-032
State Agency	Department of Human Services

Condition

DHS had not implemented a process to periodically reconcile the 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 6 (33%) of 18 sampled HHC processing runs. For these 18 HHC processing runs, the claim amount on the paper summary

reports that DHS used to reimburse the Department of Treasury exceeded the claim amount on the detail electronic file.

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 2011-12.

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 implement a process to 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 2012-060

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 and 93.658 (ARRA)
Award Identification Number and Year	12 01 MI 1401 10/01/2011 - 09/30/2012 12 01 MI 1404 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$123,883,063
Total ARRA Expenditures	\$(7,174)
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	\$50
Repeat Finding	2011-034
State Agency	Department of Human Services

Condition

DHS did not maintain documentation to support the foster parent's employment need reason for child care assistance for 1 of 3 sampled maintenance payments.

We randomly selected and reviewed 41 foster care maintenance payments. DHS made maintenance payments for child care assistance in 3 of the 41 payments. Our review of DHS's client case record for the 1 exception found that the foster parent's application for child care assistance indicated that the foster parent was employed. However, DHS did not maintain documentation of the local office caseworker's verification of the foster parent's employment need reason for child care assistance as required by DHS policy.

Criteria

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. Also, DHS policy requires that the local office caseworker verify the foster parent's need reason for child care assistance and that documentation be maintained in the case record. 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 did not detect the lack of required verification documentation because of ineffective internal control and monitoring activities.

Effect

DHS made maintenance payments for child care assistance that did not qualify for Foster Care - Title IV-E federal reimbursement and were not allowable as matching expenditures. The federal grantor agency could issue sanctions or disallowances.

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 \$50 that were federally funded. We also identified \$25 of State-funded costs that DHS inappropriately used as matching expenditures for Foster Care - Title IV-E funds.

Recommendation

We recommend that DHS maintain documentation of local office workers' verification of foster parents' employment need reasons for 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 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 2012-061

Foster Care - Title IV-E, CFDA 93.658 and 93.658 (ARRA) and Social Services Block Grant, CFDA 93.667, 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 and 93.658 (ARRA)	
Award Identification Number and Year	12 01 MI 1401	10/01/2011 - 09/30/2012
	12 01 MI 1404	10/01/2011 - 09/30/2012

Total Expenditures of Federal Awards	\$123,883,063
Total ARRA Expenditures	\$(7,174)
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$(65,813)
Repeat Finding	2011-036
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
Award Identification Number and Year	G-1201MISOSR 10/01/2011 - 09/30/2013
Total Expenditures of Federal Awards	\$131,871,012
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 Questioned Costs	\$99,505
Repeat Finding	2011-036
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 2011-12.

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 Foster Care - Title IV-E be necessary and reasonable for the administration of the federal award and be 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 adjusting entries resulted in an error between the programs and fiscal years until we conducted our review.

Effect

DHS claimed SSBG Program funds for payments that do not qualify for the SSBG Program, which could result in sanctions or disallowances. Also, DHS could have claimed federal Foster Care - Title IV-E Program reimbursement for foster care payments.

Known Questioned Costs

For the SSBG Program, we identified questioned costs of \$99,505.

For the Foster Care - Title IV-E Program, we identified negative questioned costs of \$65,813. We determined that the remaining \$33,692 of these costs would have to be

State-funded as matching expenditures to qualify for the Foster Care - Title IV-E Program federal reimbursement.

Recommendation

We recommend that DHS ensure 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 2012-062

Foster Care - Title IV-E, CFDA 93.658 and 93.658 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Tribal FMAP

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 and 93.658 (ARRA)
Award Identification Number and Year	12 01 MI 1401 10/01/2011 - 09/30/2012 12 01 MI 1404 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$123,883,063
Total ARRA Expenditures	\$(7,174)
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking

Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$3,564
Repeat Finding	Not Applicable
State Agency	Department of Human Services

Condition

DHS did not apply the correct federal medical assistance percentages (FMAP) rates to tribal maintenance payments for 2 of 5 tribes during fiscal year 2011-12. FMAP rates decreased in fiscal year 2011-12 from the fiscal year 2010-11 rates; however, DHS continued to apply the fiscal year 2010-11 FMAP rate to fiscal year 2011-12 tribal maintenance payments.

Criteria

Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs conform to any limitations or exclusions set forth in the cost principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items. Federal regulation 45 *CFR* 1356.60(a)(2) establishes that federal financial participation is available at the FMAP rate.

Cause

DHS did not have a process in place to periodically check the tribal FMAP rates for changes. DHS informed us that it was not aware that the tribal FMAP rates had changed for fiscal year 2011-12 from the fiscal year 2010-11 rates.

Effect

DHS did not use the correct amount of State matching funds to reimburse tribal maintenance payments, resulting in an overpayment of federal Foster Care - Title IV-E funds. The federal grantor agency could issue sanctions or disallowances.

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 \$3,564.

Recommendation

We recommend that DHS apply the correct FMAP rates to tribal maintenance payments.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS has obtained FMAP rates through fiscal year 2014. The DHS Federal Reporting Unit will search the HHS.gov website for Tribal FMAP rates on April 1 of each year to obtain FMAP rates for the upcoming fiscal year.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

FINDING 2012- 063

Foster Care - Title IV-E, CFDA 93.658 and 93.658 (ARRA), Matching, Level of Effort, and Earmarking and Procurement and Suspension and Debarment - 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 and 93.658 (ARRA)
Award Identification Number and Year	12 01 MI 1401 10/01/2011 - 09/30/2012 12 01 MI 1404 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$123,883,063
Total ARRA Expenditures	\$(7,174)
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Procurement and Suspension and Debarment
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$2,324
Repeat Finding	2011-037
State Agency	Department of Human Services

Condition

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

We selected 25 contracts with child care institutions and child placing agencies and sampled one payment for services from each of the 25 contracts. Our review disclosed that services began prior to DHS's execution of the contracts for 4 (16%) of the 25 contracts. Also, for 1 of these 4 contracts, DHS made payments for services provided 141 days prior to DHS executing the contract.

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* 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 the 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 contractors signed the contracts. DHS did not execute the contracts until it reached a resolution with the contractors.

Effect

DHS may have paid for services that were not in accordance with contractual agreements which conform to federal regulations and State procurement procedures. 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 \$2,324 that were federally funded. We also identified \$1,190 of State-funded costs that were inappropriately used as matching expenditures for Foster Care - Title IV-E funds.

Recommendation

We recommend that DHS obtain the signatures of authorized representatives of all parties to contracts before the contractors provide 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 2012-064

Adoption Assistance, CFDA 93.659, 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
Award Identification Number and Year	1201MI1407 10/01/2011 - 09/30/2012
Total Expenditures of Federal Awards	\$108,892,506
Total ARRA Expenditures	\$0
Compliance Requirement(s)	Activities Allowed or Unallowed and Eligibility
Type of Finding	Material Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2011-038
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, 2011 through September 30, 2012, DHS's adoption subsidy payments totaled \$98.8 million. DHS made an estimated 81% 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, 2011 through September 30, 2012, DHS made adoption subsidy payments on behalf of approximately 15,894 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, 2011 through September 30, 2012) 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 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 2012-065

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 G 11 01 MI 1420 10/01/2010 - 09/30/2012
Total Expenditures of Federal Awards	\$5,082,438
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	\$1,432
Repeat Finding	2011-041
State Agency	Department of Human Services

Condition

DHS did not maintain documentation to support its appropriate 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 adequate documentation for 3 (6%) of 47 sampled CFCIP payments.
- b. DHS did not maintain payment authorization forms to ensure the services were consistent with the youth's need as indicated in the youth service plan for 10 (31%) of 32 sampled CFCIP payments.
- c. DHS supervisors did not document their review and approval of youth service plans or payment authorization forms to ensure that the services were consistent with the youth's need as indicated in the youth service plan for 1 (3%) of 32 sampled CFCIP payments.

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 preventative 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 that the caseworker document in the youth service plan the goods or services the youth can receive that support the youth's transitioning from foster care to achieve self-sufficiency and that the caseworker and supervisor review and sign the youth service plan. DHS policy also requires that payments of the goods or services be supported by the original invoice and/or receipt and authorized by a supervisor 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 internal control and monitoring activities were not sufficient to detect that required documentation was not maintained in the youth's case record. DHS also informed us that supervisors did not follow established policy to document approvals on the youth service plans and payment authorizations.

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

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 \$1,432 that were federally funded. These questioned costs represent the amount of a sampled CFCIP payment to or on behalf of the 47 cases noted for which DHS did not maintain case record documentation to support the propriety of the payment. We also identified \$358 of State-funded costs that DHS inappropriately used as matching expenditures for CFCIP funds.

Recommendation

We recommend that DHS maintain documentation to support its appropriate 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, case workers 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 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 2012-066

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

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 G 11 01 MI 1420 10/01/2010 - 09/30/2012
Total Expenditures of Federal Awards	\$5,082,438
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	\$414,646
Repeat Finding	2011-042
State Agency	Department of Human Services

Condition

DHS did not ensure that payroll expenditures charged to CFCIP were incurred for CFCIP activities and met payroll documentation requirements of OMB Circular A-87 (federal regulation 2 CFR 225).

We reviewed 17 sampled payroll transactions related to 14 employees. DHS charged the 14 employees' payroll costs to CFCIP using different allocation methods throughout the year. Our review disclosed:

- a. For 10 employees, DHS did not complete personal activity reports or prepare a quarterly comparison between estimates of the employees' time to actual time spent on CFCIP activities to support the employees' time charged to CFCIP for pay periods in which DHS did not charge the employees solely to CFCIP.
- b. DHS did not complete a semiannual certification for 8 employees charged solely to CFCIP for consecutive pay periods of 6 months or more. Also, the employees' position descriptions did not support that the employees worked solely on CFCIP activities.

- c. For 4 employees, DHS allocated a portion of the employees' payroll expenditures as an indirect cost and also charged a portion of the same employees' payroll expenditures directly to CFCIP during the same pay period.
- d. For 3 employees, DHS did not have a semiannual certification approved by an individual with first-hand knowledge of whether the employees worked solely on CFCIP activities when DHS charged 100% of their payroll costs to CFCIP. Also, these employees' position descriptions did not support that the employees worked solely on CFCIP activities.

Criteria

Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires costs be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.

Also, 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. The certification must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

For employees who do not work solely on a federal award and are not included in an indirect cost pool, Appendix B requires DHS to maintain personal activity reports or equivalent documentation to reflect an after-the-fact distribution of the actual activity of each employee, prepare the documentation at least monthly, and have the documentation signed by the employee. Appendix B further states that budget estimates or other distribution percentages do not qualify as support for the charges to the federal awards but may be used for interim accounting purposes if the estimates produce reasonable approximations of the activity actually performed, at least quarterly comparison of actual costs to budget distributions based on the monthly activity reports are made or annually if the quarterly comparisons show the differences between budgeted and actual costs are less than 10%, and the budget estimates or other distribution percentages are revised at least quarterly to reflect changed circumstances.

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

Cause

For parts a., b., and c. of this finding, DHS informed us that it prepared accounting adjustments for payroll expenditures in an effort to use unobligated CFCIP funds during fiscal year 2011-12. DHS did not consider the OMB Circular A-87 payroll expenditure documentation requirements when it made the accounting adjustments.

DHS also informed us that the organizational unit responsible for CFCIP had one individual who approved all semiannual certifications for all of the organizational unit's federal programs, including CFCIP. In addition, DHS informed us that it did not know the reason why the employees' 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 noncompliance.

Known Questioned Costs

We identified questioned costs of \$414,646 that were federally funded. These questioned costs represent the sampled payroll expenditures and the total expenditures related to the payroll adjustment transactions for each of the sampled employees. We also identified \$103,661 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 are incurred for CFCIP activities and meet the payroll documentation requirements of OMB Circular A-87.

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 percent 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 2012-067

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

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 G 11 01 MI 1420 10/01/2010 - 09/30/2012
Total Expenditures of Federal Awards	\$5,082,438
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2011-043
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 youth's case record to support that DHS certified the youth's CFCIP eligibility for 3 (7%) of 43 sampled case records.

In 1 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 local office caseworker did not follow established policy to maintain the funding checklist in the youth case record documentation and approve the funding checklist to 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 payments made to ineligible youth.

Known Questioned Costs

We could determine that the 3 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 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 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 2012-068

Chafee Foster Care Independence Program, CFDA 93.674, Matching, Level of Effort, and Earmarking and Procurement and Suspension and Debarment - 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 G 11 01 MI 1420 10/01/2010 - 09/30/2012
Total Expenditures of Federal Awards	\$5,082,438
Total ARRA Expenditures	\$0
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Procurement and Suspension and Debarment
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$1,471

Repeat Finding	2011-046
State Agency	Department of Human Services

Condition

DHS did not fully execute contracts before the contractor provided services and DHS made payments for 4 (31%) of 13 sampled contracts.

We selected a payment for each of the 13 contracts sampled during fiscal year 2011-12. Our review disclosed that DHS authorized representatives did not document the execution date of the 4 contracts and, therefore, could not demonstrate that contract execution occurred before the services were provided or the payments were made.

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 and 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 it reached a resolution with the 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 are reporting identified questioned costs of \$1,471 that were federally funded. These questioned costs represent the amount of the 4 sampled contract payments. We also identified \$368 of State-funded costs that DHS inappropriately used as matching expenditures for CFCIP funds.

Recommendation

We recommend that DHS fully execute contracts before the contractor provides services and DHS makes payments.

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 2012-069

Homeland Security Grant Program, CFDA 97.067, Reporting - Accuracy of Federal Reports

Federal Agency	U.S. Department of Homeland Security	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Homeland Security Grant Program: CFDA 97.067	
Award Identification Number and Year	2008-GE-T8-0052	09/01/2008 - 09/30/2012
	2008-SG-T8-0013	09/01/2008 - 09/30/2012
	2009-SS-T9-0060	08/01/2009 - 01/31/2013
	2009-SJ-T9-0007	07/01/2009 - 12/31/2012
	2010-SS-T0-0009	08/01/2010 - 07/31/2013
	EMW2011-SS-00103	09/01/2011 - 08/31/2014
	EMW-2012-SS-00055	09/01/2012 - 08/31/2014
Total Expenditures of Federal Awards	\$39,981,195	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of State Police	

Condition

The Michigan Department of State Police (MSP) did not prepare the Homeland Security Grant Program's (HSGP's) federal financial reports (FFRs) in accordance with federal regulations and FFR form instructions. Our review of four FFRs for the reporting period ended September 30, 2012 disclosed that MSP overstated cash disbursements by a total of \$5,417,514, understated federal expenditures by a total of \$5,460,285, and overstated federal unliquidated obligations by a total of \$5,460,285.

Criteria

Federal regulations 44 *CFR* 13.20 and 44 *CFR* 13.41 require grantees to submit accurate and complete financial data in accordance with a grant program's reporting requirements. HSGP requires grantees to submit quarterly FFRs. The FFR instructions include specific details for reporting information such as cumulative federal share of cash disbursements, expenditures, and unliquidated obligations.

Cause

MSP informed us that, based on verbal guidance from the U.S. Department of Homeland Security, it included accrued expenditures as cash disbursements and

reported HSGP expenditures when reimbursement was received from the federal agency rather than when expended by MSP. MSP could not provide documentation to support the guidance provided by the U.S. Department of Homeland Security at the time of our review.

Effect

MSP may have diminished the U.S. Department of Homeland Security's ability to ensure appropriate oversight and monitoring of HSGP 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 MSP prepare HSGP's FFRs in accordance with federal regulations and FFR form instructions.

Management Views and Corrective Action Plan

Management Views:

MSP agrees with the finding. However, MSP would like to note that, prior to the current audit, MSP filed the FFRs in accordance with the guidance provided by the Federal Emergency Management Agency (FEMA).

Planned Corrective Action:

MSP has implemented corrective action and will update processes and procedures for completing FFRs in accordance with new additional guidelines provided by FEMA.

Anticipated Completion Date:

September 30, 2013

Responsible Individual(s)

Penny Burger, Michigan State Police

FINDING 2012-070

Housing Voucher Cluster, CFDA 14.871

See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2012, Finding 2012-03.

FINDING 2012-071

Housing Voucher Cluster, CFDA 14.871

See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2012, Finding 2012-04.

FINDING 2012-072

Community Development Block Grant, CFDA 14.228, ARRA - Neighborhood Stabilization Program, CFDA 14.256

See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2012, Finding 2012-05.

FINDING 2012-073

Unemployment Insurance, CFDA 17.225

See Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency, Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2012, Finding 12-01.

FINDING 2012-074

Unemployment Insurance, CFDA 17.225

See Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency, Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2012, Finding 12-02.

OTHER SCHEDULE

STATEWIDE SINGLE AUDIT - Fiscal Year Ended September 30, 2012
Summary Schedule of Prior Audit Findings

PRIOR AUDIT FINDINGS RELATED TO FINANCIAL SCHEDULES

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3131202
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: The Michigan Department of Education's (MDE's) internal control over financial reporting did not ensure the preparation of 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: MDE corrected the deficiencies noted in the finding.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 5111201
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: The Department of Military and Veterans Affairs' (DMVA's) internal control over financial reporting did not ensure that DMVA prepared its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Current Status: DMVA partially corrected the deficiencies noted in the finding.

DMVA, in conjunction with the Department of Technology, Management, and Budget's (DTMB's) Office of Financial Management, is researching the possibility of preparing DMVA's

SEFA at a summary level by *CFDA* number. If this is acceptable, no manual adjustments will be necessary.

Corrective action will be completed upon submission of the fiscal year 2012-13 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 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. For fiscal year 2011-12, MDOT included the write-offs in the SEFA but not in the notes. The Office of Financial Management corrected the MDOT SEFA Notes for inclusion in this report. Control procedures have been established and are in place for fiscal year 2012-13.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 7511202

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

Finding: The Department of Natural Resources' (DNR's) internal control over financial reporting did not ensure that DNR prepared its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State financial management policies.

Current Status: DNR partially corrected the deficiencies noted in the finding.

Meetings were held on August 23, 2012 and September 5, 2012 with follow-up e-mails to determine the need to establish agency object codes in the Michigan Administrative Information Network* (MAIN) to track and differentiate between subrecipient and vendor payments. Coding has been implemented as of October 1, 2012. The SEFA will be prepared and submitted by the established deadline.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131204

Finding Title: Child Nutrition Cluster, *CFDA* 10.553, 10.555, 10.556, and 10.559

Finding: MDE's internal control over the Child Nutrition Cluster did not ensure its compliance with federal laws and regulations regarding subrecipient monitoring and special tests and provisions.

Current Status: MDE partially corrected the deficiencies for subrecipient monitoring. See corrective action for Finding 2012-014. In addition, MDE corrected the deficiencies for special tests and provisions.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131205

Finding Title: Emergency Food Assistance Program Cluster, *CFDA* 10.568 and 10.569

Finding: MDE's internal control over the Emergency Food Assistance Program (TEFAP) Cluster did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131206

Finding Title: Title I, Part A Cluster, *CFDA* 84.010 and 84.389 (ARRA)

Finding: MDE's internal control over the Title I, Part A Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and matching, level of effort, and earmarking.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131207

Finding Title: Migrant Education - State Grant Program, *CFDA* 84.011

Finding: MDE's internal control over the Migrant Education - State Grant Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131208

Finding Title: Special Education Cluster (IDEA), *CFDA* 84.027, 84.173, 84.391 (ARRA), and 84.392 (ARRA)

Finding: MDE's internal control over the Special Education Cluster did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Current Status: MDE partially corrected the deficiencies noted in the finding. See corrective action for Finding 2012-023.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3131209
Finding Title: Career and Technical Education - Basic Grants to States, *CFDA* 84.048

Finding: MDE's Career and Technical Education - Basic Grants to States Program did not comply with federal laws and regulations regarding matching, level of effort, and earmarking.

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

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3131210
Finding Title: Early Intervention Services (IDEA) Cluster, *CFDA* 84.181 and 84.393 (ARRA)

Finding: MDE's internal control over the Early Intervention Services (IDEA) Cluster did not ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking.

Current Status: MDE partially corrected the deficiencies noted in the finding.

The Office of Great Start - Early Childhood Education & Family Services (OGS/ECE&FS) has worked with the Office of Special Education and with the Office of State Aid and School Finance in developing a process for ensuring compliance with federal laws and regulations regarding maintenance of effort for Early Intervention Services (IDEA Part C). The OGS/ECE&FS has also been working closely with federal program contacts to ensure that the process being developed will meet the federal requirement. A meeting with stakeholders was held to solicit input on the process as it was being developed. A letter introducing the process was sent from MDE to intermediate school districts (ISDs) and training on the process took place during spring 2012.

Information on expenditures will be collected annually in the financial information database (FID). Information on budgeting will be collected annually in the Michigan Electronic Grants System Plus (MEGS+). Service areas provided confirmation in the MEGS+ application submitted in July 2012 that systems were being put into place locally to enable this required reporting. Collection of this information from the local service areas will then enable MDE to analyze Statewide spending from State and local funds and provide the required assurance of State maintenance of effort.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131211

Finding Title: Safe and Drug Free Schools and Communities - State Grants, *CFDA* 84.186

Finding: MDE's internal control over the Safe and Drug-Free Schools and Communities - State Grants Program did not ensure its compliance with federal laws and regulations regarding subrecipient monitoring and special tests and provisions.

Current Status: The findings noted are no longer valid as MDE 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, 2009 through September 30, 2011

Finding Number: 3131212

Finding Title: Twenty-First Century Community Learning Centers, *CFDA* 84.287

Finding: MDE's internal control over the Twenty-First Century Community Learning Centers (21st CCLC) Program did not ensure its compliance with federal laws and regulations regarding eligibility and subrecipient monitoring.

Current Status: The finding noted for eligibility is no longer valid as MDE did not award any 21st CCLC grants in fiscal year 2011-12. In addition, MDE corrected the deficiencies noted for subrecipient monitoring.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131213

Finding Title: English Language Acquisition Grants, *CFDA* 84.365

Finding: MDE's internal control over the English Language Acquisition (ELA) Grants Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, subrecipient monitoring, and special tests and provisions.

Current Status: MDE partially corrected the deficiencies noted for allowable costs/cost principles. In addition, MDE did not correct the deficiencies noted for subrecipient monitoring. See corrective action for Finding 2012-025.

Further, MDE did not correct the deficiencies noted for special tests and provisions. MDE is continuing to improve the process to monitor subrecipients' distribution of funds through consistent communications and internal control within the grant approval process.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131214

Finding Title: School Improvement Grants Cluster, *CFDA* 84.377 and 84.388 (ARRA)

Finding: MDE's internal control over the School Improvement Grants Cluster did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.

Current Status: MDE did not correct the deficiencies noted for procurement and suspension and debarment. See corrective action for Finding 2012-024. MDE corrected the deficiencies noted for subrecipient monitoring.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131215

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

Finding: MDE's internal control over the College Access Challenge Grant Program did not ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking and reporting.

Current Status: MDE partially corrected the deficiencies noted for matching, level of effort, and earmarking. See corrective action for Finding 2012-026. MDE corrected the deficiencies noted for reporting.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3131216

Finding Title: Education Jobs Fund, *CFDA* 84.410

Finding: MDE did not comply with federal laws and regulations related to matching, level of effort, and earmarking for the Education Jobs Fund Program.

Current Status: The deficiency noted in the prior audit is no longer valid. Fiscal year 2011-12 State support is not a required component of the maintenance of effort (MOE) calculation. In addition, MDE obtained federal guidance regarding the State's calculation of the fiscal year 2010-11 MOE for the Education Jobs Fund. Based on this federal guidance, the State support used in the fiscal year 2010-11 calculation was appropriate.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3131217
Finding Title: Subrecipient Monitoring

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

Current Status: MDE did not correct the deficiencies noted in the finding. See corrective action for Findings 2012-009 and 2012-010.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3911201
Finding Title: Special Supplemental Nutrition Program for Women, Infants, and Children, *CFDA* 10.557

Finding: The Department of Community Health's (DCH's) internal control over the Special Supplemental Nutrition Program for Women, Infants, and Children did not ensure compliance with federal laws and regulations regarding reporting.

Current Status: Subsequent to the fiscal year-end, DCH corrected the deficiency noted in the finding.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3911202
Finding Title: Aging Cluster, *CFDA* 93.044, 93.045, 93.053, 93.705 (ARRA), and 93.707 (ARRA)

Finding: DCH's internal control over the Aging Cluster did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment and reporting.

Current Status: Subsequent to the fiscal year-end, DCH corrected the deficiencies noted in the finding.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3911203
Finding Title: Children's Health Insurance Program, *CFDA* 93.767

Finding: DCH did not comply with federal laws and regulations regarding eligibility for the Children's Health Insurance Program.

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

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3911204
Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles

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

Current Status: DCH partially corrected the deficiencies noted in the finding. See corrective action for Finding 2012-050.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3911205
Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Eligibility

Finding: DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding eligibility.

Current Status: DCH did not correct the deficiencies noted in the finding. See corrective action for Findings 2012-045 and 2012-046.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3911206

Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Reporting

Finding: DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding reporting.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3911207

Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Utilization Control and Program Integrity

Finding: DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to utilization control and program integrity.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3911208

Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Inpatient Hospital and Long-Term Care Audits

Finding: DCH needs to improve its internal control to ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to inpatient hospital and long-term care audits.

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

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3911209
Finding Title: Medicaid Cluster, *CFDA* 93.720 (ARRA), 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Provider Eligibility and Provider Health and Safety Standards

Finding: DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to provider eligibility and provider health and safety standards.

Current Status: DCH partially corrected the deficiencies noted in the finding. See corrective action for Finding 2012-051.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3911210
Finding Title: Block Grants for Prevention and Treatment of Substance Abuse, *CFDA* 93.959

Finding: DCH's internal control over the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) did not ensure compliance with federal laws and regulations regarding reporting.

Current Status: This finding is no longer valid because the 2012 SAPT Notice of Award deemed that SAPT funds were not subject to the Federal Funding Accountability and Transparency Act (FFATA) reporting requirement.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3911211
Finding Title: Maternal and Child Health Services Block Grant to the States, *CFDA* 93.994

Finding: DCH's internal control over the Maternal and Child Health Services Block Grants to the States Program did not ensure

compliance with federal laws and regulations regarding eligibility and reporting. Also, DCH did not comply with federal laws and regulations regarding program income.

Current Status: DCH corrected the deficiencies noted for eligibility and program income. In addition, subsequent to the fiscal year-end, DCH corrected the deficiencies noted for reporting.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 3911212

Finding Title: Automated Data Processing (ADP) Security Program

Finding: DCH had not established a comprehensive ADP security program over its information systems.

Current Status: DCH partially corrected the deficiencies noted in the finding. See corrective action for Finding 2012-013.

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

Finding Number: 4311108

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

Finding: The Department of Human Services' (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 partially corrected the deficiencies noted in the finding.

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.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 4711201

Finding Title: Child Nutrition Cluster, *CFDA* 10.553 and 10.555

Finding: The Department of Corrections' (DOC's) internal control over the Child Nutrition Cluster did not ensure compliance with federal laws and regulations regarding eligibility.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 4711202

Finding Title: Prisoner Reentry Initiative Demonstration (Offender Reentry), *CFDA* 16.202

Finding: DOC had not established internal control over the Prisoner Reentry Initiative Demonstration (Offender Reentry) Program (Prisoner Reentry Initiative Program) to ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.

Current Status: This finding is no longer valid as the Prisoner Reentry Initiative Program ended in fiscal year 2010-11.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 4711203

Finding Title: Residential Substance Abuse Treatment for State Prisoners, *CFDA* 16.593

Finding: DOC's internal control over the Residential Substance Abuse Treatment for State Prisoners (RSAT) Program did not ensure compliance with federal laws and regulations regarding eligibility.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 4711204

Finding Title: Grants to States for Workplace and Community Transition Training for Incarcerated Individuals, *CFDA* 84.331

Finding: DOC had not established internal control over the Grants to States for Workplace and Community Transition Training for Incarcerated Individuals (known in Michigan as the Community and Employment Readiness Training [CERT] Program) to ensure compliance with federal laws and regulations regarding eligibility and procurement and suspension and debarment.

Current Status: DOC corrected the deficiencies noted for eligibility. In addition, the finding noted for procurement and suspension and debarment is no longer valid as the program ended in fiscal year 2010-11.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 5111206

Finding Title: Military Construction, National Guard, *CFDA* 12.400

Finding: DMVA's internal control over Military Construction, National Guard Program did not ensure its compliance with federal laws and regulations and cooperative agreement requirements regarding period of availability of federal funds.

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

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 5111207
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects and ARRA - National Guard Military Operations and Maintenance (O&M) Projects, *CFDA* 12.401

Finding: DMVA's internal control over O&M Projects Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed and allowable costs/cost principles. Also, DMVA's internal control did not ensure compliance with the American Recovery and Reinvestment Act of 2009 (ARRA) requirements regarding the Davis-Bacon Act and procurement and suspension and debarment for O&M Projects funded by ARRA.

Current Status: DMVA corrected the deficiencies noted for activities allowed or unallowed and allowable costs/cost principles. In addition, the findings noted for the Davis-Bacon Act and procurement and suspension and debarment are no longer valid as DMVA had expended all ARRA federal awards by September 30, 2011 and did not receive any new ARRA federal awards for this program.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 5111208
Finding Title: National Guard ChalleNGe Program, *CFDA* 12.404

Finding: DMVA did not comply with National Guard ChalleNGe (NGC) Program federal laws and regulations and cooperative agreements concerning eligibility. Also, DMVA's internal control over the NGC Program did not ensure its compliance with federal laws and regulations and cooperative agreements regarding eligibility; matching, level of effort and earmarking; procurement and suspension and debarment; and reporting.

Current Status: DMVA corrected the deficiencies noted for eligibility; matching, level of effort, and earmarking; and suspension and debarment. Also, the finding noted for procurement is no longer valid as the U.S. Property and Fiscal Officer's State of Michigan Management Decision expected no further corrective action by DMVA. In addition, the finding noted for reporting is no longer valid as Part 7 of the U.S. Office of Management and Budget Circular A-133, Compliance Supplement, states that the federal agency has the ability to verify compliance with certain requirements, such as timeliness of reporting.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 5511201

Finding Title: Public Safety Interoperable Communications Grant Program, *CFDA* 11.555

Finding: The Michigan Department of State Police's (MSP's) internal control over the Public Safety Interoperable Communications (PSIC) Grant Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 5511202

Finding Title: Forensic DNA Backlog Reduction Program, *CFDA* 16.741

Finding: MSP had not established internal control over the Forensic DNA Backlog Reduction Program to ensure compliance with federal regulations and grant program guidelines regarding reporting.

Current Status: MSP partially corrected the deficiencies noted in the finding.

MSP obtained guidance from the Department of Justice stating that its process for completing its federal reports is acceptable. Therefore, no additional corrective action plan is necessary.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 5511203
Finding Title: National Motor Carrier Safety, *CFDA* 20.218

Finding: MSP's internal control over the National Motor Carrier Safety Program did not ensure compliance with federal laws and regulations regarding reporting.

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

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 5511204
Finding Title: Emergency Management Performance Grants, *CFDA* 97.042

Finding: MSP's internal control over the Emergency Management Performance Grants Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

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

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 5511205
Finding Title: OMB Circular A-133 Subrecipient Audit Requirements

Finding: MSP's internal control did not ensure that MSP complied with federal laws and regulations regarding subrecipient monitoring.

Current Status: MSP did not correct the deficiencies noted in the finding. See corrective action for finding 2012-012 of the current audit report.

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.

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

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.

The financial status reports (FSRs) were partially corrected in fiscal year 2010-11 and fiscal year 2011-12 and controls are in place to have them fully corrected for fiscal year 2012-13. For the Disposition of Assets, MDOT contacted the Federal Transit Administration (FTA) for clarification on MDOT's procedures. FTA concurred with the proposed procedures and MDOT is updating its internal procedures for Disposition of Vehicles and Equipment and developing a new procedure for Disposition of Real Property.

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.

The FSRs were partially corrected in fiscal year 2010-11 and fiscal year 2011-12 and controls are in place to have them fully corrected for fiscal year 2012-13. For the Disposition of Assets, MDOT contacted FTA for clarification on MDOT's procedures. FTA concurred with our proposed procedures and MDOT is updating its internal procedures for Disposition of Vehicles and Equipment and developing a new procedure for Disposition of Real Property.

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 5911109
Finding Title: Transit Services Programs 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 partially corrected the deficiencies noted in the finding.

The FSRs were partially corrected in fiscal year 2010-11 and fiscal year 2011-12 and controls are in place to have them fully corrected for fiscal year 2012-13. For the Disposition of Assets,

MDOT contacted FTA for clarification on MDOT's procedures. FTA concurred with our proposed procedures and MDOT is updating its internal procedures for Disposition of Vehicles and Equipment and developing a new procedure for Disposition of Real Property.

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.

* See glossary at end of report for definition.

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; 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, 2009 through September 30, 2011
Finding Number: 7511203
Finding Title: Cooperative Forestry Assistance, *CFDA* 10.664

Finding: DNR's internal control over the Cooperative Forestry Assistance Program did not ensure compliance with federal laws and regulations regarding eligibility and reporting. In addition, DNR had not established internal control to ensure that the Cooperative Forestry Assistance Program complied with federal laws and regulations regarding procurement and suspension and debarment.

Current Status: DNR corrected the deficiencies for eligibility. In addition, the finding noted for procurement and suspension and debarment is no longer valid as DNR no longer administers the Arbor Day Mini Grant program. The Department has not corrected the deficiencies for reporting.

DNR adjusted account coding October 1, 2012 to align with the grant reporting categories. This will provide for more accurate expenditure reporting for each grant category. Account coding has been implemented and is being used beginning October 1, 2012.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 7511204

Finding Title: ARRA - Recovery Act of 2009: Wildland Fire Management, *CFDA* 10.688

Finding: DNR's internal control over the ARRA - Recovery Act of 2009: Wildland Fire Management Program did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment and reporting.

Current Status: DNR corrected the deficiencies noted in reporting. In addition, the finding noted for procurement and suspension and debarment is no longer valid as DNR did not enter into any new contracts under the existing ARRA federal award and the ARRA federal award is now closed.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 7511205

Finding Title: Coastal Wetlands Planning, Protection and Restoration Act, *CFDA* 15.614

Finding: DNR's internal control over the Coastal Wetlands Planning, Protection and Restoration Act Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 7511206

Finding Title: Outdoor Recreation - Acquisition, Development and Planning, *CFDA* 15.916

Finding: DNR's internal control over the Outdoor Recreation - Acquisition, Development and Planning Program did not ensure compliance with federal laws and regulations regarding reporting.

Current Status: DNR did not correct the deficiencies noted in the finding.

The DNR has developed a process to complete the backlog of delinquent post-completion inspections through a self-certification process. DNR initiated a pilot project during summer 2012 and will then move forward with projects in all 83 counties in Michigan. DNR will also continue to complete inspections of projects with its staff to ensure compliance with National Park Service requirements. A student assistant was hired in November to identify the specific projects overdue for an inspection and to assist with the pilot. Consistent progress will be made annually until backlog has been eliminated. The targeted date for completion is September 2017.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 7511207

Finding Title: Recreational Trails Program, *CFDA* 20.219

Finding: DNR had not established internal control to ensure that the Recreational Trails Program complied with federal laws and regulations regarding procurement and suspension and debarment.

Current Status: DNR did not correct the deficiencies noted in the finding.

Subsequent to fieldwork, the DNR Parks and Recreation Division has included federal suspension and debarment language and controls within the grant writing process for grantees and sub-grantees.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 7511208

Finding Title: Boating Safety Financial Assistance, *CFDA* 97.012

Finding: DNR's internal control over the Boating Safety Financial Assistance Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and reporting.

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

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 7611202

Finding Title: Coastal Zone Management Administration Awards, *CFDA* 11.419

Finding: The Department of Environmental Quality's (DEQ's) internal control over the Coastal Zone Management Administration Awards (CZM) Program did not ensure compliance with federal laws and regulations regarding the monitoring of subrecipient single audit reports.

Current Status: DEQ did not correct the deficiencies noted in the finding.

DEQ entered into a service level agreement (SLA) with MDE for subrecipient monitoring services, effective October 1, 2011. Staff turnover and training requirements caused a backlog in the audits to be reviewed. MDE has addressed these issues and is currently working to review audits on a timely basis.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611203
Finding Title: Air Pollution Control Program Support, *CFDA* 66.001

Finding: DEQ's internal control over Air Pollution Control Program Support did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking.

Current Status: DEQ did not correct the deficiencies noted in the finding.

DEQ implemented an accounting solution to separately identify activities required by the grant award during fiscal year 2012-13.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611204
Finding Title: State Clean Diesel Grant Program and ARRA - State Clean Diesel Grant Program, *CFDA* 66.040

Finding: DEQ's internal control over the State Clean Diesel Grant Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring and special tests and provisions.

Current Status: DEQ did not correct the deficiencies noted for subrecipient monitoring. The deficiencies noted for special tests and provisions are no longer valid because DEQ had fully expended its ARRA award at the end of fiscal year 2010-11 and did not issue any new subrecipient awards during fiscal year 2011-12.

DEQ entered into a SLA with MDE for subrecipient monitoring services, effective October 1, 2011. Staff turnover and training requirements caused a backlog in the audits to be reviewed. MDE has addressed these issues and is currently working to review audits on a timely basis.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611205
Finding Title: State Public Water System Supervision, *CFDA* 66.432

Finding: DEQ's internal control over the State Public Water System Supervision (PWSS) Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; and matching, level of effort, and earmarking.

Current Status: DEQ did not correct the deficiencies noted in the finding.

DEQ is working to improve its internal control over vehicle usage by implementing a monthly process to review vehicle travel charges at the employee level. Division administration will coordinate the review with supervisors as needed to ensure that charges are appropriate and support PWSS activities. In addition, DEQ is evaluating the current Vehicle Reservation System to determine if there are options available to revise the current reservation process to allow for prior supervisory review, approval of travel, and related account coding.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611206
Finding Title: Capitalization Grants for Clean Water State Revolving Funds and ARRA - Capitalization Grants for Clean Water State Revolving Funds, *CFDA* 66.458

Finding: DEQ's internal control over the Capitalization Grants for Clean Water State Revolving Funds (CWSRF) Program* did not ensure compliance with federal laws and regulations regarding reporting, subrecipient monitoring, and special tests and provisions.

Current Status: DEQ did not correct the deficiencies noted for reporting (see planned corrective action below). In addition, DEQ partially

* See glossary at end of report for definition.

corrected the deficiencies noted for subrecipient monitoring (see corrective action for Finding 2012-012.) DEQ corrected the deficiencies noted for special tests and provisions.

DEQ agrees with the finding that there is no formal process to review information submitted by subrecipients prior to the submission of the 1512 reports. Given the tight reporting schedule, there is not adequate time to extensively review and validate all of the information submitted by subrecipients prior to the due date, which is ten calendar days after each quarter end. DEQ established a process to review as many of the data elements as possible before the submission date. Errors discovered after the due date are corrected during the next reporting cycle, as OMB regulations allow.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611207
Finding Title: Nonpoint Source Implementation Grants, *CFDA* 66.460

Finding: DEQ's internal control over the Nonpoint Source Implementation Grants (NPS) Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

Current Status: DEQ did not correct the deficiencies noted in the finding.

DEQ, with the assistance of the Office of Internal Audit Services, will develop formal policies and procedures to implement a process whereby a sample of the expenditures reported that are under \$500 is selected. Documentation supporting these expenditures included in the sample will be requested and reviewed.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611208
Finding Title: Capitalization Grants for Drinking Water State Revolving Funds and ARRA - Capitalization Grants for Drinking Water State Revolving Funds, *CFDA* 66.468

Finding: DEQ's internal control over the Capitalization Grants for Drinking Water State Revolving Funds* (DWSRF) Program did not ensure compliance with federal laws and regulations regarding reporting, subrecipient monitoring, and special tests and provisions.

Current Status: DEQ did not correct the deficiencies noted for reporting (see planned corrective action below). In addition, DEQ partially corrected the deficiencies noted for subrecipient monitoring (see corrective action for Finding 2012-012). DEQ corrected the deficiencies noted for special tests and provisions.

DEQ agrees with the finding that there is no formal process to review information submitted by subrecipients prior to the submission of the 1512 reports. Given the tight reporting schedule, there is not adequate time to extensively review and validate all of the information submitted by subrecipients prior to the due date, which is ten calendar days after each quarter end. DEQ established a process to review as many of the data elements as possible before the submission date. Errors discovered after the due date are corrected during the next reporting cycle, as OMB regulations allow.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611209
Finding Title: Great Lakes Program, *CFDA* 66.469

Finding: DEQ's internal control over the Great Lakes Program (GLP) did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

* See glossary at end of report for definition.

Current Status: DEQ corrected the deficiencies noted for allowable costs/cost principles. DEQ partially corrected the deficiencies noted for subrecipient monitoring.

DEQ entered into a SLA with MDE for subrecipient monitoring services, effective October 1, 2011. Staff turnover and training requirements caused a backlog in the audits to be reviewed. MDE has addressed these issues and is currently working to review audits on a timely basis.

Audit Period: October 1, 2009 through September 30, 2011

Finding Number: 7611210

Finding Title: Performance Partnership Grants, *CFDA* 66.605

Finding: DEQ's internal control over the Performance Partnership Grants (PPG) Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; and matching, level of effort, and earmarking.

Current Status: DEQ did not correct the deficiencies noted in the finding.

DEQ is working to improve its internal control over vehicle usage by implementing a monthly process to review vehicle travel charges at the employee level. Division administration will coordinate the review with supervisors as needed to ensure that charges are appropriate and support PWSS activities. In addition, DEQ is evaluating the current Vehicle Reservation System to determine if there are options available to revise the current reservation process to allow for prior supervisory review, approval of travel, and related account coding.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-001

Finding Title: DHS Bridges Interface and Change Controls

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

Current Status: DHS and DTMB did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-001.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-002

Finding Title: DHS Bridges Security Management and Access Controls

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

Current Status: DHS and DTMB did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-002.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-003

Finding Title: MDOT, Reporting FFATA Reporting

Finding: MDOT did not report any Airport Improvement Program (AIP) or Highway Planning and Construction Cluster subaward information as required by FFATA.

Current Status: MDOT corrected the deficiency noted in the finding related to AIP but did not correct the deficiency related to the Highway Planning and Construction Cluster. See corrective action for Finding 2012-022.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-004

Finding Title: DHS, Subrecipient Monitoring - DUNS Numbers

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-008.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-005

Finding Title: SNAP Cluster, Including ARRA, *CFDA* 10.551 and 10.561, Special Tests and Provisions - ADP System for SNAP

Finding: 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.

Current Status: DHS and DTMB did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-003 of the current audit report.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-006
Finding Title: CDBG - State-Administered CDBG Cluster, *CFDA* 14.228 and 14.255 (ARRA), Reporting - Section 3 Summary Report

Finding: 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.

Current Status: MSF did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-017.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-007
Finding Title: CDBG - State-Administered CDBG Cluster, *CFDA* 14.228 and 14.255 (ARRA), Subrecipient Monitoring

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

Current Status: MSF did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-019.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-008
Finding Title: CDBG - State-Administered CDBG Cluster, *CFDA* 14.228 and 14.255 (ARRA), Subrecipient Monitoring - DUNS Numbers

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

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-009

Finding Title: Airport Improvement Program, *CFDA* 20.106, Davis-Bacon Act

Finding: 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.

Current Status: MDOT did not correct the deficiencies noted in the finding.

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-010

Finding Title: Airport Improvement Program, *CFDA* 20.106, Period of Availability

Finding: MDOT did not expend AIP grant funding within the period of availability.

Current Status: MDOT did not correct the deficiencies noted in the finding.

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-011

Finding Title: Airport Improvement Program, *CFDA* 20.106, Procurement and Suspension and Debarment

Finding: MDOT did not ensure that airport sponsors used qualifications-based selection procedures in the selection and engagement of consultants.

Current Status: MDOT did not correct the deficiencies noted in the finding.

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-012

Finding Title: Highway Planning and Construction Cluster, *CFDA* 20.205 and 20.205 (ARRA), Subrecipient Monitoring

Finding: The Accounting Service Center (ASC), within MDE, 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.

Current Status: MDOT did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-012.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-013

Finding Title: State Energy Program, *CFDA* 81.041 and 81.041 (ARRA), Procurement and Suspension and Debarment

Finding: 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.

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-014

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

Finding: DHS could not document that it appropriately used TANF Cluster funds received for activities previously authorized based on an approved Aid to Families with Dependent Children (AFDC) State Plan.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-028.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-015

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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-029 of the current audit report.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-016
Finding Title: 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
Finding: DHS did not maintain documentation to support the recipients' need for job access reverse commute expenditures in the TANF Cluster.
Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-030 of the current audit report.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-017
Finding Title: 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
Finding: DHS did not maintain sufficient case record documentation to support client eligibility for 50 (78%) of 64 sampled TANF Cluster assistance case records.

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.
Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-031 of the current audit report.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-018

Finding Title: 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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-032.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-019

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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-033 of the current audit report.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-020

Finding Title: TANF Cluster, *CFDA* 93.558 and 93.714 (ARRA), Matching, Level of Effort, and Earmarking and Reporting – MOE New Spending Test

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-034 of the current audit report.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-021

Finding Title: TANF Cluster, *CFDA* 93.558 and 93.714 (ARRA), Reporting

Finding: DHS did not submit accurate reports to HHS.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-036.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-022

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

Finding: DHS did not issue a management decision within the required six-month time frame for 1 (14%) of 7 reports.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-012 in the current audit report.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-023

Finding Title: TANF Cluster, *CFDA* 93.558 and 93.714 (ARRA), Subrecipient Monitoring - Subrecipient Site Visits

Finding: DHS did not comply with its subrecipient monitoring procedure to conduct annual site visits for 2 Families First of Michigan sampled subrecipients.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-037.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-024

Finding Title: 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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-038.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-025

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

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

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-039.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-026
Finding Title: TANF Cluster, *CFDA* 93.558 and 93.714 (ARRA), Special Tests and Provisions - IEVS

Finding: 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.

Current Status: DHS and DTMB did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-003.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-027
Finding Title: 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; and Special Tests and Provisions - Lack of Documentation

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-040.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-028
Finding Title: CCDF Cluster, *CFDA* 93.575, 93.596, and 93.713 (ARRA), Special Tests and Provisions - Fraud Detection and Repayment

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

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-042.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-029

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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-043.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-030

Finding Title: Child Support Enforcement, *CFDA* 93.563, Subrecipient Monitoring

Finding: DHS did not issue a management decision within the required six-month time frame for 1 of 2 subrecipient single audit reports sampled that contained findings related to the CSE Program.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-012.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-031
Finding Title: Low-Income Home Energy Assistance Program, *CFDA* 93.568, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Lack of Documentation

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-058.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-032
Finding Title: Low-Income Home Energy Assistance, *CFDA* 93.568, Allowable Costs/Cost Principles - Reconciliation of Home Heating Credit Reimbursements

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-059.

Audit Period: October 1, 2010 through September 30, 2011
Finding Number: 2011-033
Finding Title: Low-Income Home Energy Assistance, *CFDA* 93.568, Allowable Costs/Cost Principles - Inappropriate Benefit Level

Finding: 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.

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-034

Finding Title: 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

Finding: 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, or a foster parent's need reason for child care assistance.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for finding 2012-060.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-035

Finding Title: 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

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

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-036

Finding Title: 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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-061.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-037

Finding Title: 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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-063.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-038

Finding Title: 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

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-064.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-039

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

Finding: DHS did not maintain documentation to support the eligibility of 3 (43%) of 7 sampled clients who received SSBG Program-funded child care assistance.

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-040

Finding Title: Social Services Block Grant, *CFDA* 93.667, Cash Management

Finding: 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 SSBG.

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-041

Finding Title: 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

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

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-065.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-042

Finding Title: 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

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

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-066.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-043

Finding Title: Chafee Foster Care Independence Program, *CFDA* 93.674, Eligibility - Funding Eligibility Checklists

Finding: 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.

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-067.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-044

Finding Title: Chafee Foster Care Independence Program, *CFDA* 93.674, Matching, Level of Effort, and Earmarking

Finding: 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.

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-045

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

Finding: 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.

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

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-046

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

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

Current Status: DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2012-068.

Audit Period: October 1, 2010 through September 30, 2011

Finding Number: 2011-047

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

Finding: 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.

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

GLOSSARY

Glossary of Acronyms and Terms

21st CCLC	Twenty-First Century Community Learning Centers.
ABW	Adult Benefits Waiver.
ACF	U.S. Department of Health and Human Services 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.
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.
Bid4Michigan	DTMB Purchasing Operations implemented this bid system for faster and easier posting and notification of bid information to the public. This system provides instant access on-line to all bids, request for information, request for proposals, quotes, addenda, and awards.

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 programs, and emergency assistance programs.
BRS	Bridges Benefits Recovery System.
CACFP	Child and Adult Care Food Program.
Capitalization Grants for Clean Water State Revolving Funds (CWSRF) Program	The federal grant program that provides capitalization grants to states for establishing revolving funds to be used for the construction of municipal wastewater treatment projects or for the development and implementation of nonpoint source or estuary conservation management programs and plans in compliance with the Clean Water Act.
Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) Program	The federal grant program that provides capitalization grants to states for establishing revolving funds to be used to assist public water suppliers in financing the costs of infrastructure needed to achieve or maintain compliance with Safe Drinking Water Act requirements. States may also set aside certain percentages of their capitalization grant for various activities that promote source water protection and enhanced water systems management.
<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.
CCR	Central Contractor Registration.

CDBG	Community Development Block Grants.
CFCIP	Chafee Foster Care Independence Program.
channeling	Requirement by State legislation that federal revenue received by a political subdivision must be accepted and disbursed by the State.
CHP	county health plan.
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.
CMA	Cash, Medical, and Administrative.
CMS	Cash Management System.
<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.
CWSS	Child Welfare Services - State Grants.
CZM	Coastal Zone Management Administration Awards.
DCH	Department of Community Health.

deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
DEQ	Department of Environmental Quality.
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.
DMEPOS	Durable Medical Equipment, Prosthetics, Orthotics, and Supplies.
DMVA	Department of Military and Veterans Affairs.
DNR	Department of Natural Resources.
DOC	Department of Corrections.
DTMB	Department of Technology, Management, and Budget.
DUNS	Data Universal Numbering System.
EBT	electronic benefit transfer.

ECIC	Early Childhood Investment Corporation.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
ELA	English Language Acquisition.
EPLS	Excluded Parties List System.
FAA	Federal Aviation Administration.
FFATA	Federal Funding Accountability and Transparency Act of 2006.
FFEL	Federal Family Education Loans.
FFR	federal financial report.
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. Governmental Accountability Office's Federal Information System Controls Audit Manual.
FMAP	federal medical assistance percentage.
FSR	financial status report.

FSRS	Federal Subrecipient Reporting System.
FTA	Federal Transit Administration.
GEMS	Grant Electronic Monitoring System.
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."
GLP	Great Lakes Program.
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.
HSGP	Homeland Security Grant Program.
HUD	U.S. Department of Housing and Urban Development.
HUD 60002	Section 3 Summary Report.
IDEA	Individuals With Disabilities Education Act.
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.

IRS	Internal Revenue Service.
ISD	intermediate school district.
IT	information technology.
known questioned costs	Questioned costs that are specifically identified by the auditor.
LARA	Department of Licensing and Regulatory Affairs.
LEA	local educational agency.
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.
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.
MCHSBG	Maternal and Child Health Services Block Grant to the States.
MDARD	Michigan Department of Agriculture and Rural Development.
MDE	Michigan Department of Education.
MDOT	Michigan Department of Transportation.
MEDC	Michigan Economic Development Corporation.
MEGS+	Michigan Electronic Grants System Plus.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
MOE	maintenance of effort.
MSF	Michigan Strategic Fund.
MSHDA	Michigan State Housing Development Authority.

MSP	Michigan Department of State Police.
NGC	National Guard ChallaNGe
NPS	Nonpoint Source Implementation Grants.
NSLP	National School Lunch Program.
O&M	National Guard Military Operations and Maintenance.
OAG	Office of the Auditor General.
OEII	Office of Education Improvement and Innovation.
OFM	Office of Financial Management.
OGS/ECE&FS	Office of Great Start - Early Childhood Education & Family Services.
OIG	DHS's Office of Inspector General.
OMB	U.S. Office of Management and Budget.
ORR	Office of Refugee Resettlement.
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> .
PA	prosecuting attorney.

pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
PBM	pharmacy benefits manager.
PCRS	DCH's Paternity Casualty Recovery System.
PPG	Performance Partnership Grants.
PSIC	Public Safety Interoperable Communications.
PWSS Program	Public Water System Supervision Program.
QBS	qualifications-based selection.
qualified opinion	<p>An auditor's opinion in which the auditor:</p> <ol 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 agency in conformity with the disclosed basis of accounting or the 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 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.
REAP	Refugee and Entrant Assistance - State Administered Programs.
RS	DHS's Recoupment Section.
RSAT	Residential Substance Abuse Treatment for State Prisoners Program.
SAPT	Block Grants for Prevention and Treatment of Substance Abuse.
SEFA	schedule of expenditures of federal awards.
SER	State Emergency Relief.
SF-270	request for advance or reimbursement of funds.
SFSPC	Summer Food Service Program for Children.
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.
SLA	service level agreement.
SNAP	Supplemental Nutrition Assistance Program.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SSBG	Social Services Block Grant.

State Revolving Fund	A subfund established within the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, to provide low-interest loans to municipalities for the construction of water pollution control and drinking water projects.
State Unified Information Technology Environment (SUITE)	A DTMB initiative to standardize methodologies, procedures, training, and tools for project management and system development throughout the executive branch of State government.
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.
TEFAP	the Emergency Food Assistance Program.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ol 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 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 compliance requirements that are applicable to each major federal program.

UIA Unemployment Insurance Agency.

USC *United States Code.*

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.
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USPFO United States Property and Fiscal Office.

WIC Program Special Supplemental Nutrition Program for Women,
Infants and Children.

