



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT

STATE OF MICHIGAN  
SINGLE AUDIT REPORT

Fiscal Year Ended September 30, 2013



Doug A. Ringler, C.P.A., C.I.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:  
000-0100-14

State of Michigan

Fiscal Year Ended September 30, 2013

Released:  
June 2014

*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 have audited the State of Michigan's basic financial statements as of and for the fiscal year ended September 30, 2013 and have issued a separate report thereon dated December 21, 2013. We issued unmodified opinions on the State's basic financial statements.

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**Internal Control Over Financial Reporting**

We considered the State of Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses; however, material weaknesses may exist that have not been identified. We did identify significant deficiencies in internal control as reported in the Report on Internal Control, Compliance, and Other Matters for the *State of Michigan Comprehensive Annual Financial Report* (071-0010-14M).

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**Compliance and Other Matters**

We performed tests of the State's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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**Federal Awards:**

**Report on Compliance for Each Major Federal Program**

We have audited the State'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. We audited 38 programs as major programs and reported known questioned costs of \$9.6 million. The State expended a total of \$21.2 billion in federal awards during the fiscal year ended September 30, 2013. We issued 29 unmodified opinions, 7 qualified opinions, and 2 adverse opinions. The opinions issued by major program are identified on the following pages. We identified instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. The findings are identified by major program on the following pages.

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**Report on Internal Control Over Compliance**

We considered the State's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program. We identified

deficiencies in internal control over compliance that we consider to be material weaknesses and others we consider to be significant deficiencies as described in the findings identified by major program on the following pages.

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**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

The 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 State's basic financial statements. The information therein has been subjected to the auditing procedures applied in the audit of the State's basic financial statements and additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the State's basic financial statements as a whole.

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

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	<b>Opinion</b>	<b>Questioned Costs</b>	<b>Audit Finding Number(s)</b>
10.551 and 10.561	SNAP Cluster, including ARRA	Qualified	Undeterminable	<a href="#">2013-001</a> <a href="#">2013-002</a> <a href="#">2013-003</a> <a href="#">2013-006</a>
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster	Unmodified	\$0	<a href="#">2013-009</a> <a href="#">2013-010</a> <a href="#">2013-013</a> <a href="#">2013-016</a>
10.565, 10.568, and 10.569	Food Distribution Cluster, including ARRA	Unmodified	\$0	<a href="#">2013-009</a> <a href="#">2013-010</a> <a href="#">2013-013</a> <a href="#">2013-016</a>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Unmodified	\$0	<a href="#">2013-006</a> <a href="#">2013-007</a> <a href="#">2013-014</a> <a href="#">2013-022</a> <a href="#">2013-023</a> <a href="#">2013-024</a>
10.558	Child and Adult Care Food Program	Unmodified	\$32,608	<a href="#">2013-009</a> <a href="#">2013-010</a> <a href="#">2013-013</a> <a href="#">2013-016</a> <a href="#">2013-025</a>
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Unmodified	\$0	Not Applicable
14.228	CDBG - State-Administered CDBG Cluster	Unmodified	\$0	<a href="#">2013-026</a> <a href="#">2013-027</a> <a href="#">2013-028</a>
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	Unmodified	\$0	Not Applicable
20.205 and 20.219	Highway Planning and Construction Cluster, including ARRA	Unmodified	\$0	<a href="#">2013-011</a> <a href="#">2013-018</a>
20.106	Airport Improvement Program	Unmodified	\$46,868	<a href="#">2013-011</a> <a href="#">2013-029</a> <a href="#">2013-030</a>
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants, including ARRA	Unmodified	Undeterminable	<a href="#">2013-018</a> <a href="#">2013-031</a> <a href="#">2013-032</a>
66.458	Capitalization Grants for Clean Water State Revolving Funds, including ARRA	Unmodified	\$0	<a href="#">2013-018</a> <a href="#">2013-033</a>
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	Unmodified	\$0	<a href="#">2013-034</a>

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	<b>Opinion</b>	<b>Questioned Costs</b>	<b>Audit Finding Number(s)</b>
84.010 and 84.389	Title I, Part A Cluster, including ARRA	Unmodified	\$0	<a href="#">2013-009</a> <a href="#">2013-012</a> <a href="#">2013-013</a> <a href="#">2013-016</a> <a href="#">2013-017</a>
84.027, 84.173, and 84.391	Special Education Cluster (IDEA), including ARRA	Unmodified	\$0	<a href="#">2013-009</a> <a href="#">2013-013</a> <a href="#">2013-016</a>
84.377 and 84.388	School Improvement Grants Cluster, including ARRA	Unmodified	\$0	<a href="#">2013-009</a> <a href="#">2013-013</a> <a href="#">2013-016</a> <a href="#">2013-035</a>
84.048	Career and Technical Education - Basic Grants to States	Unmodified	\$0	<a href="#">2013-009</a> <a href="#">2013-013</a> <a href="#">2013-016</a>
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Unmodified	\$0	<a href="#">2013-036</a>
84.287	Twenty-First Century Community Learning Centers	Unmodified	\$0	<a href="#">2013-009</a> <a href="#">2013-012</a> <a href="#">2013-013</a> <a href="#">2013-016</a>
84.367	Improving Teacher Quality State Grants	Unmodified	\$0	<a href="#">2013-009</a> <a href="#">2013-012</a> <a href="#">2013-013</a> <a href="#">2013-016</a> <a href="#">2013-017</a>
93.044, 93.045, and 93.053	Aging Cluster	Unmodified	\$0	Not Applicable
93.558	TANF Cluster	Adverse	\$1,101,838	<a href="#">2013-001</a> <a href="#">2013-002</a> <a href="#">2013-003</a> <a href="#">2013-004</a> <a href="#">2013-005</a> <a href="#">2013-006</a> <a href="#">2013-015</a> <a href="#">2013-018</a> <a href="#">2013-037</a> <a href="#">2013-038</a> <a href="#">2013-039</a> <a href="#">2013-040</a> <a href="#">2013-041</a> <a href="#">2013-042</a> <a href="#">2013-043</a> <a href="#">2013-044</a> <a href="#">2013-045</a> <a href="#">2013-046</a> <a href="#">2013-047</a> <a href="#">2013-048</a>
93.575 and 93.596	CCDF Cluster	Adverse	\$11,822	<a href="#">2013-001</a> <a href="#">2013-002</a> <a href="#">2013-006</a> <a href="#">2013-049</a> <a href="#">2013-050</a> <a href="#">2013-051</a> <a href="#">2013-052</a> <a href="#">2013-053</a>
93.775, 93.777, and 93.778	Medicaid Cluster, including ARRA <i>(continued on next page)</i>	Qualified	\$5,861,139	<a href="#">2013-001</a> <a href="#">2013-002</a> <a href="#">2013-003</a> <a href="#">2013-004</a>

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	<b>Opinion</b>	<b>Questioned Costs</b>	<b>Audit Finding Number(s)</b>
	Medicaid Cluster, including ARRA <i>(continued)</i>			<a href="#">2013-006</a> <a href="#">2013-007</a> <a href="#">2013-008</a> <a href="#">2013-019</a> <a href="#">2013-020</a> <a href="#">2013-021</a> <a href="#">2013-054</a> <a href="#">2013-055</a> <a href="#">2013-056</a> <a href="#">2013-057</a> <a href="#">2013-058</a> <a href="#">2013-059</a> <a href="#">2013-060</a> <a href="#">2013-061</a> <a href="#">2013-062</a> <a href="#">2013-063</a> <a href="#">2013-064</a> <a href="#">2013-065</a> <a href="#">2013-066</a> <a href="#">2013-067</a> <a href="#">2013-068</a> <a href="#">2013-069</a> <a href="#">2013-070</a> <a href="#">2013-071</a>
93.563	Child Support Enforcement	Unmodified	\$0	<a href="#">2013-006</a> <a href="#">2013-015</a> <a href="#">2013-018</a> <a href="#">2013-072</a>
93.566	Refugee and Entrant Assistance - State Administered Programs	Qualified	\$41,597	<a href="#">2013-001</a> <a href="#">2013-002</a> <a href="#">2013-006</a> <a href="#">2013-007</a> <a href="#">2013-008</a> <a href="#">2013-018</a> <a href="#">2013-073</a> <a href="#">2013-074</a> <a href="#">2013-075</a> <a href="#">2013-076</a>
93.568	Low-Income Home Energy Assistance	Qualified	\$1,781,491	<a href="#">2013-001</a> <a href="#">2013-002</a> <a href="#">2013-006</a> <a href="#">2013-015</a> <a href="#">2013-018</a> <a href="#">2013-077</a> <a href="#">2013-078</a> <a href="#">2013-079</a> <a href="#">2013-080</a> <a href="#">2013-081</a>
93.658	Foster Care - Title IV-E, including ARRA	Unmodified	\$10,188	<a href="#">2013-004</a> <a href="#">2013-005</a> <a href="#">2013-006</a> <a href="#">2013-015</a> <a href="#">2013-082</a> <a href="#">2013-083</a> <a href="#">2013-084</a> <a href="#">2013-085</a> <a href="#">2013-086</a>
93.659	Adoption Assistance, including ARRA <i>(continued on next page)</i>	Qualified	Undeterminable	<a href="#">2013-004</a> <a href="#">2013-005</a> <a href="#">2013-006</a>

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	<b>Opinion</b>	<b>Questioned Costs</b>	<b>Audit Finding Number(s)</b>
	Adoption Assistance, including ARRA <i>(continued)</i>			<u>2013-087</u> <u>2013-088</u>
93.667	Social Services Block Grant	Unmodified	\$0	<u>2013-004</u> <u>2013-005</u> <u>2013-006</u> <u>2013-015</u>
93.674	Chafee Foster Care Independence Program	Qualified	\$346,569	<u>2013-004</u> <u>2013-005</u> <u>2013-006</u> <u>2013-015</u> <u>2013-089</u> <u>2013-090</u> <u>2013-091</u>
93.994	Maternal and Child Health Services Block Grant to the States	Unmodified	\$0	<u>2013-006</u> <u>2013-007</u> <u>2013-008</u> <u>2013-014</u> <u>2013-019</u> <u>2013-020</u> <u>2013-021</u> <u>2013-092</u> <u>2013-093</u>
96.001	Disability Insurance/SSI Cluster	Qualified	\$297,184	<u>2013-094</u> <u>2013-095</u> <u>2013-096</u> <u>2013-097</u> <u>2013-098</u>
97.067	Homeland Security Grant Program	Unmodified	\$0	<u>2013-018</u>

**Major Programs Audited by Others**

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	<b>Opinion</b>	<b>Questioned Costs</b>	<b>Audit Finding Number(s)</b>
14.871	Housing Voucher Cluster	Unmodified	\$0	Not Applicable
14.231	Emergency Solutions Grant Program	Unmodified	\$0	<u>2013-100</u>
14.239	Home Investment Partnerships Program	Unmodified	\$0	<u>2013-099</u> <u>2013-100</u>
17.225	Unemployment Insurance, including ARRA	Unmodified	\$23,034	<u>2013-101</u> <u>2013-102</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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**Doug A. Ringler, C.P.A., C.I.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
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DOUG A. RINGLER, C.P.A., C.I.A.  
AUDITOR GENERAL

June 26, 2014

Mr. John S. Roberts, State Budget Director  
State Budget Office  
Department of Technology, Management, and Budget  
George W. Romney Building  
Lansing, Michigan

Dear Mr. Roberts:

This is our single audit report for the State of Michigan for the fiscal year ended September 30, 2013.

This report contains our report summary; the schedule of expenditures of federal awards; our independent auditor's report on compliance for each major program, report on internal control over compliance, and report on the schedule of expenditures of federal awards required by U.S. Office of Management and Budget 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 abbreviations and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The management views and corrective action plan follow each finding. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agencies to take additional steps to finalize the plan.

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

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler".

Doug Ringler, C.P.A. C.I.A.  
Auditor General



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SINGLE AUDIT REPORT**

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## GLOSSARY

Glossary of Abbreviations and Terms

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# SUPPLEMENTAL FINANCIAL SCHEDULE

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
<u>Financial Assistance</u>		
<b><u>U.S. Department of Agriculture</u></b>		
SNAP Cluster:		
Direct Programs:		
Supplemental Nutrition Assistance Program (Note 7)	10.551	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	
Total SNAP Cluster		
Child Nutrition Cluster:		
Direct Programs:		
School Breakfast Program	10.553	
National School Lunch Program	10.555	
Special Milk Program for Children	10.556	
Summer Food Service Program for Children	10.559	
Total Child Nutrition Cluster		
Food Distribution Cluster:		
Direct Programs:		
Commodity Supplemental Food Program	10.565	
Emergency Food Assistance Program (Administrative Costs)	10.568	
ARRA - Emergency Food Assistance Program (Administrative Costs)	10.568	
Total Food Distribution 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	
Conservation Reserve Program	10.069	
Wetlands Reserve Program	10.072	
Voluntary Public Access and Habitat Incentive Program	10.093	
Market Protection and Promotion	10.163	
Specialty Crop Block Grant Program - Farm Bill	10.170	
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	
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, Process and Technology Improvement Grants	10.580	
Fresh Fruit and Vegetable Program	10.582	
Child Nutrition Direct Certification Performance Awards	10.589	
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	
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
\$ 2,915,090,643	\$	\$	\$ 2,915,090,643
127,061,185	24,693,622		151,754,807
<u>\$ 3,042,151,828</u>	<u>\$ 24,693,622</u>	<u>\$ 0</u>	<u>\$ 3,066,845,450</u>
\$ 304,129	\$ 98,141,601	\$	\$ 98,445,730
535,698	292,483,774		293,019,472
	359,885		359,885
535,587	10,135,891		10,671,478
<u>\$ 1,375,414</u>	<u>\$ 401,121,151</u>	<u>\$ 0</u>	<u>\$ 402,496,565</u>
\$ 118,962	\$ 5,376,402	\$	\$ 5,495,364
35,994	1,983,884		2,019,878
	(64,738)		(64,738)
<u>\$ 154,956</u>	<u>\$ 7,295,548</u>	<u>\$ 0</u>	<u>\$ 7,450,504</u>
<u>\$</u>	<u>\$ 3,879,476</u>	<u>\$</u>	<u>\$ 3,879,476</u>
<u>\$ 0</u>	<u>\$ 3,879,476</u>	<u>\$ 0</u>	<u>\$ 3,879,476</u>
\$ 1,090,782	\$	\$	\$ 1,090,782
	22,010		22,010
	29,643		29,643
306,170			306,170
1,560,799			1,560,799
164,681	1,031,732		1,196,413
27,913			27,913
125,000			125,000
141,250,989	43,668,304		184,919,293
939,130	62,387,089		63,326,219
7,241,846			7,241,846
338,600	21,089		359,689
400,434			400,434
233,766			233,766
(403)			(403)
3,134,279			3,134,279
560,113	49,842		609,955
121,183	3,741,985		3,863,168
2,731			2,731
1,786,529	575,905		2,362,434
104,304			104,304
4,562,706			4,562,706
113,253			113,253
148,717	20,905		169,622
	239,857		239,857
16,300	517,849		534,149

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA*</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification Number</u>
Agricultural Water Enhancement Program	10.925	
Cost Share Agreement	10.**	
Forest Service Drug Team	10.09-LE-11091000-030**	
Total Direct Programs		
Pass-Through Program:		
The Gypsy Moth Slow the Spread Foundation, Inc.		
Cooperative Forestry Assistance	10.664	307113
<b>Total U.S. Department of Agriculture</b>		
<b><u>U.S. Department of Commerce</u></b>		
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	
<b>Total U.S. Department of Commerce</b>		
<b><u>U.S. Department of Defense</u></b>		
Direct Programs:		
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	
Estuary Habitat Restoration Program	12.130	
Electronic Absentee Systems for Elections	12.217	
Military Construction, National Guard	12.400	
National Guard Military Operations and Maintenance (O&M) Projects (Note 15)	12.401	
National Guard ChalleNGe Program	12.404	
Defense Activity for Non-Traditional Education Support	12.N3569703MDTM**	
Defense Activity for Non-Traditional Education Support	12.N3569710MDTSTOP**	
<b>Total U.S. Department of Defense</b>		
<b><u>U.S. Department of Housing and Urban Development</u></b>		
Section 8 Project-Based Cluster		
Direct Programs:		
Section 8 Contract Administration	14.182	
Section 8 New Construction/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	
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	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$	\$ 3,154	\$	\$ 3,154
124,989			124,989
9,349			9,349
<b>\$ 164,364,160</b>	<b>\$ 112,309,364</b>	<b>\$ 0</b>	<b>\$ 276,673,524</b>
\$ 9,500	\$	\$	\$ 9,500
<b>\$ 3,208,055,858</b>	<b>\$ 549,299,161</b>	<b>\$ 0</b>	<b>\$ 3,757,355,019</b>
\$ 8,724	\$	\$	\$ 8,724
8,327			8,327
1,684,224	2,367,451		4,051,675
	53,425		53,425
<b>\$ 1,701,275</b>	<b>\$ 2,420,876</b>	<b>\$ 0</b>	<b>\$ 4,122,151</b>
\$ 976,540	\$	\$	\$ 976,540
35,442			35,442
196,124			196,124
3,700,730			3,700,730
52,608,693		12,251,868	64,860,561
2,531,736	2,234,803		4,766,539
3,931			3,931
143,657			143,657
<b>\$ 60,196,853</b>	<b>\$ 2,234,803</b>	<b>\$ 12,251,868</b>	<b>\$ 74,683,524</b>
\$ 6,206,239	\$ 198,375,856	\$	\$ 204,582,095
	107,178,042		107,178,042
<b>\$ 6,206,239</b>	<b>\$ 305,553,898</b>	<b>\$ 0</b>	<b>\$ 311,760,137</b>
\$ 2,992,949	\$ 46,285,060	\$	\$ 49,278,009
<b>\$ 2,992,949</b>	<b>\$ 46,285,060</b>	<b>\$ 0</b>	<b>\$ 49,278,009</b>
\$ 13,383,178	\$ 152,998,575	\$	\$ 166,381,753
<b>\$ 13,383,178</b>	<b>\$ 152,998,575</b>	<b>\$ 0</b>	<b>\$ 166,381,753</b>
\$ 156,862	\$	\$	\$ 156,862
	5,972,868		5,972,868
954,881	4,154,720		5,109,601
(107,148)	4,683,185		4,576,037

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA*</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification Number</u>
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	
Fair Housing Assistance Program - State and Local	14.401	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	
Asthma Interventions in Public and Assisted Multifamily Housing	14.914	
Total Direct Programs		
<b>Total U.S. Department of Housing and Urban Development</b>		
<b><u>U.S. Department of the Interior</u></b>		
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	
Cooperative Endangered Species Conservation Fund	15.615	
Clean Vessel Act	15.616	
Sportfishing and Boating Safety Act	15.622	
Coastal Program	15.630	
State Wildlife Grants	15.634	
ARRA - Recovery Act Funds - Habitat Enhancement, Restoration and Improvement	15.656	
Endangered Species Conservation Recovery Implementation Funds	15.657	
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	
Cost Share Agreement	15.**	
Total Direct Programs		
<b>Total U.S. Department of the Interior</b>		
<b><u>U.S. Department of Justice</u></b>		
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	
National Criminal History Improvement Program (NCHIP)	16.554	
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	
Crime Victim Assistance	16.575	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 2,555,359	\$ 20,601,675	\$	\$ 23,157,034
	174,601		174,601
(70,327)	1,142,062		1,071,735
4,360,450	85,239,030		89,599,480
	27,725		27,725
1,066,000			1,066,000
781,708	200,604		982,312
121,503	12,495		133,998
<u>\$ 9,819,288</u>	<u>\$ 122,208,965</u>	<u>\$ 0</u>	<u>\$ 132,028,253</u>
<b>\$ 32,401,654</b>	<b>\$ 627,046,498</b>	<b>\$ 0</b>	<b>\$ 659,448,152</b>

\$ 16,423,276	\$	\$	\$ 16,423,276
15,837,389			15,837,389
<u>\$ 32,260,665</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,260,665</u>

\$ 5,317	\$	\$	\$ 5,317
250,359			250,359
191,404			191,404
8,005	39,256		47,261
18,372			18,372
8,500			8,500
1,556,564	108,732		1,665,296
231,136			231,136
53,974			53,974
1,085,098			1,085,098
1,088,713	55,743		1,144,456
230,698	463,679		694,377
32,977			32,977
14,050			14,050
<u>\$ 4,775,167</u>	<u>\$ 667,410</u>	<u>\$ 0</u>	<u>\$ 5,442,577</u>
<b>\$ 37,035,832</b>	<b>\$ 667,410</b>	<b>\$ 0</b>	<b>\$ 37,703,242</b>

\$ 1,463,716	\$ 5,317,212	\$	\$ 6,780,928
1,250,465	1,013,851		2,264,316
<u>\$ 2,714,181</u>	<u>\$ 6,331,063</u>	<u>\$ 0</u>	<u>\$ 9,045,244</u>

\$ 120,309	\$ 102,292	\$	\$ 222,601
59,596	657,352		716,948
809	72,439		73,248
12,396	124,013		136,409
498,167	275,980		774,147
421,855	9,277		431,132
279,443	155,800		435,243
76,043			76,043
159,342	13,811,032		13,970,374

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
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	
ARRA - Public Safety Partnership and Community Policing Grants	16.710	
Juvenile Mentoring Program	16.726	
Enforcing Underage Drinking Laws Program	16.727	
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735	
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	
Edward Byrne Memorial Competitive Grant Program	16.751	
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	
John R. Justice Prosecutors and Defenders Incentive Act	16.816	
Equitable Sharing of Federally Forfeited Property	16.**	
Firearms Investigative Team	16.**	
District Fugitive Task Force	16.**	
ATF	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.**	
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.**	
ATF	16.**	
Upper Peninsula Safe Trails Task Force (UPSTTF)	16.198E-DE-C100655**	
Domestic Cannabis Eradication/Suppression Program (DCE/SP)	16.2012-81**	
Domestic Cannabis Eradication/Suppression Program (DCE/SP)	16.2013-84**	
Genesee County Safe Streets Task Force (GCSSTF)	16.281D-DE-C98517**	
Southeast Michigan Crimes Against Children Task Force (SEMCAC)	16.31E-DE-C100515**	
BAYANET OCDETF	16.GL-MIE-0452**	
FANG OCDETF	16.GL-MIE-0472**	
FANG OCDETF	16.GL-MIE-0479**	
JNET OCDETF	16.GL-MIE-0498**	
Tri County Metro OCDETF	16.GL-MIW-125**	
UPSET OCDETF	16.GL-MIW-134**	
Total Direct Programs		
Pass-Through Programs:		
Kent County		
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2010-DN-BX-K041
Childrens Aid Society		
Project Safe Neighborhood	16.**	2012-GP-BX-0011
Total Pass-Through Programs		
<b>Total U.S. Department of Justice</b>		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 2,086,000	\$	\$	\$ 2,086,000
352,651	3,213,394		3,566,045
144,612			144,612
6,296	45,000		51,296
319,094	126,100		445,194
278,871	146,347		425,218
900,000			900,000
21,519			21,519
2,065,152			2,065,152
11,052	98,625		109,677
14,892			14,892
15,046			15,046
320,828			320,828
2,699,603			2,699,603
954,911			954,911
231,678			231,678
225,096			225,096
89,409	40,000		129,409
(1,642)			(1,642)
23,020	27,373		50,393
72,932			72,932
135,175			135,175
14,281			14,281
94,851			94,851
672			672
9,514			9,514
6,916			6,916
4,534			4,534
9,281			9,281
7,854			7,854
6,843			6,843
20,143			20,143
58,753			58,753
35,764			35,764
23,051			23,051
74,984			74,984
60,493			60,493
60,824			60,824
268,449			268,449
15,578			15,578
20,024			20,024
8,017			8,017
19,740			19,740
7,992			7,992
5,653			5,653
7,195			7,195
18,772			18,772
<b>\$ 13,454,333</b>	<b>\$ 18,905,024</b>	<b>\$ 0</b>	<b>\$ 32,359,357</b>
\$ 4,324	\$	\$	\$ 4,324
19,838			19,838
<b>\$ 24,162</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 24,162</b>
<b>\$ 16,192,676</b>	<b>\$ 25,236,087</b>	<b>\$ 0</b>	<b>\$ 41,428,763</b>

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
<b><u>U.S. Department of Labor</u></b>		
Employment Service Cluster:		
Direct Programs:		
Employment Service/Wagner-Peyser Funded Activities	17.207	
Disabled Veterans' Outreach Program (DVOP)	17.801	
Local Veterans' Employment Representative Program	17.804	
Total Employment Service Cluster		
WIA Cluster:		
Direct Programs:		
WIA Adult Program	17.258	
WIA Youth Activities	17.259	
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	
WIA Pilots, Demonstrations, and Research Projects	17.261	
Temporary Labor Certification for Foreign Workers	17.273	
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	
Workforce Investment Act (WIA) National Emergency Grants	17.277	
Occupational Safety and Health - State Program	17.503	
Consultation Agreements	17.504	
Total Direct Programs		
<b>Total U.S. Department of Labor</b>		
<b><u>U.S. Department of Transportation</u></b>		
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 Highway Planning and Construction Cluster		
Federal Transit Cluster:		
Direct Programs:		
Federal Transit - Capital Investment Grants	20.500	
Federal Transit - Formula Grants	20.507	
ARRA - Federal Transit - Formula Grants	20.507	
Total Federal Transit Cluster		
Transit Services Programs Cluster:		
Direct Programs:		
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	
Job Access and Reverse Commute Program	20.516	
New Freedom Program	20.521	
Total Transit Services Programs Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 10,857,678	\$ 16,296,052	\$	\$ 27,153,730
3,764,287			3,764,287
2,400,050			2,400,050
<u>\$ 17,022,015</u>	<u>\$ 16,296,052</u>	<u>\$ 0</u>	<u>\$ 33,318,067</u>
\$ 963,193	\$ 37,701,775	\$	\$ 38,664,968
1,231,727	35,603,029		36,834,756
3,041,874	35,330,030		38,371,904
<u>\$ 5,236,794</u>	<u>\$ 108,634,834</u>	<u>\$ 0</u>	<u>\$ 113,871,628</u>
\$ 2,119,000	\$	\$	\$ 2,119,000
241,300			241,300
1,749,341,417	6,350,159		1,755,691,576
571,164,947			571,164,947
44,580	2,862,985		2,907,565
23,045,650	24,499,103		47,544,753
198,514			198,514
477,628			477,628
21,283	2,003,280		2,024,563
28,476	1,992,201		2,020,677
9,862,200			9,862,200
1,567,900			1,567,900
<u>\$ 2,358,112,895</u>	<u>\$ 37,707,728</u>	<u>\$ 0</u>	<u>\$ 2,395,820,623</u>
<b><u>\$ 2,380,371,704</u></b>	<b><u>\$ 162,638,614</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 2,543,010,318</u></b>
\$ 1,084,205,682	\$ 38,056,263	\$	\$ 1,122,261,945
5,656,087	1,299,508		6,955,595
1,865,021			1,865,021
<u>\$ 1,091,726,790</u>	<u>\$ 39,355,771</u>	<u>\$ 0</u>	<u>\$ 1,131,082,561</u>
\$	\$ 3,444,331	\$	\$ 3,444,331
	10,320		10,320
	14,699		14,699
<u>\$ 0</u>	<u>\$ 3,469,350</u>	<u>\$ 0</u>	<u>\$ 3,469,350</u>
\$	\$ 3,424,658	\$	\$ 3,424,658
	230,202		230,202
	1,836,866		1,836,866
<u>\$ 0</u>	<u>\$ 5,491,726</u>	<u>\$ 0</u>	<u>\$ 5,491,726</u>

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
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 Seats Incentive Grants	20.613	
Total Highway Safety Cluster		
Direct Programs:		
Airport Improvement Program (Note 9)	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 Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants	20.319	
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants	20.319	
Rail Line Relocation and Improvement	20.320	
Metropolitan Transportation Planning	20.505	
Formula Grants for Rural Areas	20.509	
ARRA - Formula Grants for Rural 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	
Total Direct Programs		
<b>Total U.S. Department of Transportation</b>		
<b><u>U.S. Department of Treasury</u></b>		
Direct Programs:		
Equitable Sharing of Federally Forfeited Property	21.**	
Internal Revenue Services - Identity Theft	21.**	
Total Direct Programs		
Pass-Through Program:		
Neighborhood Works		
National Foreclosure Mitigation Counseling	21.**	PL112-1095X1350
National Foreclosure Mitigation Counseling	21.**	PL112-5595X1350
Total Pass-Through Program		
<b>Total U.S. Department of Treasury</b>		
<b><u>Equal Employment Opportunity Commission</u></b>		
Direct Program:		
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	
<b>Total Equal Employment Opportunity Commission</b>		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 4,151,228	\$ 3,466,141	\$	\$ 7,617,369
1,765,709	861,181		2,626,890
987,206	(2,245)		984,961
364,132			364,132
31,296	173,991		205,287
316,415	268,317		584,732
<u>\$ 7,615,986</u>	<u>\$ 4,767,385</u>	<u>\$ 0</u>	<u>\$ 12,383,371</u>
\$ 19,495,784	\$	\$	\$ 19,495,784
6,786,057	66,135		6,852,192
349,438			349,438
245,038			245,038
122,662			122,662
164,896			164,896
143,300,380			143,300,380
42,023,286	12,023,002		54,046,288
1,057,725			1,057,725
	2,385,287		2,385,287
2,398,361	10,962,562		13,360,923
1,362,257	1,044,898		2,407,155
	503,156		503,156
	843,787		843,787
731	74,200		74,931
432,860			432,860
714,143			714,143
474,832			474,832
	90,000		90,000
	2,767		2,767
<u>\$ 218,928,450</u>	<u>\$ 27,995,794</u>	<u>\$ 0</u>	<u>\$ 246,924,244</u>
<b>\$ 1,318,271,226</b>	<b>\$ 81,080,026</b>	<b>\$ 0</b>	<b>\$ 1,399,351,252</b>
\$ 234,022	\$	\$	\$ 234,022
2,278			2,278
<u>\$ 236,300</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 236,300</u>
\$	\$ 482,875	\$	\$ 482,875
	255,546		255,546
<u>\$ 0</u>	<u>\$ 738,421</u>	<u>\$ 0</u>	<u>\$ 738,421</u>
<b>\$ 236,300</b>	<b>\$ 738,421</b>	<b>\$ 0</b>	<b>\$ 974,721</b>
\$ 853,000	\$	\$	\$ 853,000
<u>\$ 853,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 853,000</u>

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
<b><u>General Services Administration</u></b>		
Direct Program:		
Donation of Federal Surplus Personal Property (Note 10)	39.003	
<b>Total General Services Administration</b>		
<b><u>National Endowment for the Arts</u></b>		
Direct Programs:		
Promotion of the Arts - Partnership Agreements	45.025	
Grants to States	45.310	
<b>Total National Endowment for the Arts</b>		
<b><u>Small Business Administration</u></b>		
Direct Program:		
State Trade and Export Promotion Pilot Grant Program	59.061	
<b>Total Small Business Administration</b>		
<b><u>U.S. Department of Veterans Affairs</u></b>		
Direct Programs:		
Grants to States for Construction of State Home Facilities	64.005	
Veterans State Domiciliary Care	64.014	
Veterans State Nursing Home Care	64.015	
Veterans Information and Assistance	64.115	
<b>Total U.S. Department of Veterans Affairs</b>		
<b><u>U.S. Environmental Protection Agency</u></b>		
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	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$	\$ 809,000	\$	\$ 809,000
<b>\$ 0</b>	<b>\$ 809,000</b>	<b>\$ 0</b>	<b>\$ 809,000</b>
\$ 4,063,515	\$ 793,945	\$	\$ 793,945 4,063,515
<b>\$ 4,063,515</b>	<b>\$ 793,945</b>	<b>\$ 0</b>	<b>\$ 4,857,460</b>
\$ 778,726	\$ 1,408,181	\$	\$ 2,186,907
<b>\$ 778,726</b>	<b>\$ 1,408,181</b>	<b>\$ 0</b>	<b>\$ 2,186,907</b>
\$ 637,232 931,102 25,313,065 474,058	\$	\$	\$ 637,232 931,102 25,313,065 474,058
<b>\$ 27,355,457</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 27,355,457</b>
\$ 4,467,062 288,151	\$	\$	\$ 4,467,062 288,151
823,858 10,575 296,510 4,194,000 465,427 2,695,908	99,578 191,121		923,436 201,696 296,510 4,194,000 660,603 96,130,838
1,864,813 275,963 5,840,462 401,853 5,103,506 182,429 37,067 288,406 11,471,992 233,947 360,015 31,107 43,989 3,457,460 1,148,034 1,042,755 1,953,089	93,434,930 374,339 2,513,231 163,622 19,225,683 352,697 3,157,911 1,156 404,124		374,339 4,378,044 439,585 25,066,145 754,550 8,261,417 183,585 441,191 288,406 11,471,992 299,346 444,517 84,318 51,489 3,457,460 1,246,470 1,247,620 1,953,089

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA* Number</u>	<u>Pass-Through Identification Number</u>
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
Central Michigan University		
Great Lakes Program	66.469	GL00E00612
Total Pass-Through Programs		
<b>Total U.S. Environmental Protection Agency</b>		
<b><u>U.S. Department of Energy</u></b>		
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	
State Energy Program Special Projects	81.119	
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	
<b>Total U.S. Department of Energy</b>		
<b><u>U.S. Department of Education</u></b>		
Student Financial Assistance Cluster:		
Direct Programs:		
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	
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	
Total Special Education Cluster (IDEA)		
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		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 124,550			\$ 124,550
810,316			810,316
13,734			13,734
<u>\$ 47,926,978</u>	<u>\$ 120,627,481</u>	<u>\$ 0</u>	<u>\$ 168,554,459</u>
\$ 6,597	\$	\$	\$ 6,597
22,809			22,809
<u>\$ 29,406</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,406</u>
<b><u>\$ 47,956,384</u></b>	<b><u>\$ 120,627,481</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 168,583,865</u></b>
\$ 1,202,134	\$ 1,296,822	\$	\$ 2,498,956
	197,913		197,913
(9,937,845)	17,798,483		7,860,638
10,653,166	5,582,678		16,235,844
4,844	272,989		277,833
601,206	2,232,291		2,833,497
458,996	5,752,922		6,211,918
<u>\$ 2,982,501</u>	<u>\$ 33,134,098</u>	<u>\$ 0</u>	<u>\$ 36,116,599</u>
\$ 27,185	\$	\$	\$ 27,185
446,988			446,988
<u>\$ 474,173</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 474,173</u>
\$ 6,520,481	\$ 506,975,646	\$	\$ 513,496,127
19,771	7,592,108		7,611,879
<u>\$ 6,540,252</u>	<u>\$ 514,567,754</u>	<u>\$ 0</u>	<u>\$ 521,108,006</u>
\$ 19,431,922	\$ 382,240,912	\$	\$ 401,672,834
831,998	11,952,437		12,784,435
(29)	(1,307,826)		(1,307,855)
<u>\$ 20,263,891</u>	<u>\$ 392,885,523</u>	<u>\$ 0</u>	<u>\$ 413,149,414</u>
\$ 767,291	\$ 12,118,190	\$	\$ 12,885,481
1			1
<u>\$ 767,292</u>	<u>\$ 12,118,190</u>	<u>\$ 0</u>	<u>\$ 12,885,482</u>

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
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Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
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		
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	
Federal Family Education Loans - Guaranty Agency (Notes 11 and 12)	84.032G	
Federal Family Education Loans - Lender (Notes 11 and 13)	84.032L	
Career and Technical Education - Basic Grants to States	84.048	
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	
National Institute on Disability and Rehabilitation Research	84.133	
Migrant Education - Coordination Program	84.144	
Independent Living - State Grants	84.169	
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177	
Safe and Drug-Free Schools and Communities - National Programs	84.184	
Safe and Drug-Free Schools and Communities - State Grants	84.186	
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	
Education for Homeless Children and Youth	84.196	
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	
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	
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	

*This schedule continued on next page.*

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ (8,855)	\$ (33,112)	\$	\$ (41,967)
	779,783		779,783
<u>\$ (8,855)</u>	<u>\$ 746,671</u>	<u>\$ 0</u>	<u>\$ 737,816</u>
\$ 90,797	\$	\$	\$ 90,797
5,563,132	33,942		5,597,074
<u>\$ 5,653,929</u>	<u>\$ 33,942</u>	<u>\$ 0</u>	<u>\$ 5,687,871</u>
\$ 921,022	\$ 24,478,209	\$	\$ 25,399,231
842,184	38,202,797		39,044,981
<u>\$ 1,763,206</u>	<u>\$ 62,681,006</u>	<u>\$ 0</u>	<u>\$ 64,444,212</u>
\$ 191,743	\$	\$	\$ 191,743
1,869,716	12,690,654		14,560,370
574,907	8,280,948		8,855,855
282,026	132,187		414,213
144,292,867			144,292,867
(13,613,061)			(13,613,061)
3,531,966	35,109,670		38,641,636
92,935,758	2,725,842		95,661,600
48,700			48,700
34,936			34,936
31,471	334,159		365,630
862,229	330,127		1,192,356
1,598,458	4,356,564		5,955,022
5,234	(42,392)		(37,158)
731,646			731,646
414,910	2,522,292		2,937,202
6,593	8,879		15,472
3,859	467,530		471,389
	706,850		706,850
155,338			155,338
373,809	10,408,569		10,782,378
1,160,982	38,003,735		39,164,717
	887,082		887,082
905,317			905,317
81,550			81,550
557,733	1,453,025		2,010,758
6,722,378			6,722,378
95,000	2,429,594		2,524,594
473,847	11,382,537		11,856,384
512,914	3,644,787		4,157,701
1,414,635	87,015,104		88,429,739
12,884,331			12,884,331
850	86,094		86,944

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
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Continued

<u>Federal Agency/Program or Cluster</u>	<u>CFDA* Number</u>	<u>Pass-Through Identification Number</u>
College Access Challenge Grant Program	84.378	
Education Jobs Fund	84.410	
Total Direct Programs		
<b>Total U.S. Department of Education</b>		
<b><u>National Archives and Records Administration</u></b>		
Direct Program:		
National Historical Publications and Records Grants	89.003	
<b>Total National Archives and Records Administration</b>		
<b><u>U.S. Election Assistance Commission</u></b>		
Direct Program:		
Help America Vote Act Requirements Payments	90.401	
<b>Total U.S. Election Assistance Commission</b>		
<b><u>U.S. Department of Health and Human Services</u></b>		
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		
TANF Cluster:		
Direct Program:		
Temporary Assistance for Needy Families (TANF) State Programs (Note 14)	93.558	
Total TANF 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		
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	
Tobacco Regulation Awareness, Communication, and Education Program	93.058	
Public Health Emergency Preparedness	93.069	

*This schedule continued on next page.*

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 593	\$	\$	\$ 593
89,820	(569,528)		(479,708)
<u>\$ 259,233,055</u>	<u>\$ 222,364,309</u>	<u>\$ 0</u>	<u>\$ 481,597,364</u>
<b>\$ 294,686,943</b>	<b>\$ 1,205,397,395</b>	<b>\$ 0</b>	<b>\$ 1,500,084,338</b>

\$ 1,620	\$	\$	\$ 1,620
<u>\$ 1,620</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,620</u>

\$ 813,906	\$	\$	\$ 813,906
<u>\$ 813,906</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 813,906</u>

\$ 337,254	\$ 10,888,263	\$	\$ 11,225,517
624,784	18,840,554		19,465,338
647,747	6,111,112		6,758,859
<u>\$ 1,609,785</u>	<u>\$ 35,839,929</u>	<u>\$ 0</u>	<u>\$ 37,449,714</u>

<u>\$ 670,406,199</u>	<u>\$ 103,916,699</u>	<u>\$</u>	<u>\$ 774,322,898</u>
<u>\$ 670,406,199</u>	<u>\$ 103,916,699</u>	<u>\$ 0</u>	<u>\$ 774,322,898</u>

\$ 58,046,156	\$	\$	\$ 58,046,156
82,860,074			82,860,074
<u>\$ 140,906,230</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 140,906,230</u>

\$ 3,627,234	\$	\$	\$ 3,627,234
12,725,674			12,725,674
8,415,568,100	27,402,726		8,442,970,826
58,122,596	3,046,802		61,169,398
<u>\$ 8,490,043,604</u>	<u>\$ 30,449,528</u>	<u>\$ 0</u>	<u>\$ 8,520,493,132</u>

\$	\$ 160,862	\$	\$ 160,862
382,603	129,000		511,603
(31,202)	687,504		656,302
71,854	162,406		234,260
(28,073)	202,796		174,723
105,513	4,505,865		4,611,378
476,509	226,990		703,499
8,060,945	9,283,496		17,344,441

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
Environmental Public Health and Emergency Response	93.070	
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079	
Emergency System for Advance Registration of Volunteer Health Professionals	93.089	
Guardianship Assistance	93.090	
ARRA - Guardianship Assistance	93.090	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094	
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	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	
Injury Prevention and Control Research and State and Community Based Programs	93.136	
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	
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	
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	
State Rural Hospital Flexibility Program	93.241	
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	
Universal Newborn Hearing Screening	93.251	
Immunization Cooperative Agreements	93.268	
Adult Viral Hepatitis Prevention and Control	93.270	
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	
Pregnancy Assistance Fund Program	93.500	
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 (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; PPHF	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	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 753,242	\$ 457,948	\$	\$ 1,211,190
35,916			35,916
214,283			214,283
2,003,301	31,094		2,034,395
(178)			(178)
444,012	1,235,998		1,680,010
65,436	38,619		104,055
898,472	89,137		987,609
511,881	346,351		858,232
739,372			739,372
107,729	21,516		129,245
130,845	214,287		345,132
382,763	900,029		1,282,792
(30,943)	1,844,775		1,813,832
13,730	1,035,948		1,049,678
214,509	320,695		535,204
538,693			538,693
121,981	160,537		282,518
34,824	74,376		109,200
1,667,778	6,069,934		7,737,712
203,925			203,925
382,538	1,076,039		1,458,577
459,036			459,036
27,283	701,389		728,672
498,086	1,641,366		2,139,452
221,839			221,839
3,733,858	4,860,928		8,594,786
589,775			589,775
5,572,406	3,744,947		9,317,353
(3,227)	139,876		136,649
5,168	409,016		414,184
26,135	387,048		413,183
62,022	69,872		131,894
267,668			267,668
230,706			230,706
3,180			3,180
859,569	4,088,622		4,948,191
264,614	294,099		558,713
915,832			915,832
79,478	965,311		1,044,789
(29,321)			(29,321)
891,959			891,959
1,769			1,769
2,468,817			2,468,817
31,860			31,860
543,809	369,811		913,620
171,732	173,694		345,426

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
PPHF2013: State Nutrition, Physical Activity, and Obesity Programs - financed in part by 2013 PPHF	93.548	
Promoting Safe and Stable Families	93.556	
Child Support Enforcement	93.563	
Child Support Enforcement Research	93.564	
Refugee and Entrant Assistance - State Administered Programs	93.566	
Low-Income Home Energy Assistance (Note 14)	93.568	
Community Services Block Grant	93.569	
Refugee and Entrant Assistance - Discretionary Grants	93.576	
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	
State Court Improvement Program	93.586	
Community-Based Child Abuse Prevention Grants (Note 14)	93.590	
Grants to States for Access and Visitation Programs	93.597	
Chafee Education and Training Vouchers Program (ETV)	93.599	
Head Start	93.600	
The Affordable Care Act Medicaid Adult Quality Grants	93.609	
Voting Access for Individuals with Disabilities - Grants to States	93.617	
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	
Developmental Disabilities Basic Support and Advocacy Grants	93.630	
Children's Justice Grants to States	93.643	
Stephanie Tubbs Jones Child Welfare Services Program (Note 14)	93.645	
Adoption Opportunities	93.652	
Foster Care - Title IV-E	93.658	
ARRA - Foster Care - Title IV-E	93.658	
Adoption Assistance	93.659	
ARRA - Adoption Assistance	93.659	
Social Services Block Grant (Note 14)	93.667	
Child Abuse and Neglect State Grants	93.669	
Family Violence Prevention and Services/Battered Women's Shelters - Grants to States and Indian Tribes	93.671	
Chafee Foster Care Independence Program	93.674	
ARRA - Head Start	93.708	
ARRA - Preventing Healthcare-Associated Infections	93.717	
ARRA - State Grants to Promote Health Information Technology	93.719	
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by the Prevention and Public Health Fund (PPHF-2012)	93.733	
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs financed by 2012 Prevention and Public Health Funds (PPHF-2012)	93.734	
State Public Health Approaches for Ensuring Quitline Capacity Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012)	93.735	
PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by 2012 Prevention and Public Health Funds	93.744	
PPHF-2012: Health Care Surveillance/Health Statistics Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by 2012 Prevention and Public Health Funds (PPHF-2012)	93.745	
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 Care Formula Grants	93.917	

*This schedule continued on next page.*

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 631,849	\$ 493,965	\$	\$ 1,125,814
6,641,256	3,323,138		9,964,394
50,165,427	105,447,686		155,613,113
139,494	48,684		188,178
7,437,296	14,119,260		21,556,556
163,910,062	8,468,500		172,378,562
4,338,700	22,588,509		26,927,209
335,537	356,205		691,742
(73,326)	1,706,637		1,633,311
981,408			981,408
353,032	504,376		857,408
289,203			289,203
420,010	1,653,261		2,073,271
162,046			162,046
77,434	175,000		252,434
39,145	257,008		296,153
792,498			792,498
1,522,186	1,446,721		2,968,907
486,331			486,331
8,831,639			8,831,639
1	397,298		397,299
135,654,072	624,430		136,278,502
(51,235)			(51,235)
118,971,205	1,198,438		120,169,643
67			67
126,169,599	2,293,759		128,463,358
160,661	651,679		812,340
(38,121)	2,283,439		2,245,318
3,958,298	575,563		4,533,861
2,051,547			2,051,547
(10,835)			(10,835)
113,586	6,646,746		6,760,332
520,769	75,000		595,769
65,897	280,940		346,837
628,160			628,160
404,794	202,558		607,352
1,000	82,136		83,136
99,089,972			99,089,972
1			1
42,849	1,607,094		1,649,943
10,585,674	215,000		10,800,674
7,600,968			7,600,968
2,543,719	7,663,194		10,206,913
(142,230)			(142,230)
43,613	109,671		153,284
10,415,473	4,606,238		15,021,711

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	
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	
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	
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	
Preventive Health and Health Services Block Grant	93.991	
Maternal and Child Health Services Block Grant to the States	93.994	
State Data Collection Contract (Synectics)	93.**	
Social Security Administration - Birth Record Contract	93.**	
Social Security Administration - Death Records	93.**	
Vital Statistics - CDC NCHS Contract	93.**	
National Death Index	93.**	
Genotyping TB	93.**	
ARRA - SEARCH Contract	93.**	HSSH250200900033C
Link Art Data with Vital Records	93.**	
State Demo Dual Eligible	93.**	
Michigan ART Linkage Project	93.**	
Total Direct Programs		
Pass-Through Programs:		
Association of Public Health Laboratories, Inc. Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	93.065	56400-200-039-12-08; 56400-200-600-13-02; 56400-200-010-13-06; 820067-13
Genetic Alliance Maternal and Child Health Federal Consolidated Programs	93.110	20132425
Regents of the University of Michigan Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	3002169610
University of Wisconsin Human Genome Research	93.172	13-8413
Regents of the University of Michigan Research on Healthcare Costs, Quality and Outcomes	93.226	3002243208; 3002290116
Michigan State University Occupational Safety and Health Program	93.262	61-0406MDCH
Association of State and Territorial Health Officials Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	8220-07AST9.1

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 5,211,593	\$ 3,159,255	\$	\$ 8,370,848
461,199			461,199
350,244	6,059,366		6,409,610
1,947,929	16,500		1,964,429
246,449	488,223		734,672
80,835	47,000		127,835
1,354,969	10,108,681		11,463,650
979,914	55,591,656		56,571,570
356,507	2,207,211		2,563,718
876,055	1,395,761		2,271,816
9,168,542	8,966,620		18,135,162
96,825			96,825
274,622			274,622
93,466			93,466
611,917			611,917
118,805			118,805
598,675			598,675
(297)	64,848		64,551
(77)			(77)
14,843	10,176		25,019
13,268			13,268
<u>\$ 825,483,325</u>	<u>\$ 325,339,611</u>	<u>\$ 0</u>	<u>\$ 1,150,822,936</u>

\$ 60,158	\$	\$	\$ 60,158
18,818			18,818
82,041	77,532		159,573
5,000			5,000
55,306	64,124		119,430
156,796			156,796
4,031			4,031

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
*Continued*

<u>Federal Agency/Program or Cluster</u>	<u>CFDA*</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification Number</u>
Council of State & Territorial Epidemiologists Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	20123655; 20131163
National Association of Chronic Disease Directors Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	1082011; 1952012; 1542013
Association of State & Territorial Chronic Disease Program Directors Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	20113583
Michigan State University Allergy, Immunology and Transplantation Research	93.855	61-0049MDCH
Regents of the University of Michigan Allergy, Immunology and Transplantation Research	93.855	3001712828
State of Minnesota National Bioterrorism Hospital Preparedness Program	93.889	B40616/B56658
Southeastern Michigan Health Association HIV Emergency Relief Project Grants	93.914	20113870-05
American College of Obstetricians and Gynecologists HIV Demonstration, Research, Public and Professional Education Projects	93.941	20132049
Michigan State University MSU National Children's Study Center	93.**	611407MD
University of Utah Novel Technologies in Newborn Screening	93.**	10019195-02
The Center for Social Innovation Bringing Recovery Supports to Scale Technical Assistance Center Strategy	93.**	20123591
John Snow, Inc. Evaluation Associated with HIV Testing	93.**	13283-1051
National Association of State Mental Health Program Directors NASMHPD Transformation Transfer Initiative (TTI)	93.**	SC-1026-MI-01
National Association of State Mental Health Program Directors NASMHPD Employment Development Initiative - EDI	93.**	SC-1042-MI-01
McKing Consulting Corporation Genomics Video Project	93.**	02-4554; 03-4556
<b>Total Pass-Through Programs</b>		
<b>Total U.S. Department of Health and Human Services</b>		

*This schedule continued on next page.*

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 139,798	\$	\$	\$ 139,798
2,980	32,741		35,721
	30,000		30,000
30,651			30,651
76,958			76,958
(1,403)			(1,403)
391,037			391,037
50	5,511		5,561
(5,565)			(5,565)
215,811			215,811
50,000			50,000
29,357			29,357
(8,571)	200,031		191,460
(16,247)	85,000		68,753
8,987			8,987
<u>\$ 1,295,993</u>	<u>\$ 494,939</u>	<u>\$ 0</u>	<u>\$ 1,790,932</u>
<b><u>\$ 10,129,745,136</u></b>	<b><u>\$ 496,040,706</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 10,625,785,842</u></b>

STATE OF MICHIGAN  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2013  
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
<b><u>U.S. Corporation for National and Community Service</u></b>		
Direct Programs:		
State Commissions	94.003	
AmeriCorps	94.006	
Program Development and Innovation Grants	94.007	
Training and Technical Assistance	94.009	
Volunteer Generation Fund	94.021	
<b>Total U.S. Corporation for National and Community Service</b>		
<b><u>Executive Office of the President</u></b>		
Direct Program:		
High Intensity Drug Trafficking Areas Program	95.001	
<b>Total Executive Office of the President</b>		
<b><u>Social Security Administration</u></b>		
Disability Insurance/SSI Cluster:		
Direct Program:		
Social Security - Disability Insurance	96.001	
<b>Total Social Security Administration</b>		
<b><u>U.S. Department of Homeland Security</u></b>		
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	
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	
Buffer Zone Protection Program (BZPP)	97.078	
Driver's License Security Grant Program	97.089	
Homeland Security Biowatch Program	97.091	
Repetitive Flood Claims	97.092	
National Incident Management System (NIMS)	97.107	
Border Interoperability Demonstration Project	97.120	
State and Local Homeland Security National Training Program	97.**	
BIOWATCH Laboratory Support	97.**	
Total Direct Programs		
Pass-Through Program:		
Association of Public Health Laboratories, Inc.		
Integrated Consortium of Lab Networks	97.**	56400-100205-13-03
<b>Total U.S. Department of Homeland Security</b>		
<b>TOTAL FINANCIAL ASSISTANCE</b>		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 264,201	\$ 92,408	\$	\$ 356,609
54,665	6,463,374		6,518,039
60,452			60,452
(409)			(409)
19,289	440,076		459,365
<b>\$ 398,198</b>	<b>\$ 6,995,858</b>	<b>\$ 0</b>	<b>\$ 7,394,056</b>
\$ 449,449	\$ 0	\$ 0	\$ 449,449
<b>\$ 449,449</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 449,449</b>
\$ 79,622,096	\$ 0	\$ 0	\$ 79,622,096
<b>\$ 79,622,096</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 79,622,096</b>
\$ 74,618	\$ 303,943	\$	\$ 74,618
5,205,433	679,150		5,884,583
244,712			244,712
	589,551		589,551
245,056	57,483		302,539
24,045			24,045
108,915			108,915
5,994,885	3,134,319		9,129,204
34,852			34,852
\$ 113,808	\$ 1,391,296	\$	\$ 1,391,296
163	226,068		339,876
6,087,882	35,808,169		41,896,051
42	670,845		670,887
621,438			621,438
1,407,831	322,023		1,729,854
	152,000		152,000
15,464	6,011		21,475
924	677,650		678,574
5,852			5,852
100,000			100,000
<b>\$ 20,285,920</b>	<b>\$ 44,018,508</b>	<b>\$ 0</b>	<b>\$ 64,304,428</b>
\$ 16,000	\$	\$	\$ 16,000
<b>\$ 20,301,920</b>	<b>\$ 44,018,508</b>	<b>\$ 0</b>	<b>\$ 64,320,428</b>
<b>\$ 17,664,472,229</b>	<b>\$ 3,360,587,068</b>	<b>\$ 12,251,868</b>	<b>\$ 21,037,311,165</b>

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Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
<u>Nonfinancial Assistance (Note 6):</u>		
<b><u>U.S. Department of Agriculture</u></b>		
Child Nutrition Cluster:		
National School Lunch Program	10.555	
Summer Food Service Program for Children	10.559	
Total Child Nutrition Cluster		
Food Distribution Cluster:		
Commodity Supplemental Food Program	10.565	
Emergency Food Assistance Program (Food Commodities)	10.569	
Total Food Distribution Cluster		
<b>Total U.S. Department of Agriculture</b>		
<b><u>U.S. Environmental Protection Agency</u></b>		
Direct Programs:		
Air Pollution Control Program Support	66.001	
Performance Partnership Grants	66.605	
Hazardous Waste Management State Program Support	66.801	
<b>Total U.S. Environmental Protection Agency</b>		
<b><u>U.S. Department of Health and Human Services</u></b>		
Direct Programs:		
Public Health Emergency Preparedness	93.069	
Immunization Cooperative Agreements	93.268	
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	
<b>Total U.S. Department of Health and Human Services</b>		
<b>TOTAL NONFINANCIAL ASSISTANCE</b>		
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		

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

\*\* CFDA number not available. Number derived from federal agency number or contract number (if available).

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
\$ 6,671	\$ 36,910,894	\$	\$ 36,917,565
	68,243		68,243
<u>\$ 6,671</u>	<u>\$ 36,979,137</u>	<u>\$ 0</u>	<u>\$ 36,985,808</u>
\$	\$ 20,154,712	\$	\$ 20,154,712
	21,988,270		21,988,270
<u>\$ 0</u>	<u>\$ 42,142,982</u>	<u>\$ 0</u>	<u>\$ 42,142,982</u>
<b>\$ 6,671</b>	<b>\$ 79,122,119</b>	<b>\$ 0</b>	<b>\$ 79,128,790</b>
\$ 128,344	\$	\$	\$ 128,344
275,826			275,826
247,104			247,104
<u>\$ 651,274</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 651,274</u>
\$ 192,189	\$	\$	\$ 192,189
89,446,806			89,446,806
7,887			7,887
89,397			89,397
<u>\$ 89,736,279</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 89,736,279</u>
<b>\$ 90,394,224</b>	<b>\$ 79,122,119</b>	<b>\$ 0</b>	<b>\$ 169,516,343</b>
<b><u>\$ 17,754,866,453</u></b>	<b><u>\$ 3,439,709,187</u></b>	<b><u>\$ 12,251,868</u></b>	<b><u>\$ 21,206,827,508</u></b>

## 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 2012-13. 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-Profit Organizations*.

### Note 2 Fiscal Year-Ends

The State of Michigan and discretely presented component units included within the fiscal year 2012-13 reporting entity are reported using fiscal years that 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, 2013. In addition, some of the programs noted below also include the

Department of Community Health, Department of Human Services, Michigan Department of Transportation, Michigan Strategic Fund, and Land Bank Fast Track Authority (Other State Agencies) expenditures, which are reported as of September 30, 2013.

<i>CFDA</i>	Program	MSHDA Expenditures as of June 30, 2013	Other State Agencies' Expenditures as of September 30, 2013	Total (as Reported on the SEFA)
14.169	Housing Counseling Assistance Program	\$ 156,862	\$ 0	\$ 156,862
14.182	Section 8 Contract Administration	\$204,582,095	\$ 0	\$ 204,582,095
14.182	Section 8 New Construction/ Substantial Rehabilitation	\$107,178,042	\$ 0	\$ 107,178,042
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$ 39,909,198	\$ 9,368,811	\$ 49,278,009
14.231	Emergency Solutions Grant Program	\$ 5,972,868	\$ 0	\$ 5,972,868
14.235	Supportive Housing Program	\$ 640,500	\$ 4,469,101	\$ 5,109,601
14.239	Home Investment Partnerships Program	\$ 23,157,034	\$ 0	\$ 23,157,034
14.239	Home Investment Partnerships Program - Technical Assistance	\$ 174,601	\$ 0	\$ 174,601
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	\$ 84,144,472	\$ 5,455,009	\$ 89,599,480
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	\$ 27,725	\$ 0	\$ 27,725
14.871	Section 8 Housing Choice Vouchers	\$166,381,753	\$ 0	\$ 166,381,753
15.904	Historic Preservation Fund Grants-In-Aid	\$ 1,144,456	\$ 0	\$ 1,144,456
15.929	Save America's Treasures	\$ 32,977	\$ 0	\$ 32,977
20.205	Highway Planning and Construction	\$ 28,703	\$1,122,233,242	\$1,122,261,945
21.**	National Foreclosure Mitigation Counseling	\$ 738,421	\$ 0	\$ 738,421

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 Between State Agencies

Federal funds received by one State grantee agency and redistributed 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 (SNAP) (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. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents the U.S. Department of Agriculture (USDA) from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted-average percentage to be applied to the national aggregate SNAP

benefits provided to households in order to allocate an appropriate portion thereof of Recovery Act 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 Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 7.79% of USDA's total expenditures for SNAP benefits in the federal fiscal year ended September 30, 2013.

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. In fiscal years 1997-98 through 2004-05, the Federal Highway Administration (FHWA) deposited a total of \$11,050,000 in a Michigan Department of Transportation (MDOT) account strictly used for SIB activity. A State match equal to 25% of the federal deposit was required. These monies along with interest earnings are to remain in the SIB account and be used for purposes included in the cooperative agreement between the FHWA, the Federal Transit Administration (FTA), and MDOT. At the end of fiscal year 2012-13, the total amount of federal and State contributions and interest earnings was \$23,190,644.

No loans were disbursed in fiscal year 2012-13.

Note 9 Airport Improvement Program

Federal expenditures of \$44,609,049 for the Airport Improvement Program (CFDA 20.106) channeled to primary airports for fiscal year 2012-13 are not included in the SEFA. 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 2012-13 were \$227,309.

Note 11 Federal Family Education Loans (FFEL) Program - Loans Outstanding

The Michigan Finance Authority, a discretely presented component unit of the State of Michigan, administers the Federal Family Education Loans Program (CFDA 84.032). As of September 30, 2013, the outstanding original principal balance of loans guaranteed under the Federal Family Education Loans Program - Guaranty Agency (CFDA 84.032G) by the Michigan Finance Authority was \$2,487,971,741. In addition, as of September 30, 2013, \$982,450,794 in loans were outstanding under the Federal Family Education Loans 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 2012-13.

Note 12 Federal Family Education Loans (FFEL) Program - Guaranty Agency

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

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

The FFEL Program - Guaranty Agency activity for fiscal year 2012-13 was:

Federal Program Title	CFDA Number	Federal Expenditures
Federal Family Education Loans - Guaranty Agency	84.032G	
Loan Loss Reinsured by USDOE		\$124,179,759
Account Maintenance Fees		1,787,658
Loan Recoveries - Net of Amounts Returned to USDOE		3,455,812
Loans Repurchased and Rehabilitated		14,869,638
		<hr/>
Total Federal Family Education Loans - Guaranty Agency		\$144,292,867
		<hr/> <hr/>

Note 13 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 2012-13 was:

Federal Program Title	CFDA Number	Federal Expenditures
Federal Family Education Loans - Lender	84.032L	
Interest Subsidy Payments		\$ 5,679,280
Special Allowance Payments		(19,292,341)
		<hr/>
Total Federal Family Education Loans - Lender		\$ (13,613,061)
		<hr/> <hr/>

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).

Low-Income Home Energy Assistance ( <i>CFDA</i> 93.568)	\$ 8,579,000
Community-Based Child Abuse Prevention Grants ( <i>CFDA</i> 93.590) (Children's Trust Fund)	\$ 1,784,000
Stephanie Tubbs Jones Child Welfare Services Program ( <i>CFDA</i> 93.645)	\$54,011,000
Social Services Block Grant ( <i>CFDA</i> 93.667)	\$43,130,000

- 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 National Guard Military Operations and Maintenance (O&M) 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 \$1,747,042 in fiscal year 2012-13. The Grand Rapids Home for Veterans and the D.J. Jacobetti Home for Veterans received federal Medicaid revenue totaling \$9,972 in fiscal year 2012-13. Medicare revenue and Medicaid revenue are not considered federal assistance, but rather a purchase of services provided by the Homes. Therefore, a purchase of services funded by Medicare and Medicaid revenue is not included in the SEFA.



# INDEPENDENT AUDITOR'S REPORT



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 AUDITOR GENERAL

Independent Auditor's Report on Compliance for Each Major Program;  
 Report on Internal Control Over Compliance; and Report on the Schedule of  
 Expenditures of Federal Awards Required by OMB Circular A-133

The Honorable Rick Snyder, Governor  
 Members of the Legislature

**Report on Compliance for Each Major Federal Program**

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 of Michigan's major federal programs for the fiscal year ended September 30, 2013. 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.

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 \$4.4 billion in federal awards that are not included in the schedule of expenditures of federal awards for the fiscal year ended September 30, 2013. Our audit, described below, did not include the operations of these universities because they obtained separate audits in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

We did not audit the 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	CDBG - State-Administered CDBG Cluster	81%	\$ 49,278,009
14.871	Housing Voucher Cluster	100%	\$ 166,381,753
14.231	Emergency Solutions Grant Program	100%	\$ 5,972,868
14.239	Home Investment Partnerships Program	100%	\$ 23,331,635
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	94%	\$ 89,599,480

CFDA Number(s)	Program or Cluster	Percentage Audited by Other Auditors	Total Expenditures
17.225	Unemployment Insurance	100%	\$1,755,691,576
17.225	ARRA - Unemployment Insurance	100%	\$ 571,164,947
93.575 and 93.596	CCDF Cluster	9%	\$ 140,906,230

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit and the reports of other auditors of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with the 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 above 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 and the reports of the other auditors provide a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State's compliance.

**Basis for Adverse Opinion on the TANF Cluster and the CCDF Cluster**

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the State's compliance with the following major federal programs and associated 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	<u>2013-003</u>
U.S. Department of Health and Human Services	93.575 and 93.596	CCDF Cluster	Special Tests and Provisions - Health and Safety Requirements	<u>2013-053</u>

In addition, as identified in the following table and as described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the following:

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; and Reporting	<u>2013-037</u> <u>2013-038</u> <u>2013-039</u> <u>2013-040</u> <u>2013-041</u> <u>2013-044</u> <u>2013-045</u>
U.S. Department of Health and Human Services	93.575 and 93.596	CCDF Cluster	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking; Special Tests and Provisions – Health and Safety Requirements	<u>2013-049</u> <u>2013-050</u>

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

***Adverse Opinion on TANF Cluster and the CCDF Cluster***

In our opinion, based on our audit and the reports of other auditors, except for the possible effects of the matters identified in the first table of the Basis for Adverse Opinion section and because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion section, the State of Michigan did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the TANF Cluster and the CCDF Cluster for the fiscal year ended September 30, 2013.

***Basis for Qualified Opinion on Certain Major Federal Programs***

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the State with the following major federal program and associated 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 Agriculture	10.551 and 10.561	SNAP Cluster, including ARRA	Special Tests and Provisions - ADP System for SNAP	<u>2013-003</u>

In addition, as identified in the following table and as described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements that are applicable to the following major programs:

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirement(s)	Finding Number(s)
U.S. Department of Health and Human Services	93.775, 93.777, and 93.778	Medicaid Cluster, including ARRA	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Utilization Control and Program Integrity	<a href="#"><u>2013-057</u></a> <a href="#"><u>2013-058</u></a> <a href="#"><u>2013-059</u></a> <a href="#"><u>2013-060</u></a> <a href="#"><u>2013-061</u></a> <a href="#"><u>2013-062</u></a> <a href="#"><u>2013-063</u></a> <a href="#"><u>2013-064</u></a> <a href="#"><u>2013-066</u></a> <a href="#"><u>2013-067</u></a> <a href="#"><u>2013-068</u></a> <a href="#"><u>2013-069</u></a> <a href="#"><u>2013-071</u></a>
U.S. Department of Health and Human Services	93.566	Refugee and Entrant Assistance - State Administered Programs	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Period of Availability	<a href="#"><u>2013-073</u></a> <a href="#"><u>2013-074</u></a> <a href="#"><u>2013-076</u></a>
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	<a href="#"><u>2013-079</u></a> <a href="#"><u>2013-080</u></a> <a href="#"><u>2013-081</u></a>
U.S. Department of Health and Human Services	93.659	Adoption Assistance, including ARRA	Activities Allowed or Unallowed and Eligibility	<a href="#"><u>2013-087</u></a>
U.S. Department of Health and Human Services	93.674	Chafee Foster Care Independence Program	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	<a href="#"><u>2013-089</u></a> <a href="#"><u>2013-090</u></a> <a href="#"><u>2013-091</u></a>
Social Security Administration	96.001	Disability Insurance/SSI Cluster	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Special Tests and Provisions - Consultative Examinations Process	<a href="#"><u>2013-094</u></a> <a href="#"><u>2013-095</u></a> <a href="#"><u>2013-096</u></a> <a href="#"><u>2013-097</u></a> <a href="#"><u>2013-098</u></a>

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

### ***Qualified Opinion on Certain Major Federal Programs***

In our opinion, except for the possible effects of the matter identified in the first table of the Basis for Qualified Opinion section and except for the noncompliance identified in the second table of the Basis for Qualified Opinion section, the State of Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major programs identified in the previous paragraph for the fiscal year ended September 30, 2013.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, based on our audit and the reports of other auditors, the State of Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the fiscal year ended September 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, 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 2013-013; 2013-015; 2013-025; 2013-027; 2013-029; 2013-031; 2013-032; 2013-082; 2013-083; 2013-084; 2013-085; and 2013-086. Our opinion on each major federal program is not modified with respect to these matters.

The State's management views and planned corrective action related to the noncompliance findings identified in our audit are included in the accompanying schedule of findings and questioned costs, at the end of each finding. The State's management views and planned corrective action were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the views and planned corrective action.

### **Report on Internal Control Over Compliance**

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 for Findings 2013-001; 2013-002; 2013-003; 2013-010; 2013-013; 2013-015; 2013-027; 2013-031; 2013-032; 2013-039; 2013-040; 2013-045; 2013-049; 2013-053; 2013-057; 2013-058; 2013-072; 2013-074; 2013-079; 2013-090; 2013-094; 2013-095; and 2013-098 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 for Findings 2013-004; 2013-005; 2013-006; 2013-007; 2013-008; 2013-009; 2013-010; 2013-011; 2013-012; 2013-013; 2013-014; 2013-015; 2013-016; 2013-017; 2013-018; 2013-019; 2013-020; 2013-021; 2013-022; 2013-023; 2013-024; 2013-025; 2013-026; 2013-028; 2013-029; 2013-030; 2013-033; 2013-034; 2013-035; 2013-036; 2013-037; 2013-038; 2013-041; 2013-042; 2013-043; 2013-044; 2013-046; 2013-047; 2013-048; 2013-050; 2013-051; 2013-052; 2013-054; 2013-055; 2013-056; 2013-059; 2013-060; 2013-061; 2013-062; 2013-063; 2013-064; 2013-065; 2013-066; 2013-067; 2013-068; 2013-069; 2013-070; 2013-071; 2013-073; 2013-075; 2013-076; 2013-077; 2013-078; 2013-080; 2013-081; 2013-082; 2013-083; 2013-084; 2013-085; 2013-086; 2013-088; 2013-089; 2013-091; 2013-092; 2013-093; 2013-096; and 2013-097 to be significant deficiencies.

The State's management views and planned corrective action related to the internal control over compliance findings identified in our audit are included in the accompanying schedule of findings and questioned costs, at the end of each finding. The State's management views and planned corrective action were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the views and planned corrective action.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, principally as of and for the fiscal year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated December 21, 2013, which contained unmodified opinions on those financial statements and includes references to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 basic financial statements. The information has been

subjected to the auditing procedures applied 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 basic financial statements or to the basic 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.

Sincerely,

A handwritten signature in cursive script that reads "Doug Ringler".

Doug Ringler, C.P.A., C.I.A.  
Auditor General  
June 13, 2014

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Statements

Type of auditor's report issued: Unmodified\*

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>2013-001</u> <u>2013-002</u> <u>2013-003</u> <u>2013-006</u>
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster	Unmodified	\$0	<u>2013-009</u> <u>2013-010</u> <u>2013-013</u> <u>2013-016</u>

\* See glossary at end of report for definition.

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	<b>Opinion</b>	<b>Questioned Costs</b>	<b>Audit Finding Number(s)</b>
10.565, 10.568, and 10.569	Food Distribution Cluster, including ARRA	Unmodified	\$0	<u>2013-009</u> <u>2013-010</u> <u>2013-013</u> <u>2013-016</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Unmodified	\$0	<u>2013-006</u> <u>2013-007</u> <u>2013-014</u> <u>2013-022</u> <u>2013-023</u> <u>2013-024</u>
10.558	Child and Adult Care Food Program	Unmodified	\$32,608	<u>2013-009</u> <u>2013-010</u> <u>2013-013</u> <u>2013-016</u> <u>2013-025</u>
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Unmodified	\$0	Not Applicable
14.228	CDBG - State-Administered CDBG Cluster	Unmodified	\$0	<u>2013-026</u> <u>2013-027</u> <u>2013-028</u>
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	Unmodified	\$0	Not Applicable
20.205 and 20.219	Highway Planning and Construction Cluster, including ARRA	Unmodified	\$0	<u>2013-011</u> <u>2013-018</u>
20.106	Airport Improvement Program	Unmodified	\$46,868	<u>2013-011</u> <u>2013-029</u> <u>2013-030</u>
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants, including ARRA	Unmodified	Undeterminable	<u>2013-018</u> <u>2013-031</u> <u>2013-032</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds, including ARRA	Unmodified	\$0	<u>2013-018</u> <u>2013-033</u>

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	<b>Opinion</b>	<b>Questioned Costs</b>	<b>Audit Finding Number(s)</b>
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	Unmodified	\$0	<u>2013-034</u>
84.010 and 84.389	Title I, Part A Cluster, including ARRA	Unmodified	\$0	<u>2013-009</u> <u>2013-012</u> <u>2013-013</u> <u>2013-016</u> <u>2013-017</u>
84.027, 84.173, and 84.391	Special Education Cluster (IDEA), including ARRA	Unmodified	\$0	<u>2013-009</u> <u>2013-013</u> <u>2013-016</u>
84.377 and 84.388	School Improvement Grants Cluster, including ARRA	Unmodified	\$0	<u>2013-009</u> <u>2013-013</u> <u>2013-016</u> <u>2013-035</u>
84.048	Career and Technical Education - Basic Grants to States	Unmodified	\$0	<u>2013-009</u> <u>2013-013</u> <u>2013-016</u>
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Unmodified	\$0	<u>2013-036</u>
84.287	Twenty-First Century Community Learning Centers	Unmodified	\$0	<u>2013-009</u> <u>2013-012</u> <u>2013-013</u> <u>2013-016</u>
84.367	Improving Teacher Quality State Grants	Unmodified	\$0	<u>2013-009</u> <u>2013-012</u> <u>2013-013</u> <u>2013-016</u> <u>2013-017</u>
93.044, 93.045, and 93.053	Aging Cluster	Unmodified	\$0	Not Applicable

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
93.558	TANF Cluster	Adverse*	\$1,101,838	<u>2013-001</u> <u>2013-002</u> <u>2013-003</u> <u>2013-004</u> <u>2013-005</u> <u>2013-006</u> <u>2013-015</u> <u>2013-018</u> <u>2013-037</u> <u>2013-038</u> <u>2013-039</u> <u>2013-040</u> <u>2013-041</u> <u>2013-042</u> <u>2013-043</u> <u>2013-044</u> <u>2013-045</u> <u>2013-046</u> <u>2013-047</u> <u>2013-048</u>
93.575 and 93.596	CCDF Cluster	Adverse	\$11,822	<u>2013-001</u> <u>2013-002</u> <u>2013-006</u> <u>2013-049</u> <u>2013-050</u> <u>2013-051</u> <u>2013-052</u> <u>2013-053</u>
93.775, 93.777, and 93.778	Medicaid Cluster, including ARRA ( <i>continued on next page</i> )	Qualified	\$5,861,139	<u>2013-001</u> <u>2013-002</u> <u>2013-003</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)
	Medicaid Cluster, including ARRA <i>(continued)</i>			<u>2013-004</u> <u>2013-006</u> <u>2013-007</u> <u>2013-008</u> <u>2013-019</u> <u>2013-020</u> <u>2013-021</u> <u>2013-054</u> <u>2013-055</u> <u>2013-056</u> <u>2013-057</u> <u>2013-058</u> <u>2013-059</u> <u>2013-060</u> <u>2013-061</u> <u>2013-062</u> <u>2013-063</u> <u>2013-064</u> <u>2013-065</u> <u>2013-066</u> <u>2013-067</u> <u>2013-068</u> <u>2013-069</u> <u>2013-070</u> <u>2013-071</u>
93.563	Child Support Enforcement	Unmodified	\$0	<u>2013-006</u> <u>2013-015</u> <u>2013-018</u> <u>2013-072</u>
93.566	Refugee and Entrant Assistance - State Administered Programs <i>(continued on next page)</i>	Qualified	\$41,597	<u>2013-001</u> <u>2013-002</u> <u>2013-006</u> <u>2013-007</u>

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Questioned Costs	Audit Finding Number(s)
	Refugee and Entrant Assistance - State Administered Programs <i>(continued)</i>			<u>2013-008</u> <u>2013-018</u> <u>2013-073</u> <u>2013-074</u> <u>2013-075</u> <u>2013-076</u>
93.568	Low-Income Home Energy Assistance	Qualified	\$1,781,491	<u>2013-001</u> <u>2013-002</u> <u>2013-006</u> <u>2013-015</u> <u>2013-018</u> <u>2013-077</u> <u>2013-078</u> <u>2013-079</u> <u>2013-080</u> <u>2013-081</u>
93.658	Foster Care - Title IV-E, including ARRA	Unmodified	\$10,188	<u>2013-004</u> <u>2013-005</u> <u>2013-006</u> <u>2013-015</u> <u>2013-082</u> <u>2013-083</u> <u>2013-084</u> <u>2013-085</u> <u>2013-086</u>
93.659	Adoption Assistance, including ARRA	Qualified	Undeterminable	<u>2013-004</u> <u>2013-005</u> <u>2013-006</u> <u>2013-087</u> <u>2013-088</u>

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	<b>Opinion</b>	<b>Questioned Costs</b>	<b>Audit Finding Number(s)</b>
93.667	Social Services Block Grant	Unmodified	\$0	<a href="#"><u>2013-004</u></a> <a href="#"><u>2013-005</u></a> <a href="#"><u>2013-006</u></a> <a href="#"><u>2013-015</u></a>
93.674	Chafee Foster Care Independence Program	Qualified	\$346,569	<a href="#"><u>2013-004</u></a> <a href="#"><u>2013-005</u></a> <a href="#"><u>2013-006</u></a> <a href="#"><u>2013-015</u></a> <a href="#"><u>2013-089</u></a> <a href="#"><u>2013-090</u></a> <a href="#"><u>2013-091</u></a>
93.994	Maternal and Child Health Services Block Grant to the States	Unmodified	\$0	<a href="#"><u>2013-006</u></a> <a href="#"><u>2013-007</u></a> <a href="#"><u>2013-008</u></a> <a href="#"><u>2013-014</u></a> <a href="#"><u>2013-019</u></a> <a href="#"><u>2013-020</u></a> <a href="#"><u>2013-021</u></a> <a href="#"><u>2013-092</u></a> <a href="#"><u>2013-093</u></a>
96.001	Disability Insurance/SSI Cluster	Qualified	\$297,184	<a href="#"><u>2013-094</u></a> <a href="#"><u>2013-095</u></a> <a href="#"><u>2013-096</u></a> <a href="#"><u>2013-097</u></a> <a href="#"><u>2013-098</u></a>
97.067	Homeland Security Grant Program	Unmodified	\$0	<a href="#"><u>2013-018</u></a>

## 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	Unmodified	\$0	Not Applicable
14.231	Emergency Solutions Grant Program	Unmodified	\$0	<u>2013-100</u>
14.239	Home Investment Partnerships Program	Unmodified	\$0	<u>2013-099</u> <u>2013-100</u>
17.225	Unemployment Insurance, including ARRA	Unmodified	\$23,034	<u>2013-101</u> <u>2013-102</u>

Dollar threshold used to distinguish between type A and type B programs: \$35,542,199

Auditee qualified as a low-risk auditee\*?

No

### **Required Reporting Thresholds**

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

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.

\* See glossary at end of report for definition.

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* (071-0010-14M), located at [http://audgen.michigan.gov/finalpdfs/13\\_14/r071001014M.pdf](http://audgen.michigan.gov/finalpdfs/13_14/r071001014M.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 2013-001**

#### **Bridges Interface and Change Controls**

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	SNAP Cluster, including ARRA: CFDA 10.551 and 10.561
<b>Award Identification Number and Year</b>	EBT-2012 10/01/2011 - 09/30/2012 EBT-2013 10/01/2012 - 09/30/2013 SNAP-Benefits (ARRA) 2013 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$3,066,845,450
<b>Total ARRA Expenditures</b>	\$451,560,188
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - ADP System for SNAP
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0

<b>Repeat Finding</b>	2012-001
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: <i>CFDA</i> 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	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
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-001
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CCDF Cluster: <i>CFDA</i> 93.575 and 93.596
<b>Award Identification Number and Year</b>	G 13 03 MI CCDF 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$140,906,230
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-001
<b>State Agencies</b>	Michigan Department of Education; Department of Human Services; and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132

<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-001
<b>State Agencies</b>	Department of Community Health; Department of Human Services; and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
<b>Award Identification Number and Year</b>	G12AAMI5100 10/01/2011 - 09/30/2012 G1301MIRCMA 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-001
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance: CFDA 93.568
<b>Award Identification Number and Year</b>	G 11 BI MI LIEA 10/01/2012 - 09/30/2013 G 12 BI MI LIEA 10/01/2011 - 09/30/2013 G 12 BI MI LIEA 10/01/2011 - 09/30/2013 G 13 BI MI LIEA 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-001
<b>State Agencies</b>	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, medical 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](http://audgen.michigan.gov/finalpdfs/12_13/r431059112.pdf)>. Our IT performance audit disclosed the following control weaknesses related to interface processing controls and change controls.

## Condition

DHS and the Department of Technology, Management, and Budget (DTMB) did not ensure that effective interface and change controls were implemented for Bridges related to eligibility and benefit level for the SNAP Cluster, TANF Cluster, 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 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.

\* See glossary at end of report for definition.

### Cause

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

### Effect

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

Also, these material weaknesses were considered in determining the nature, timing, and extent of the auditing procedures that we conducted to reach our opinion on the State's compliance with requirements that could have a direct and material effect on the aforementioned major programs and 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 ensure that effective interface and change controls are implemented for Bridges 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 to support that DHS and DTMB included each applicable recipient in the Income Eligibility and Verification System (IEVS) interfaces was not readily available, end user testing was performed and yielded the expected results.

### Planned Corrective Action:

DHS and DTMB have implemented corrective action for Findings 4, 5, 7, and 8. For Finding 1, DTMB has implemented partial corrective action. DTMB created daily, weekly, and monthly reports to ensure that the interfaces are processed according to the schedule. DTMB has completed a review of the development standards related to the batch framework tables to clearly define consistent rules for writing to the batch framework tables. DTMB has started coding to ensure the tables have consistent information. For Finding 6, DTMB has developed an improved work request approval process, completed a repository of requirements to establish traceability, integrated unit checklists into the peer review process, published new standards for post-implementation activities for each release, established detective controls to improve compliance with change control processes, and conducted a quality assurance audit and reviewed the results with the contractor. DTMB will amend the project management technical support contract and the Bridges maintenance and support contract to accurately reflect the contractor's responsibilities.

### Anticipated Completion Date:

January 1, 2015

### Responsible Individual(s):

Jim Hogan, Department of Technology, Management, and Budget

Nate Buckwalter, Department of Technology, Management, and Budget

Teresa Spaulding, Department of Human Services

## **FINDING 2013-002**

### **Bridges Security Management and Access Controls**

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	SNAP Cluster, including ARRA: <i>CFDA</i> 10.551 and 10.561
<b>Award Identification Number and Year</b>	EBT-2012 10/01/2011 - 09/30/2012 EBT-2013 10/01/2012 - 09/30/2013 SNAP-Benefits (ARRA) 2013 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$3,066,845,450
<b>Total ARRA Expenditures</b>	\$451,560,188
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - ADP System for SNAP
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-002, parts a., b., and c.
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: <i>CFDA</i> 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	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
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-002, parts a., b., and c.
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CCDF Cluster: <i>CFDA</i> 93.575 and 93.596
<b>Award Identification Number and Year</b>	G 13 03 MI CCDF 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$140,906,230

<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-002, parts a., b., and c.
<b>State Agencies</b>	Michigan Department of Education; Department of Human Services; and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-002, parts a., b., and c.
<b>State Agencies</b>	Department of Community Health; Department of Human Services; and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: <i>CFDA</i> 93.566
<b>Award Identification Number and Year</b>	G12AAMI5100 10/01/2011 - 09/30/2012 G1301MIRCMA 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-002, parts a., b., and c.
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance, CFDA 93.568
<b>Award Identification Number and Year</b>	G 11 BI MI LIEA 10/01/2012 - 09/30/2013 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013 G 12 BI MI LIE2 10/01/2011 - 09/30/2013 G 13 BI MI LIEA 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Award</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-002, parts a., b., and c.
<b>State Agencies</b>	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 county office users by county office security coordinators to ensure that the county offices had implemented appropriate compensating controls. In addition, DHS did not periodically monitor other high-risk activity of county office users.
- b. 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.

\* See glossary at end of report for definition.

- d. DHS had not fully established a process to monitor central office Technology, Coordination, and Support (TCS) users with privileged access to production data, such as client case information. DHS did implement monitoring for Bridges program changes but did not have a process in place to monitor changes made directly to production data to ensure that the TCS users made only authorized changes to client case information in Bridges.
- e. DTMB had not fully established and implemented effective security and access controls over the operating system for Bridges servers. Our review of one judgmentally sampled server that contained Bridges data disclosed potentially vulnerable operating system configurations. Because of the confidentiality of operating system configurations, we summarized the results of our testing for presentation in this finding and provided the detailed results to DTMB.

#### Criteria

According to Control Objectives for Information and Related Technology\* (COBIT), management is responsible for establishing processes for evaluating the effectiveness\* and efficiency\* of its internal control processes. Also, COBIT states that the results of management's review of internal control should be documented and procedures should be established for reporting and remediating control exceptions. According to the U.S. Government Accountability Office's (GAO'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. In addition, 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.

Further, according to FISCAM, users who have extensive access rights necessary in order to keep the system running efficiently need to be closely monitored. Supervisory review of activities performed by these users helps make certain that mistakes are corrected and activities performed are authorized.

\* See glossary at end of report for definition.

Also, DTMB technical standard 1340.00.03 requires the secure establishment, maintenance, and administration of servers, including operating system software and data residing on the servers. To achieve a secure operating system, the standard requires that controls be established to protect information and resources from unauthorized access. In addition, it requires that the operating system be installed with a minimal service configuration to reduce the risk of network intrusion or exploitation of well-known operating system vulnerabilities.

### Cause

DHS county office security coordinators had not followed DHS policies and procedures for monitoring incompatible roles granted to county office users. Also, DHS had not established policies and procedures for monitoring high-risk activities or clearly assigned responsibility for monitoring county 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.

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

Also, DHS informed us that, because management had authorized the TCS users' access, DHS did not believe that additional monitoring of changes made to client case information was necessary.

In addition, DTMB informed us that some of the operating system weaknesses resulted from default manufacturer configurations and recommendations that required further evaluation. Further, DTMB had not evaluated and established standards for all operating system configurations.

### Effect

Without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to Bridges. As a result, an increased risk exists

\* See glossary at end of report for definition.

that DHS and DTMB cannot ensure the confidentiality, integrity, and security of the Bridges application and data used to help determine eligibility and benefit level for the SNAP Cluster, TANF Cluster, CCDF Cluster, Medicaid Cluster, Refugee and Entrant Assistance - State Administered Programs, and LIHEAP.

#### Known Questioned Costs

We did not identify questioned costs related to this finding.

#### Recommendation

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

#### Management Views and Corrective Action Plan

##### Management Views:

DHS and DTMB agree with the finding.

##### Planned Corrective Action:

- a. DHS will establish a process for the DHS business service centers to review and monitor DHS county office implementation plans of compensating controls.
- b. DTMB established unique database accounts for the Bridges database administrators. Database profiles controlling account lockout and password settings are in place. Database system and object privileges are configured in accordance with application requirements and both are enforced within the automated database build procedures. Privileged access has been revoked where the application requirements allowed. Basic privileged activity is logged and such activity will be monitored with the complete implementation of Oracle Audit Vault.
- c. DHS will establish a process for the DHS business service centers to review and monitor DHS county office security coordinator compliance with established processes.
- d. DHS will establish and implement a monitoring plan.

- e. DTMB has taken actions to address some of the potential vulnerabilities identified. DTMB has developed detailed corrective action plans to address the remaining issues.

Anticipated Completion Date:

April 1, 2015

Responsible Individual(s):

Teresa Spalding, Department of Human Services

Kathryn Tober, Department of Human Services

Jim Hogan, Department of Technology, Management, and Budget

Nate Buckwalter, Department of Technology, Management, and Budget

### **FINDING 2013-003**

#### **Income Eligibility and Verification System**

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	SNAP Cluster, including ARRA: CFDA 10.551 and 10.561
<b>Award Identification Number and Year</b>	EBT-2012 10/01/2011 - 09/30/2012 EBT-2013 10/01/2012 - 09/30/2013 SNAP-Benefits (ARRA) 2013 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$3,066,845,450
<b>Total ARRA Expenditures</b>	\$451,560,188
<b>Compliance Requirement(s)</b>	Special Tests and Provisions - ADP System for SNAP
<b>Type of Finding</b>	Material Weakness and Scope Limitation for Compliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	2012-003
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable

<b>Compliance Requirement(s)</b>	Special Tests and Provisions - Income Eligibility and Verification System
<b>Type of Finding</b>	Material Weakness and Scope Limitation for Compliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	2012-003
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Material Weakness and Scope Limitation (with respect to Income Eligibility and Verification System eligibility testing)
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	2012-003
<b>State Agencies</b>	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 county office caseworkers to determine the recipients' eligibility and benefit levels 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 county 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 2013-001, Bridges Interface and Change Controls).
- c. DHS, in conjunction with DTMB, could not provide sufficient documentation to support that Bridges provided notification to DHS county 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 county office caseworkers to ensure that the county office caseworkers utilized the IEVS information to determine the recipient's eligibility. We noted that, for some data matches, county office caseworkers could manually mark electronic notifications as complete 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. Federal regulation 7 *CFR* 273.2(f)(9) also 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 2013-001, Bridges Interface and Change Controls).

In addition, DHS informed us it did not have a mechanism in place to force county office caseworkers to utilize the IEVS interface information communicated through Bridges electronic notifications to determine recipients' eligibility.

\* See glossary at end of report for definition.

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 was launched April 30, 2014.

### 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 county 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 the Department of Community Health (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 county 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 documentation was not readily available to support that Bridges requests and obtains data from the required data sources and performs the required data matches, end user testing yielded the expected results for eligibility determinations.

Planned Corrective Action:

- a. DTMB has documented a detailed plan to obtain documentation from the Bridges application for the fiscal year 2013-14 single audit, including detailed validation plans for each of the IEVS interfaces. Due to the time required to create and test the plans, DTMB was unable to complete execution of the plans and delivery of the related documentation within the time frame of the audit for fiscal year 2012-13. DHS and DTMB will meet with the Office of the Auditor General prior to the fiscal year 2013-14 audit to review expectations, plans, and time frames.
- b. DTMB will evaluate the processing controls as part of the validation plan project noted above.
- c. The interface validation plans developed by DTMB include steps to identify every notification provided to caseworkers as a result of IEVS interface verifications. In addition, the documentation identified as the output of each plan activity will verify the worker action that was taken as a result of the notification. The corrective actions identified in part a. will need to be completed to determine if there are any deficiencies in the notifications provided or the resulting worker actions.
- d. DHS has established a process to review and monitor the electronic notifications provided to DHS county office caseworkers to ensure that information provided was used to determine recipient eligibility. DHS county office managers review tasks and reminders that are generated during a case read period for correct action. Also, DHS Field Operations Administration (FOA) provides direction to DHS county office management annually related to targeted case reads that is focused solely on action taken on tasks and reminders.

In addition, a multi-disciplinary workgroup reviewed all tasks and reminders with a goal to reduce the volume of tasks and reminders received, allowing specialists to focus on actions required that do have an impact to eligibility. As a result, three tasks and reminders were decommissioned in January 2014.

Further, a training aid was developed to assist managers in reviewing actions taken and outstanding tasks and reminders for their staff unit and was released in January 2014.

- e. DHS has submitted a work request to implement an automated process including these recipients in the IEVS data matches with Michigan Statewide Automated Child Welfare Information System (MiSACWIS).

Anticipated Completion Date:

January 1, 2015

Responsible Individual(s):

Jim Hogan, Department of Technology, Management, and Budget

Teresa Spaulding, Department of Human Services

**FINDING 2013-004**

**Adoption Subsidy, ASCAP, and SWSS Security Management and Access Controls**

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558	
<b>Award Identification Number and Year</b>	12 02 MI TANF	10/01/2011 - Until Expended
	13 02 MI TANF	10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget	

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
<b>Award Identification Number and Year</b>	05-1305MI5ADM	10/01/2012 - 09/30/2013
	05-1305MI5MAP	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132	

<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - ADP Risk Analysis and System Security Review
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health; Department of Human Services; and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Foster Care - Title IV-E: <i>CFDA</i> 93.658 and 93.658 (ARRA)
<b>Award Identification Number and Year</b>	12 01 MI 1401 10/01/2011 - 09/30/2012 13 01 MI 1401 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$136,227,267
<b>Total ARRA Expenditures</b>	\$(51,235)
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Adoption Assistance: <i>CFDA</i> 93.659 and 93.659 (ARRA)
<b>Award Identification Number and Year</b>	1301MI1407 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$120,169,710
<b>Total ARRA Expenditures</b>	\$67
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Social Services Block Grant: <i>CFDA</i> 93.667

<b>Award Identification Number and Year</b>	1301MISOSR 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$128,463,358
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Chafee Foster Care Independence Program: CFDA 93.674
<b>Award Identification Number and Year</b>	G 12 01 MI 1420 10/01/2011 - 09/30/2013 G 13 01 MI 1420 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$4,533,861
<b>Total ARRA Expenditures</b>	\$0
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

### Background

DHS uses the Adoption Subsidy system to assist in making adoption subsidy eligibility determinations for the TANF Cluster and Adoption Assistance. Also, DHS uses the Adult Services Comprehensive Assessment Program (ASCAP) to assist in making eligibility determinations and authorizing payments for adult home help services covered by the Medicaid Cluster. In addition, DHS uses the Services Worker Support System (SWSS) to assist in making eligibility determinations and processing payments on behalf of eligible individuals for the TANF Cluster, Foster Care - Title IV-E, Social Services Block Grant, and Chafee Foster Care Independence Program.

### Condition

DHS and DTMB had not established effective security management and access controls over the Adoption Subsidy, ASCAP, and SWSS systems. Our review disclosed:

- a. DHS had not established effective controls over granting and removing access for county office users in the Adoption Subsidy and SWSS applications. We selected a random sample of 40 county office users and noted:
  - (1) DHS was unable to locate security agreements for 5 of (13%) 40 sampled users.
  - (2) DHS granted more access than authorized on the security agreement for 4 of (11%) 35 users with security agreements on file.
  - (3) DHS did not ensure that supervisors and county office security coordinators signed 5 of (14%) 35 security agreements on file.
  - (4) DHS did not ensure that the county office security coordinators granted access to users only after the security agreement had been signed by the user and the supervisor authorizing access for 4 of (13%) 30 approved authorization forms on file.
  - (5) DHS did not ensure that it timely removed access for 3 of (38%) 8 sampled users who departed from DHS during the year. DHS did not remove access for these users until six months or more after their departure. One of these users still had access at the time of our review. DHS informed us that, upon our notification, it removed this user's access.
- b. The Adoption Subsidy, ASCAP, and SWSS database management systems contained potentially vulnerable database configurations. Because of the confidentiality of database configurations, we summarized the results of our testing for presentation in this finding and provided the detailed results to DHS and DTMB.

- c. One judgmentally sampled server had potentially vulnerable operating system configurations. Because of the confidentiality of operating system configurations, we summarized the results of our testing for presentation in this finding and provided the detailed results to DTMB.

### Criteria

According to the GAO's 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.

Also, FISCAM states that access to the database management system should be controlled and monitored to identify inappropriate or unusual behavior.

In addition, DTMB technical standard 1340.00.03 requires the secure establishment, maintenance, and administration of servers, including operating system software and data residing on the servers. To achieve a secure operating system, the standard requires that controls be established to protect information and resources from unauthorized access. In addition, it requires that the operating system be installed with a minimal service configuration to reduce the risk of network intrusion or exploitation of well-known operating system vulnerabilities.

### Cause

DHS informed us that county office security coordinators did not follow established policies and procedures regarding granting application access. Also, DHS did not remove access timely because it was behind on processing departures. In addition, DHS did not receive the departure forms from the supervisor of the employee whose access was not removed.

DTMB informed us that the weaknesses in the databases related to password settings resulted from DTMB not following State policy for the databases. The other weaknesses in the databases resulted from DTMB not having an established standard for securing the databases.

In addition, DTMB informed us that some of the operating system weaknesses resulted from default manufacturer configurations and recommendations that required further evaluation. Further, DTMB had not evaluated and established standards for all operating system configurations.

#### Effect

Without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to the Adoption Subsidy, ASCAP, and SWSS systems. As a result, an increased risk exists that DHS and DTMB cannot ensure the confidentiality, integrity, and security of the Adoption Subsidy, ASCAP, and SWSS applications and data used to help determine eligibility and benefit level for the TANF Cluster, Medicaid Cluster, Foster Care - Title IV-E, Adoption Assistance, Social Services Block Grant, and Chafee Foster Care Independence Program.

#### Known Questioned Costs

We did not identify questioned costs related to this finding.

#### Recommendation

We recommend that DHS and DTMB establish effective security management and access controls over the Adoption Subsidy, ASCAP, and SWSS systems.

#### Management Views and Corrective Action Plan

##### Management Views:

DHS and DTMB agree with the finding.

##### Planned Corrective Action:

- a. DHS will establish a process for business service centers to review county office security coordinator compliance with established processes.
- b. An individual account is being created for user query. Oracle database activity will be monitored using Oracle Audit Vault.
- c. DTMB has taken actions to address some of the potential vulnerabilities identified. DTMB has developed detailed corrective action plans to address the remaining issues.

Anticipated Completion Date:  
January 1, 2015

Responsible Individual(s):

Teresa Spalding, Department of Human Services  
Kathryn Tober, Department of Human Services  
Jim Hogan, Department of Technology, Management, and Budget  
Nate Buckwalter, Department of Technology, Management, and Budget

**FINDING 2013-005**

**Adoption Subsidy and SWSS Change Controls**

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	TANF Cluster: <i>CFDA</i> 93.558	
<b>Award Identification Number and Year</b>	12 02 MI TANF	10/01/2011 - Until Expended
	13 02 MI TANF	10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget	

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Foster Care - Title IV-E: <i>CFDA</i> 93.658 and 93.658 (ARRA)	
<b>Award Identification Number and Year</b>	12 01 MI 1401	10/01/2011 - 09/30/2012
	13 01 MI 1401	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$136,227,267	
<b>Total ARRA Expenditures</b>	\$(51,235)	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	

<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Adoption Assistance: <i>CFDA</i> 93.659 and 93.659 (ARRA)
<b>Award Identification Number and Year</b>	1301MI1407 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$120,169,710
<b>Total ARRA Expenditures</b>	\$67
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Social Services Block Grant: <i>CFDA</i> 93.667
<b>Award Identification Number and Year</b>	1301MISOSR 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$128,463,358
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Chafee Foster Care Independence Program: <i>CFDA</i> 93.674
<b>Award Identification Number and Year</b>	G 12 01 MI 1420 10/01/2011 - 09/30/2013 G 13 01 MI 1420 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$4,533,861
<b>Total ARRA Expenditures</b>	\$0
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0

<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

Background

DHS uses the Adoption Subsidy system to assist in making adoption subsidy eligibility determinations for the TANF Cluster and Adoption Assistance. Also, DHS uses SWSS to assist in making eligibility determinations and processing payments on behalf of eligible individuals for the TANF Cluster, Foster Care - Title IV-E, Social Services Block Grant, and Chafee Foster Care Independence Program.

Our auditing procedures included a review of select information technology (IT) general controls designed for the Adoption Subsidy and SWSS systems that were significant to the systems' eligibility determinations and payment processing functionality.

Condition

DHS and DTMB had not implemented a comprehensive change management process for the Adoption Subsidy and SWSS systems:

- a. DHS and DTMB did not ensure that all changes made to the Adoption Subsidy system had documented change requests. Change requests describe the change that is being requested or the problem that needs to be fixed, the priority of the request, and the contact information for the individual who submitted the request. Our review disclosed that 2 of 3 sampled program and database changes to the Adoption Subsidy system did not have a documented change request.
- b. DHS and DTMB did not document testing results for all changes to the Adoption Subsidy and SWSS systems and did not ensure that testing was successfully completed prior to implementing the changes in the production environment. We noted that 2 of 3 sampled changes for the Adoption Subsidy system and 1 of 8 sampled changes for SWSS did not have documentation of testing results. In addition, 2 of 8 sampled changes for SWSS failed or partially failed testing but were still implemented in the production environment.
- c. DHS and DTMB did not ensure that DHS approved all program and database changes made to the Adoption Subsidy system. We noted that 2 of 3 sampled changes for the Adoption Subsidy system were not approved by DHS prior to implementation in the production environment.

### Criteria

According to COBIT, a tracking and reporting system should be maintained for all change requests. Also, all requests for change should be formally approved by the business process owners.

According to the GAO's FISCAM, program and database changes should be documented so that they can be traced from authorization to the final approved code. FISCAM also requires that test results are documented and program changes are moved into production only when approved by management and by persons independent of the programmer.

### Cause

DTMB informed us that, for the two Adoption Subsidy system related exceptions, DTMB did not follow its policies and procedures for documentation related to the requesting, testing, and approval of changes because the changes were low priority and routine changes that DTMB makes every year.

DTMB informed us that policies and procedures were not followed in relation to the SWSS changes for which it did not document testing results. In relation to the changes that failed testing but DTMB still implemented in the production environment, DTMB also informed us that it moved these changes into the production environment because other changes had been made to the same modules within SWSS. In addition, DTMB informed us that its normal process is to move changes to the production environment in SWSS by module, not by individual change. Therefore, if changes to a specific module are being made, all changes affecting that module, whether they have passed or failed testing, are made in the production environment at the same time.

### Effect

Without an effective change management process, unauthorized changes may be made to the systems and DHS and DTMB cannot ensure that systems are configured and operating securely and as intended.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DHS and DTMB implement a comprehensive change management process for the Adoption Subsidy and SWSS systems.

Management Views and Corrective Action Plan

Management Views:

DHS and DTMB agree with the finding.

Planned Corrective Action:

The Adoption Subsidy and SWSS systems were frozen as of April 24, 2014 and were replaced by the Michigan Statewide Automated Child Welfare Information System (MiSACWIS).

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Jim Hogan, Department of Technology, Management, and Budget  
Nate Buckwalter, Department of Technology, Management, and Budget  
Teresa Spalding, Department of Human Services

**FINDING 2013-006**

ADP Security Program

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	SNAP Cluster, including ARRA: CFDA 10.551 and 10.561
<b>Award Identification Number and Year</b>	EBT-2012 10/01/2011 - 09/30/2012 EBT-2013 10/01/2012 - 09/30/2013 SNAP-Benefits (ARRA) 2013 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$3,066,845,450
<b>Total ARRA Expenditures</b>	\$451,560,188
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - ADP System for SNAP
<b>Type of Finding</b>	Significant Deficiency

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

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
<b>Award Identification Number and Year</b>	2MI700003 10/01/2012 - 09/30/2013 2MI700013 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$184,919,293
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Special Tests and Provisions
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-013
<b>State Agencies</b>	Department of Community Health and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	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
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-013
<b>State Agencies</b>	Department of Community Health; Department of Human Services; and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CCDF Cluster: CFDA 93.575 and 93.596
<b>Award Identification Number and Year:</b>	G 12 03 MI CCDF 10/01/2011 - 09/30/2012 G 13 03 MI CCDF 10/01/2012 - 09/30/2013

<b>Total Expenditures of Federal Awards</b>	\$140,906,230
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Michigan Department of Education; Department of Human Services; and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
<b>Award Identification Number and Year</b>	05-1305MI5ADM	10/01/2012 - 09/30/2013
	05-1305MI5MAP	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132	
<b>Total ARRA Expenditures</b>	\$61,169,398	
<b>Compliance Requirement(s)</b>	Special Tests and Provisions - ADP Risk Analysis and System Security Review	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-013	
<b>State Agencies</b>	Department of Community Health and Department of Technology, Management, and Budget	

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Child Support Enforcement, CFDA 93.563	
<b>Award Identification Number and Year</b>	1304MI4005	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$155,613,113	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles; Procurement, Suspension, and Debarment; Subrecipient Monitoring; and Special Tests and Provisions	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget	

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
<b>Award Identification Number and Year</b>	G12AAMI5100 10/01/2011 - 09/30/2012 G1301MIRCMA 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance, CFDA 93.568
<b>Award Identification Number and Year</b>	G 11 BI MI LIEA 10/01/2012 - 09/30/2013 G 12 BI MI LIEA 10/01/2011 - 09/30/2013 G 12 BI MI LIEA 10/01/2011 - 09/30/2013 G 13 BI MI LIEA 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
<b>Award Identification Number and Year</b>	12 01 MI 1401 10/01/2011 - 09/30/2012 13 01 MI 1401 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$136,227,267
<b>Total ARRA Expenditures</b>	\$(51,235)
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions

<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Adoption Assistance: <i>CFDA</i> 93.659 and 93.659 (ARRA)
<b>Award Identification Number and Year</b>	1301MI1407 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$120,169,710
<b>Total ARRA Expenditures</b>	\$67
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Social Services Block Grant: <i>CFDA</i> 93.667
<b>Award Identification Number and Year</b>	1301MISOSR 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$128,463,358
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Chafee Foster Care Independence Program: <i>CFDA</i> 93.674
<b>Award Identification Number and Year</b>	G 12 01 MI 1420 10/01/2011 - 09/30/2013 G 13 01 MI 1420 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$4,533,861
<b>Total ARRA Expenditures</b>	\$0

<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services																		
<b>Pass-Through Entity</b>	Not Applicable																		
<b>Program Title and CFDA Number</b>	Maternal and Child Health Services Block Grant to the States: CFDA 93.994																		
<b>Award Identification Number and Year</b>	<table border="0"> <tr> <td>1 B04MC25350-01-00</td> <td>10/01/2012 - 09/30/2014</td> </tr> <tr> <td>6 B04MC25350-01-01</td> <td>10/01/2012 - 09/30/2014</td> </tr> <tr> <td>6 B04MC25350-01-02</td> <td>10/01/2012 - 09/30/2014</td> </tr> <tr> <td>6 B04MC25350-01-03</td> <td>10/01/2012 - 09/30/2014</td> </tr> <tr> <td>6 B04MC25350-01-04</td> <td>10/01/2012 - 09/30/2014</td> </tr> <tr> <td>6 B04MC25350-01-05</td> <td>10/01/2012 - 09/30/2014</td> </tr> <tr> <td>6 B04MC25350-01-06</td> <td>10/01/2012 - 09/30/2014</td> </tr> <tr> <td>6 B04MC25350-01-07</td> <td>10/01/2012 - 09/30/2014</td> </tr> <tr> <td>6 B04MC25350-01-08</td> <td>10/01/2012 - 09/30/2014</td> </tr> </table>	1 B04MC25350-01-00	10/01/2012 - 09/30/2014	6 B04MC25350-01-01	10/01/2012 - 09/30/2014	6 B04MC25350-01-02	10/01/2012 - 09/30/2014	6 B04MC25350-01-03	10/01/2012 - 09/30/2014	6 B04MC25350-01-04	10/01/2012 - 09/30/2014	6 B04MC25350-01-05	10/01/2012 - 09/30/2014	6 B04MC25350-01-06	10/01/2012 - 09/30/2014	6 B04MC25350-01-07	10/01/2012 - 09/30/2014	6 B04MC25350-01-08	10/01/2012 - 09/30/2014
1 B04MC25350-01-00	10/01/2012 - 09/30/2014																		
6 B04MC25350-01-01	10/01/2012 - 09/30/2014																		
6 B04MC25350-01-02	10/01/2012 - 09/30/2014																		
6 B04MC25350-01-03	10/01/2012 - 09/30/2014																		
6 B04MC25350-01-04	10/01/2012 - 09/30/2014																		
6 B04MC25350-01-05	10/01/2012 - 09/30/2014																		
6 B04MC25350-01-06	10/01/2012 - 09/30/2014																		
6 B04MC25350-01-07	10/01/2012 - 09/30/2014																		
6 B04MC25350-01-08	10/01/2012 - 09/30/2014																		
<b>Total Expenditures of Federal Awards</b>	\$18,135,162																		
<b>Total ARRA Expenditures</b>	Not Applicable																		
<b>Compliance Requirement(s)</b>	Special Tests and Provisions																		
<b>Type of Finding</b>	Significant Deficiency																		
<b>Known Questioned Costs</b>	\$0																		
<b>Repeat Finding</b>	2012-013																		
<b>State Agencies</b>	Department of Community Health and Department of Technology, Management, and Budget																		

Condition

DCH and DHS, in conjunction with DTMB, did not ensure that a comprehensive automated data processing (ADP) security program was established for information systems used to administer their federal programs.

For 16 significant systems reviewed, DCH and DHS did not have a fully implemented security plan for 5 (31%) systems, did not have an approved security plan for 3 (19%) systems, and did not have a disaster recovery plan for 6 (38%) systems.

### Criteria

Federal regulations 7 *CFR* 272.10, 7 *CFR* 277.18, and 45 *CFR* 95.621 make state agencies responsible for security of 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. In addition, 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

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

### Effect

DCH and DHS cannot demonstrate that they have implemented effective controls to ensure the integrity, availability, and confidentiality of their information systems and, as a result, cannot ensure that they comply 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 and/or disallowances related to noncompliance.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

### Recommendation

We recommend that DCH and DHS, in conjunction with DTMB, ensure that a comprehensive ADP security program is established for information systems used to administer their federal programs.

## Management Views and Corrective Action Plan

### Management Views:

DCH and DHS agree with the finding.

### Planned Corrective Action:

DCH, in conjunction with DTMB and DHS, is taking action to remediate this issue through the MCP Security Project as part of its Medicaid Compliance Program (MCP). The DTMB-0170 process, which is used as the security plan for all systems, will be incorporated into an automated process. This will improve the creation, submission, tracking, and review/approval process. This project will remediate both the form and the creation/submission process, transforming them into a functional asset in the delivery of IT services.

### Anticipated Completion Date:

April 2015

### Responsible Individual(s):

Jim Bowen, Department of Community Health

Teresa Spalding, Department of Human Services

Linda Pung, Department of Technology, Management, and Budget

Jim Hogan, Department of Technology, Management, and Budget

## **FINDING 2013-007**

### High-Risk Security and Access Controls

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Special Supplemental Nutrition Program for Women, Infants, and Children: <i>CFDA</i> 10.557
<b>Award Identification Number and Year</b>	2MI700003 10/01/2012 - 09/30/2013 2MI700013 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$184,919,293
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency

<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - ADP Risk Analysis and System Security Review
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
<b>Award Identification Number and Year</b>	G09AAMI5100 10/01/2008 - 09/30/2009 G12AAMI5100 10/01/2011 - 09/30/2012 G1301MIRCMA 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency for activities allowed or unallowed as it relates to benefit level testing and Significant Deficiency for allowable costs/cost principles.
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable

<b>Program Title and CFDA Number</b>	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
<b>Award Identification Number and Year</b>	1 B04MC25350-01-00	10/01/2012 - 09/30/2014
	6 B04MC25350-01-01	10/01/2012 - 09/30/2014
	6 B04MC25350-01-02	10/01/2012 - 09/30/2014
	6 B04MC25350-01-03	10/01/2012 - 09/30/2014
	6 B04MC25350-01-04	10/01/2012 - 09/30/2014
	6 B04MC25350-01-05	10/01/2012 - 09/30/2014
	6 B04MC25350-01-06	10/01/2012 - 09/30/2014
	6 B04MC25350-01-07	10/01/2012 - 09/30/2014
	6 B04MC25350-01-08	10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$18,135,162	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Eligibility	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Department of Community Health and Department of Technology, Management, and Budget	

Condition

DCH and DTMB had not established effective security and access controls for significant systems used to administer federal programs. Our review of selected security and access controls disclosed:

- a. DCH did not appropriately restrict high-risk application access to the Community Health Automated Medicaid Processing System (CHAMPS), the system used for medical claims processing and payments for the Medicaid Cluster, Refugee and Entrant Assistance - State Administered Programs, and Maternal and Child Health Services Block Grant to the States. We noted:
  - (1) DCH did not appropriately limit the ability of CHAMPS users to approve managed care rates. We identified 17 users with managed care rate approval capability who did not have an authorized business need for this capability.
  - (2) DCH did not disable user accounts that were no longer necessary. Of 7 user accounts reviewed, we noted that 1 user had access to approve payments; however, the individual was no longer a DCH employee. Of 4 super administrator user accounts reviewed, we noted 3 user accounts that were no longer necessary.

- b. DTMB and DCH had not established effective security and access controls over the Michigan Women, Infants, and Children Information System (MI-WIC), the system used to administer the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program). We noted:
  - (1) DTMB did not fully restrict security and access controls over the MI-WIC operating system. Because of the confidentiality of operating system configuration, we summarized the results of our testing for presentation in this finding and provided the detailed results to DTMB.
  - (2) DCH did not appropriately restrict developers' high-risk application access to MI-WIC. We noted two developers with inappropriate access to high-risk functionality within the MI-WIC application.
  - (3) DCH did not maintain authorization forms or other documentation for all users with MI-WIC application access to support authorization and level of access required for their job responsibilities.
- c. DCH had not established effective access controls over its Children's Special Health Care Services (CSHCS) system. We noted:
  - (1) DCH did not appropriately restrict high-risk access to the CSHCS system. We noted 7 developers with inappropriate access to high-risk functionality in the system.
  - (2) DCH did not maintain authorization forms or other documentation for all users with CSHCS system access to support authorization and level of access required for their job responsibilities.
- d. DCH did not maintain authorization forms or other documentation for all users with Customer Relationship Management (CRM) system access to support authorization and level of access required for their job responsibilities. The CRM system is the system used to track service requests, such as Medicaid fraud referrals and complaints.

### 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. In addition, according to the GAO's FISCAM, security settings should be configured to the most restrictive mode consistent with agencies' requirements. Also, FISCAM states that access to sensitive transactions and activities should be limited to those users with a valid business purpose.

### Cause

DCH did not have sufficient processes in place within its systems to ensure that all high-risk access and configurations had been appropriately identified and secured.

### Effect

The lack of appropriately restricted system access could result in unauthorized access and changes to data. Also, it increases the risk that a user could initiate an unauthorized payment and the payment would go undetected.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

### Recommendation

We recommend that DCH and DTMB establish effective security and access controls for significant systems used to administer federal programs.

### Management Views and Corrective Action Plan

#### Management Views:

DCH and DTMB agree with the finding.

#### Planned Corrective Action:

DCH and DTMB will work together to implement the following corrective actions:

- a.(1) DCH security will work with the business areas to determine the functionality that users with this profile require to do their jobs. Modifications will be made to existing profiles as necessary.

(2) DCH investigated each individual noted in the finding and is working to establish controls that will remediate these items in the future.

b.(1) DTMB has complied with this portion of the finding.

(2) The two individuals noted in the finding work on the MI-WIC helpdesk. This functionality allows them to better assist their clientele when they call to report system issues.

(3) DCH has complied. All MI-WIC users have been revalidated.

c.(1) DCH, in conjunction with its vendor, removed access for the 7 developers.

(2) The DCH Security Office will work with CSHCS to develop the appropriate access documentation utilizing the Database Security Application (DSA).

d. DCH will consider incorporating this into the DCH DSA.

Anticipated Completion Date:  
January 2015

Responsible Individual(s):

Jim Bowen, Department of Community Health  
Rebecca Start, Department of Community Health  
Kobra Eghtedary, Department of Community Health  
Dan Ridge, Department of Community Health  
Carmen Redwine, Department of Technology, Management, and Budget

## **FINDING 2013-008**

### **CHAMPS Security and Access Controls**

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

<b>Award Identification Number and Year</b>	05-1305MI5ADM	10/01/2012 - 09/30/2013
	05-1305MI5MAP	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132	
<b>Total ARRA Expenditures</b>	\$61,169,398	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles. and Special Tests and Provisions - ADP Risk Analysis and System Security Review	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Department of Community Health and Department of Technology, Management, and Budget	

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566	
<b>Award Identification Number and Year</b>	G09AAMI5100	10/01/2008 - 09/30/2009
	G12AAMI5100	10/01/2011 - 09/30/2012
	G1301MIRCMA	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	
<b>Type of Finding</b>	Significant Deficiency for activities allowed or unallowed as it relates to benefit level testing and Significant Deficiency for allowable costs/cost principles	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget	

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
<b>Award Identification Number and Year</b>	1 B04MC25350-01-00	10/01/2012 - 09/30/2014
	6 B04MC25350-01-01	10/01/2012 - 09/30/2014
	6 B04MC25350-01-02	10/01/2012 - 09/30/2014
	6 B04MC25350-01-03	10/01/2012 - 09/30/2014
	6 B04MC25350-01-04	10/01/2012 - 09/30/2014
	6 B04MC25350-01-05	10/01/2012 - 09/30/2014
	6 B04MC25350-01-06	10/01/2012 - 09/30/2014
	6 B04MC25350-01-07	10/01/2012 - 09/30/2014
	6 B04MC25350-01-08	10/01/2012 - 09/30/2014

<b>Total Expenditures of Federal Awards</b>	\$18,135,162
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health and Department of Technology, Management, and Budget

### Background

CHAMPS is an automated information system that was implemented by DCH and DTMB in October 2009 for the processing of medical claims and payments. Medical claims are subjected to numerous CHAMPS internal edits. Edits can have one of several dispositions depending upon the circumstances. The edit disposition instructs CHAMPS on what to do when a claim has failed an edit. Examples of edit dispositions include deny, suspend, pay and report, informational, and ignore.

### Condition

As reported in our performance audit of Community Health Automated Medicaid Processing System (CHAMPS) Security and Access Controls, Department of Community Health and Department of Technology, Management, and Budget (391-0591-13), located at <[http://audgen.michigan.gov/finalpdfs/13\\_14/r391059113.pdf](http://audgen.michigan.gov/finalpdfs/13_14/r391059113.pdf)>, DTMB and DCH had not fully established effective security and access controls for the operating system of servers containing CHAMPS data and application files and over CHAMPS databases. In addition, DCH did not limit the ability of CHAMPS users to modify the disposition of edits for medical claims processing.

### Criteria

Federal regulation 45 *CFR* 95.621 provides that state agencies are responsible for the security of the information systems used to administer federal programs. 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

Additional information for each finding can be found in the performance audit of Community Health Automated Medicaid Processing System (CHAMPS) Security and Access Controls, Department of Community Health and Department of Technology, Management, and Budget.

### Effect

The identified security and access control deficiencies could result in unauthorized access, modification, or loss of CHAMPS data. In addition, DCH's deficiency in limiting the ability of CHAMPS users to modify medical claims edit dispositions could result in unauthorized modifications to medical claims edit dispositions.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

### Recommendations

We recommend that DTMB and DCH fully establish effective security and access controls for the operating system of servers containing CHAMPS data and application files and over CHAMPS databases.

We also recommend that DCH limit the ability of CHAMPS users to modify the disposition of edits for medical claims processing.

### Management Views and Corrective Action Plan

#### Management Views:

DCH and DTMB agree with the finding.

#### Planned Corrective Action:

DCH and DTMB have initiated steps necessary to remediate CHAMPS of the identified potential vulnerabilities. Several steps have already been completed, with the remaining to be completed as indicated below:

- DTMB is in the process of implementing the Lightweight Directory Access Protocol (LDAP) for enterprise-wide, system level identity management. LDAP integration will provide additional controls and improve granular access

to satisfy requirements. Global data at rest encryption was implemented in May 2013. In addition, DTMB is transitioning to an automated configuration management tool to assist in rapidly deploying, maintaining, and auditing internal control. The tool will also assist in preventing changes from required minimal service configurations and deviations from the approved initial operating system configuration settings.

- DCH has implemented the following corrective actions: modified default settings within CHAMPS to recommended values, modified password parameters, revoked unnecessary privileges, removed temporary users, implemented user recertification, and locked default accounts. DCH will complete implementation of recommended resource-related profile changes in July 2014.
- DCH has implemented new roles and profiles to restrict user access to edit dispositions. Users have been reassigned to the new profiles, after management approval, and unauthorized user privileges have been revoked based on the newly established roles and profiles.

Anticipated Completion Date:  
September 30, 2014

Responsible Individual(s):  
John Spitzley, Department of Community Health  
Brian Gallup, Department of Technology, Management, and Budget

**FINDING 2013-009**

**MDE IT Security and Controls**

<b>Federal Agency</b>	U.S. Department of Agriculture	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Child Nutrition Cluster: <i>CFDA</i> 10.553, 10.555, 10.556, and 10.559	
<b>Award Identification Number and Year</b>	2MI300060	10/01/2009 - 09/30/2010
	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2011 - 09/30/2012
	2MI300060	10/01/2012 - 09/30/2013

<b>Total Expenditures of Federal Awards</b>	\$402,496,565
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Michigan Department of Education and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Agriculture	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Food Distribution Cluster: <i>CFDA</i> 10.565, 10.568, 10.568 (ARRA), and 10.569	
<b>Award Identification Number and Year</b>	2MI810053	10/01/2007 - 09/30/2008
	2MI81005	10/01/2008 - 09/30/2009
	2MI400053	10/01/2008 - 09/30/2009
	2MI840053	03/01/2009 - 09/30/2009
	2MI810053	10/01/2009 - 09/30/2010
	2MI400053	10/01/2009 - 09/30/2010
	2MI840053	10/01/2009 - 09/30/2010
	2MI810053	10/01/2011 - 09/30/2012
	2MI400053	10/01/2011 - 09/30/2012
	2MI810053	10/01/2012 - 09/30/2013
	2MI400053	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$49,593,486	
<b>Total ARRA Expenditures</b>	\$(64,738)	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Michigan Department of Education and Department of Technology, Management, and Budget	

<b>Federal Agency</b>	U.S. Department of Agriculture	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Child and Adult Care Food Program: <i>CFDA</i> 10.558	
<b>Award Identification Number and Year</b>	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
	2MI300060	10/01/2012 - 09/30/2013
	2MI300069	10/01/2012 - 09/30/2014
	2MI300069	10/01/2013 - 09/30/2015
<b>Total Expenditures of Federal Awards</b>	\$63,326,219	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Michigan Department of Education and Department of Technology, Management, and Budget	

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Title I, Part A Cluster: CFDA 84.010 and 84.389 (ARRA)	
<b>Award Identification Number and Year</b>	S010A070022	07/01/2007 - 09/30/2008
	S010A070022A	07/01/2007 - 09/30/2008
	S010A080022	07/01/2008 - 09/30/2009
	S010A080022A	07/01/2008 - 09/30/2009
	S389A090022	02/17/2009 - 09/30/2010
	S389A090022A	02/17/2009 - 09/30/2010
	S010A090022	07/01/2009 - 09/30/2010
	S010A090022A	07/01/2009 - 09/30/2010
	S010A100022	07/01/2010 - 09/30/2011
	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
	S010A120022	07/01/2012 - 09/30/2013
	S010A120022-12A	07/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$521,108,006	
<b>Total ARRA Expenditures</b>	\$7,611,879	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, and Earmarking; Reporting; Subrecipient Monitoring; and Special Tests and Provisions - Access to Federal Funds for New or Significantly Expanded Charter Schools	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	

<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Michigan Department of Education and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Education																																												
<b>Pass-Through Entity</b>	Not Applicable																																												
<b>Program Title and CFDA Number</b>	Special Education Cluster (IDEA): CFDA 84.027, 84.173, and 84.391 (ARRA)																																												
<b>Award Identification Number and Year</b>	<table border="1"> <tr><td>H027A060110</td><td>07/01/2006 - 09/30/2007</td></tr> <tr><td>H027A060110A</td><td>07/01/2006 - 09/30/2007</td></tr> <tr><td>H027A070110</td><td>07/01/2007 - 09/30/2008</td></tr> <tr><td>H027A070110A</td><td>07/01/2007 - 09/30/2008</td></tr> <tr><td>H027A080110</td><td>07/01/2008 - 09/30/2009</td></tr> <tr><td>H027A080110A</td><td>07/01/2008 - 09/30/2009</td></tr> <tr><td>H391A090110</td><td>02/17/2009 - 09/30/2010</td></tr> <tr><td>H391A090110A</td><td>02/17/2009 - 09/30/2010</td></tr> <tr><td>H027A090110</td><td>07/01/2009 - 09/30/2010</td></tr> <tr><td>H027A090110A</td><td>07/01/2009 - 09/30/2010</td></tr> <tr><td>H027A100110</td><td>07/01/2010 - 09/30/2011</td></tr> <tr><td>H027A100110A</td><td>07/01/2010 - 09/30/2011</td></tr> <tr><td>H173A100117</td><td>07/01/2010 - 09/30/2011</td></tr> <tr><td>H027A110110</td><td>07/01/2011 - 09/30/2012</td></tr> <tr><td>H027A110110-11A</td><td>07/01/2011 - 09/30/2012</td></tr> <tr><td>H027A110110-11B</td><td>07/01/2011 - 09/30/2012</td></tr> <tr><td>H173A110117</td><td>07/01/2011 - 09/30/2012</td></tr> <tr><td>H027A120110</td><td>07/01/2012 - 09/30/2013</td></tr> <tr><td>H027A120110-12A</td><td>07/01/2012 - 09/30/2013</td></tr> <tr><td>H173A120117</td><td>07/01/2012 - 09/30/2013</td></tr> <tr><td>H027A130144</td><td>07/01/2013 - 09/30/2014</td></tr> <tr><td>H173A130117</td><td>07/01/2013 - 09/30/2014</td></tr> </table>	H027A060110	07/01/2006 - 09/30/2007	H027A060110A	07/01/2006 - 09/30/2007	H027A070110	07/01/2007 - 09/30/2008	H027A070110A	07/01/2007 - 09/30/2008	H027A080110	07/01/2008 - 09/30/2009	H027A080110A	07/01/2008 - 09/30/2009	H391A090110	02/17/2009 - 09/30/2010	H391A090110A	02/17/2009 - 09/30/2010	H027A090110	07/01/2009 - 09/30/2010	H027A090110A	07/01/2009 - 09/30/2010	H027A100110	07/01/2010 - 09/30/2011	H027A100110A	07/01/2010 - 09/30/2011	H173A100117	07/01/2010 - 09/30/2011	H027A110110	07/01/2011 - 09/30/2012	H027A110110-11A	07/01/2011 - 09/30/2012	H027A110110-11B	07/01/2011 - 09/30/2012	H173A110117	07/01/2011 - 09/30/2012	H027A120110	07/01/2012 - 09/30/2013	H027A120110-12A	07/01/2012 - 09/30/2013	H173A120117	07/01/2012 - 09/30/2013	H027A130144	07/01/2013 - 09/30/2014	H173A130117	07/01/2013 - 09/30/2014
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H027A090110	07/01/2009 - 09/30/2010																																												
H027A090110A	07/01/2009 - 09/30/2010																																												
H027A100110	07/01/2010 - 09/30/2011																																												
H027A100110A	07/01/2010 - 09/30/2011																																												
H173A100117	07/01/2010 - 09/30/2011																																												
H027A110110	07/01/2011 - 09/30/2012																																												
H027A110110-11A	07/01/2011 - 09/30/2012																																												
H027A110110-11B	07/01/2011 - 09/30/2012																																												
H173A110117	07/01/2011 - 09/30/2012																																												
H027A120110	07/01/2012 - 09/30/2013																																												
H027A120110-12A	07/01/2012 - 09/30/2013																																												
H173A120117	07/01/2012 - 09/30/2013																																												
H027A130144	07/01/2013 - 09/30/2014																																												
H173A130117	07/01/2013 - 09/30/2014																																												
<b>Total Expenditures of Federal Awards</b>	\$413,149,414																																												
<b>Total ARRA Expenditures</b>	(\$1,307,855)																																												
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, and Earmarking; Reporting; Subrecipient Monitoring; and Special Tests and Provisions - Access to Federal Funds for New or Significantly Expanded Charter Schools																																												
<b>Type of Finding</b>	Significant Deficiency																																												
<b>Known Questioned Costs</b>	\$0																																												
<b>Repeat Finding</b>	Not Applicable																																												
<b>State Agencies</b>	Michigan Department of Education and Department of Technology, Management, and Budget																																												

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	School Improvement Grants Cluster: <i>CFDA</i> 84.377 and 84.388 (ARRA)
<b>Award Identification Number and Year</b>	S377A080024 07/01/2008 - 09/30/2012 S388A090023A 02/17/2009 - 09/30/2014 S377A090023 07/01/2009 - 09/30/2014 S377A090023A 07/01/2009 - 09/30/2014 S377A100023 07/01/2010 - 09/30/2014 S377A110023 07/01/2011 - 09/30/2014 S377A110023-11A 07/01/2011 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$64,444,212
<b>Total ARRA Expenditures</b>	\$39,044,981
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Michigan Department of Education and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Career and Technical Education - Basic Grants to States: <i>CFDA</i> 84.048
<b>Award Identification Number and Year</b>	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 V048A130022 07/01/2013 - 09/30/2014 V048A130022-13A 07/01/2013 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$38,641,636
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Department of Education and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Twenty-First Century Community Learning Centers: CFDA 84.287
<b>Award Identification Number and Year</b>	S287C090022 07/01/2009 - 09/30/2010 S287C090022A 07/01/2009 - 09/30/2010 S287C100022 07/01/2010 - 09/30/2011 S287C100022-10A 07/01/2010 - 09/30/2011 S287C110022 07/01/2011 - 09/30/2012 S287C110022-11A 07/01/2011 - 09/30/2012 S287C120022 07/01/2012 - 09/30/2013 S287C120022-12A 07/01/2012 - 09/30/2013 S287C130022 07/01/2013 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$39,164,717
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; Subrecipient Monitoring; and Special Tests and Provisions - Access to Federal Funds for New or Significantly Expanded Charter Schools
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Michigan Department of Education and Department of Technology, Management, and Budget

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Improving Teacher Quality State Grants: CFDA 84.367
<b>Award Identification Number and Year</b>	S367A080021 07/01/2008 - 09/30/2009 S367A080021A 07/01/2008 - 09/30/2009 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 S367B100019 07/01/2010 - 09/30/2011 S367B100019A 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 S367B110019 07/01/2011 - 09/30/2012 S367B110019-11A 07/01/2011 - 09/30/2012 S367B110019-11B 07/01/2011 - 09/30/2012 S367A120021 07/01/2012 - 09/30/2013 S367A120021-12A 07/01/2012 - 09/30/2013

	S367B120019 S367B120019-12A	07/01/2012 - 09/30/2013 07/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$88,429,739	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; Subrecipient Monitoring; and Special Tests and Provisions - Access to Federal Funds for New or Significantly Expanded Charter Schools	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Michigan Department of Education and Department of Technology, Management, and Budget	

### Background

The Michigan Department of Education (MDE) Office of Grants Coordination and School Support and the MDE program offices aid in distributing grant funds provided by the U.S. Department of Education. These offices are responsible for grant budgets, grant applications, and grant approvals. The MDE Office of Financial Management is responsible for MDE's accounting activities, including the cash disbursement of grant funds. MDE maintains and operates information systems critical to the processing of federal and State payments. Our auditing procedures included a review of selected information technology (IT) general controls for the Michigan Electronic Grants System Plus (MEGS+), Cash Management System (CMS), and Food Nutrition System - Fiscal Reporting System (FNS-FRS). Our auditing procedures were a coordinated effort between the Statewide single audit and an IT performance audit follow-up of security and access controls of Selected Payment and Related Systems of the Michigan Department of Education and the Michigan Department of Information Technology (now DTMB) located at <[http://audgen.michigan.gov/finalpdfs/13\\_14/r313059008F.pdf](http://audgen.michigan.gov/finalpdfs/13_14/r313059008F.pdf)>. Our IT performance audit follow-up disclosed the following control weaknesses related to security and access controls.

### Condition

MDE and DTMB had not established effective security and access controls for privileged and high-risk users for the Child Nutrition Cluster; Food Distribution Cluster; Child and Adult Care Food Program; Title I, Part A Cluster; Special Education Cluster; School Improvement Grants Cluster; Career and Technical Education - Basic Grants to States; Twenty-First Century Community Learning Centers; and Improving Teacher Quality State Grants.

For purposes of the single audit, we concluded that Finding 1, Security Program and Access Controls; Finding 2, Database Security; and Finding 4, Change Control Process, reported in the IT performance audit follow-up were significant deficiencies impacting MEGS+, CMS, and FNS-FRS.

#### Criteria

According to the GAO's 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

Causes for each finding can be found in the IT performance audit follow-up report on Selected Payment and Related Systems, Michigan Department of Education and Department of Technology, Management, and Budget.

#### Effect

Without effective security and access controls, individuals may obtain unauthorized or inappropriate access to MEGS+, CMS, and FNS-FRS. As a result, there is an increased risk that MDE and DTMB cannot ensure the confidentiality, integrity, and security of MEGS+, CMS, and FNS-FRS and their data.

#### Known Questioned Costs

We did not identify questioned costs related to this finding.

#### Recommendation

We recommend that MDE and DTMB establish effective security and access controls for privileged and high-risk users for the Child Nutrition Cluster; Food Distribution Cluster; Child and Adult Care Food Program; Title I, Part A Cluster; Special Education Cluster; School Improvement Grants Cluster; Career and Technical Education - Basic Grants to States; Twenty-First Century Community Learning Centers; and Improving Teacher Quality State Grants.

## Management Views and Corrective Action Plan

### Management Views:

MDE and DTMB agree with the finding. In most cases, immediate changes were made to ensure that security access, database security, and proper change controls were in effect as intended.

### Planned Corrective Action:

Finding 1 - Security Program and Access Controls: Access and security levels have been reviewed. Through the annual audit process, MDE will continue to review and verify security agreements. In addition, as of April 21, 2014, a log-in lock-out feature has been implemented in both CMS and MEGS+ in the case of five improper log-in attempts.

Finding 2 - Database Security: DTMB and MDE will implement procedures to require staff to review audit logs. These procedures will be implemented by June 30, 2014.

Finding 4 - Change Control Process: DTMB developed a change management process and guidelines that will serve as the framework for the change control process. This includes both segregation of duties and the process for requesting and tracking change requests. MDE is using Team Foundation Server (TFS) to document and approve all types of change requests including emergency changes. MDE will complete training for staff to have the process and guidelines implemented by August 30, 2014. MDE has also established a procedure to ensure that only MDE staff authorize program and database changes.

### Anticipated Completion Date:

August 30, 2014

### Responsible Individual(s):

Louis Burgess, Michigan Department of Education

Maria Thomas, Department of Technology, Management, and Budget

## **FINDING 2013-010**

### **FNS-FRS Read-Only User Access Restrictions**

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Child Nutrition Cluster: <i>CFDA</i> 10.553, 10.555, 10.556, and 10.559	
<b>Award Identification Number and Year</b>	2MI300060	10/01/2009 - 09/30/2010
	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2011 - 09/30/2012
	2MI300060	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$402,496,565	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Agriculture	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Food Distribution Cluster: <i>CFDA</i> 10.565, 10.568, 10.568 (ARRA), and 10.569	
<b>Award Identification Number and Year</b>	2MI810053	10/01/2007 - 09/30/2008
	2MI810053	10/01/2008 - 09/30/2009
	2MI400053	10/01/2008 - 09/30/2009
	2MI840053	03/01/2009 - 09/30/2009
	2MI810053	10/01/2009 - 09/30/2010
	2MI400053	10/01/2009 - 09/30/2010
	2MI840053	10/01/2009 - 09/30/2010
	2MI810053	10/01/2011 - 09/30/2012
	2MI400053	10/01/2011 - 09/30/2012
	2MI810053	10/01/2012 - 09/30/2013
	2MI400053	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$49,593,486	
<b>Total ARRA Expenditures</b>	\$(64,738)	
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Subrecipient Monitoring	
<b>Type of Finding</b>	Material Weakness	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Child and Adult Care Food Program: <i>CFDA</i> 10.558
<b>Award Identification Number and Year</b>	2MI300069 10/01/2013 - 09/30/2015 2MI300060 10/01/2012 - 09/30/2013 2MI300069 10/01/2012 - 09/30/2014 2MI300060 10/01/2011 - 09/30/2012 2MI300069 10/01/2011 - 09/30/2013 2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2009 - 09/30/2010 2MI300060 10/01/2008 - 09/30/2009 2MI300060 10/01/2004 - 09/30/2005 2MI300060 10/01/2002 - 09/30/2003
<b>Total Expenditures of Federal Awards</b>	\$63,326,219
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Subrecipient Monitoring
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Department of Education

Condition

MDE had not established effective access controls for users assigned read-only access in three Food Nutrition System - Fiscal Reporting System (FNS-FRS) subsystems. Our review of the three subsystems noted:

- a. MDE did not properly restrict access to enter, modify, approve, and disburse administrative payments in the Michigan Nutrition Data (MiND) system for the Food Distribution Cluster. We determined that MDE had 11 users assigned read-only access who could enter, modify, approve, and disburse administrative payments in the MiND system.
- b. MDE did not properly restrict access to enter and modify Child and Adult Care Food Program (CACFP) meal counts in the CACFP claims system. We determined that MDE had 37 users assigned read-only access who could enter and modify meal counts in the CACFP claims system.
- c. MDE did not properly restrict access to enter and modify school food authorities' eligibility status for the additional 6 cents per lunch in the School Meals Program claims system for the Child Nutrition Cluster. We determined that MDE had

46 users assigned read-only access who could enter and modify the eligibility status.

#### 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 its federal programs.

#### Cause

MDE indicated that inadequate testing of the MiND system and CACFP claims system inadvertently resulted in read-only users having more access than intended.

MDE also indicated that a specific request to allow select MDE program staff to certify eligibility for the additional 6 cents per lunch resulted in all read-only users having the ability to certify eligibility in the School Meals Program claims system.

#### Effect

The weaknesses in maintaining sufficient internal control over federal program compliance could result in unauthorized transactions that would not be detected or corrected in a timely manner.

#### Known Questioned Costs

We did not identify questioned costs related to this finding.

#### Recommendation

We recommend that MDE establish effective access controls for users assigned read-only access in the three FNS-FRS subsystems.

#### Management Views and Corrective Action Plan

##### Management Views:

MDE agrees with the finding.

Planned Corrective Action:

All read-only access levels for the MiND system and the CACFP claims system were reviewed, fixed, tested, and deployed to production.

A new access level has been established, tested, and deployed to production for the additional 6 cents per lunch in the School Meals Program claims system.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Louis Burgess, Michigan Department of Education

Patrick Conlen, Michigan Department of Education

**FINDING 2013-011**

**Map Financial Obligation System and Project Accounting and Billing System - Access Controls**

<b>Federal Agency</b>	U.S. Department of Transportation
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Highway Planning and Construction Cluster: CFDA 20.205, 20.205 (ARRA), and 20.219
<b>Award Identification Number and Year</b>	Various
<b>Total Expenditures of Federal Awards</b>	\$1,131,082,561
<b>Total ARRA Expenditures</b>	\$6,955,595
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, and Earmarking; Period of Availability of Federal Funds; Reporting; and Special Tests and Provisions - Project Approvals
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Technology, Management, and Budget and Michigan Department of Transportation

<b>Federal Agency</b>	U.S. Department of Transportation
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Airport Improvement Program: CFDA 20.106

<b>Award Identification Number and Year</b>	3-26-SBGP-5508	04/15/2008 - 09/30/2012
	3-26-SBGP-5708	08/25/2008 - 09/30/2012
	3-26-SBGP-6108	09/16/2008 - 09/30/2012
	3-26-SBGP-6209	02/19/2009 - 09/30/2013
	3-26-SBGP-6509	06/22/2009 - 09/30/2013
	3-26-SBGP-6610	03/09/2010 - 09/30/2014
	3-26-SBGP-7010	07/01/2010 - 09/30/2014
	3-26-SBGP-7110	08/11/2010 - 09/30/2014
	3-26-SBGP-7210	08/11/2010 - 09/30/2014
	3-26-SBGP-7410	08/11/2010 - 09/30/2014
	3-26-SBGP-7711	03/11/2011 - 09/30/2015
	3-26-SBGP-8011	09/12/2011 - 09/30/2015
	3-26-SBGP-8111	09/12/2011 - 09/30/2015
	3-26-SBGP-8211	09/23/2011 - 09/30/2015
	3-26-SBGP-8412	08/03/2012 - 09/30/2016
	3-26-SBGP-8512	08/03/2012 - 09/30/2016
	3-26-SBGP-8612	09/07/2012 - 09/30/2016
3-26-SBGP-8712	09/19/2012 - 09/30/2016	
3-26-SBGP-8813	08/05/2013 - 09/30/2017	
<b>Total Expenditures of Federal Awards</b>	\$19,495,784	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, and Earmarking; Period of Availability of Federal Funds; and Reporting	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agencies</b>	Department of Technology, Management, and Budget and Michigan Department of Transportation	

### Condition

DTMB had not fully established and implemented effective access controls over the Map Financial Obligation System (MFOS) and the Project Accounting and Billing System (PAB) database management systems. Our review of selected access controls over the MFOS and PAB databases disclosed that DTMB had not established unique accounts for the database administrators and had not implemented an effective monitoring process for privileged activity.

### 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. Also, according to the GAO's 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.

#### Cause

DTMB informed us that the MFOS and PAB databases were configured without unique accounts and comprehensive monitoring tools when the databases were initially implemented. In addition, DTMB indicated that Statewide efforts to improve database access controls had not yet been fully implemented for MFOS and PAB.

#### Effect

Without effective access controls over the database management systems, individuals may obtain unauthorized or inappropriate access to MFOS or PAB data. As a result, an increased risk exists that MDOT and DTMB cannot ensure the confidentiality, integrity, and security of the MFOS and PAB data used to manage the financing of approved projects and process and maintain accounting and billing records for highway and aeronautics funded projects.

#### Known Questioned Costs

We did not identify questioned costs related to this finding.

#### Recommendation

We recommend that DTMB fully establish and implement effective access controls over the MFOS and PAB database management systems.

#### Management Views and Corrective Action Plan

##### Management Views:

DTMB agrees with the finding.

##### Planned Corrective Action:

DTMB has created unique accounts for database administrators and implemented audit logging of privileged activity of the MFOS and PAB databases. In addition, the implementation of comprehensive monitoring tools is in progress, with an expected completion date of July 31, 2014.

Anticipated Completion Date:  
July 31, 2014

Responsible Individual(s):  
Kirt Berwald, Department of Technology, Management, and Budget  
Karen Bearman, Department of Technology, Management, and Budget

**FINDING 2013-012**

**MDE, Level of Effort - MOE**

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Title I, Part A Cluster: CFDA 84.010 and 84.389 (ARRA)
<b>Award Identification Number and Year</b>	S010A070022 07/01/2007 - 09/30/2008 S010A07022A 07/01/2007 - 09/30/2008 S010A080022 07/01/2008 - 09/30/2009 S010A080022A 07/01/2008 - 09/30/2009 S389A090022 02/17/2009 - 09/30/2010 S389A090022A 02/17/2009 - 09/30/2010 S010A090022 07/01/2009 - 09/30/2010 S010A090022A 07/01/2009 - 09/30/2010 S010A100022 07/01/2010 - 09/30/2011 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 S010A120022 07/01/2012 - 09/30/2013 S010A120022-12A 07/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$521,108,006
<b>Total ARRA Expenditures</b>	\$7,611,879
<b>Compliance Requirement(s)</b>	Matching, Level of Effort - Maintenance of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Department of Education

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Twenty-First Century Community Learning Centers: CFDA 84.287

<b>Award Identification Number and Year</b>	S287C090022	07/01/2009 - 09/30/2010
	S287C090022A	07/01/2009 - 09/30/2010
	S287C100022	07/01/2010 - 09/30/2011
	S287C100022-10A	07/01/2010 - 09/30/2011
	S287C110022	02/17/2011 - 09/30/2012
	S287C110022-11A	02/17/2011 - 09/30/2012
	S287C120022	07/01/2012 - 09/30/2013
	S287C120022-12A	07/01/2012 - 09/30/2013
	S287C130022	07/01/2013 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$39,164,717	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Matching, Level of Effort - Maintenance of Effort, and Earmarking	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not applicable	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Improving Teacher Quality State Grants: <i>CFDA</i> 84.367	
<b>Award Identification Number and Year</b>	S367A080021	07/01/2008 - 09/30/2009
	S367A080021A	07/01/2008 - 09/30/2009
	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
	S367B100019	07/01/2010 - 09/30/2011
	S367B100019A	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
	S367B110019	07/01/2011 - 09/30/2012
	S367B110019-11A	07/01/2011 - 09/30/2012
	S367B110019-11B	07/01/2011 - 09/30/2012
	S367A120021	07/01/2012 - 09/30/2013
	S367A120021-12A	07/01/2012 - 09/30/2013
	S367B120019	07/01/2012 - 09/30/2013
	S367B120019-12A	07/01/2012 - 09/30/2013
	<b>Total Expenditures of Federal Awards</b>	\$88,429,739
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Matching, Level of Effort - Maintenance of Effort, and Earmarking	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not applicable	
<b>State Agency</b>	Michigan Department of Education	

### Condition

MDE did not exclude capital outlay and unrestricted federal expenditures in its calculation of maintenance of effort (MOE) for local educational agencies (LEAs). Our review noted that MDE improperly included capital outlay or unrestricted federal expenditures in the fiscal year 2010-11 effort calculation for 146 (17%) of the 847 LEAs.

### Criteria

Federal regulation 34 *CFR* 299.5 requires that state educational agencies (SEAs) may not consider LEA expenditures related to capital outlay or expenditures made from funds provided by the federal government in the calculation of MOE. Also, Title 20, Subpart 2, section 7901 of the *United States Code (USC)* requires the SEA to reduce the allocation of any LEA that does not maintain effort equal to or exceeding 90% of the previous fiscal year effort.

### Cause

MDE informed us that an error in preparing the script used to obtain the LEAs' financial data improperly included capital outlay expenditures that were not eligible for consideration as effort per federal regulations. Also, MDE sought guidance from the U.S. Department of Education (USDOE) related to excluding unrestricted financial expenditures. However, MDE did not apply this guidance correctly.

### Effect

MDE may not have allocated the required amount of federal grant funds to LEAs.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

### Recommendation

We recommend that MDE exclude capital outlay and unrestricted federal expenditures in its calculation of MOE for LEAs.

### Management Views and Corrective Action Plan

#### Management Views:

MDE agrees with the finding.

MDE did inadvertently include some State paid capital outlay costs in the MOE calculation for the audit period. However, the inclusion of capital outlay paid with State grant funds did not change the 2010-11 Elementary and Secondary Education Act (ESEA) MOE for any district or result in an incorrect amount of federal funds being allocated to any Michigan public school during fiscal year 2012-13. Only one district still would have been identified for not meeting the required MOE. The district had requested and received a waiver from USDOE from MOE requirements for that year.

MDE also included unrestricted federal funds in the calculation of ESEA MOE.

**Planned Corrective Action:**

MDE reviews the MOE calculation annually to ensure that staff calculate MOE rates in full compliance with federal guidance. The program used to calculate the 2011-12 MOE was revised to exclude all capital outlay from the effort. The program used to calculate the 2012-13 MOE will be revised to ensure that it follows USDOE's protocol for ESEA MOE. MDE will seek clarification from USDOE regarding inclusion of unrestricted federal funds in its ESEA MOE calculation.

**Anticipated Completion Date:**

As soon as clarification is received from USDOE related to MDE's calculation, MDE will incorporate any necessary changes into the MOE calculation.

**Responsible Individual(s):**

Glenda Rader, Michigan Department of Education

**FINDING 2013-013**

**MDE, Reporting - FFATA Reporting**

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Child Nutrition Cluster: CFDA 10.553, 10.555, 10.556, and 10.559

<b>Award Identification Number and Year</b>	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2011 - 09/30/2012
	2MI300060	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$402,496,565	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Reporting	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-004	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Agriculture	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Food Distribution Cluster: <i>CFDA</i> 10.565, 10.568, 10.568 (ARRA), and 10.569	
<b>Award Identification Number and Year</b>	2MI810053	10/01/2011 - 09/30/2012
	2MI400053	10/01/2011 - 09/30/2012
	2MI810053	10/01/2012 - 09/30/2013
	2MI400053	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$49,593,486	
<b>Total ARRA Expenditures</b>	\$(64,738)	
<b>Compliance Requirement(s)</b>	Reporting	
<b>Type of Finding</b>	Material Weakness and Material Noncompliance	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Agriculture	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Child and Adult Care Food Program: <i>CFDA</i> 10.558	
<b>Award Identification Number and Year</b>	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2011 - 09/30/2012
	2MI300069	10/01/2011 - 09/30/2013
	2MI300060	10/01/2012 - 09/30/2013
	2MI300069	10/01/2012 - 09/30/2014
	2MI300069	10/01/2013 - 09/30/2015
<b>Total Expenditures of Federal Awards</b>	\$63,326,219	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Reporting	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-004	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Title I, Part A Cluster: CFDA 84.010 and 84.389 (ARRA)
<b>Award Identification Number and Year</b>	S010A100022 07/01/2010 - 09/30/2011 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 S010A120022 07/01/2012 - 09/30/2013 S010A120022-12A 07/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$521,108,006
<b>Total ARRA Expenditures</b>	\$7,611,879
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-004
<b>State Agency</b>	Michigan Department of Education

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Special Education Cluster (IDEA): CFDA 84.027, 84.173, and 84.391 (ARRA)
<b>Award Identification Number and Year</b>	H027A100110 07/01/2010 - 09/30/2011 H027A100110A 07/01/2010 - 09/30/2011 H173A100117 07/01/2010 - 09/30/2011 H027A110110 07/01/2011 - 09/30/2012 H027A110110-11A 07/01/2011 - 09/30/2012 H027A110110-11B 07/01/2011 - 09/30/2012 H173A110117 07/01/2011 - 09/30/2012 H027A120110 07/01/2012 - 09/30/2013 H027A120110-12A 07/01/2012 - 09/30/2013 H173A120117 07/01/2012 - 09/30/2013 H027A130144 07/01/2013 - 09/30/2014 H173A130117 07/01/2013 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$413,149,414
<b>Total ARRA Expenditures</b>	\$(1,307,855)
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-004
<b>State Agency</b>	Michigan Department of Education

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable

<b>Program Title and CFDA Number</b>	School Improvement Grants Cluster: <i>CFDA</i> 84.377 and 84.388 (ARRA)
<b>Award Identification Number and Year</b>	S377A100023 07/01/2010 - 09/30/2014 S377A110023 07/01/2011 - 09/30/2014 S377A110023-11A 07/01/2011 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$64,444,212
<b>Total ARRA Expenditures</b>	\$39,044,981
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Department of Education

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Career and Technical Education - Basic Grants to States: <i>CFDA</i> 84.048
<b>Award Identification Number and Year</b>	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 V048A130022 07/01/2013 - 09/30/2014 V048A130022-13A 07/01/2013 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$38,641,636
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-004
<b>State Agency</b>	Michigan Department of Education

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Twenty-First Century Community Learning Centers: <i>CFDA</i> 84.287
<b>Award Identification Number and Year</b>	S287C100022 07/01/2010 - 09/30/2011 S287C100022-10A 07/01/2010 - 09/30/2011 S287C110022 07/01/2011 - 09/30/2012 S287C110022-11A 07/01/2011 - 09/30/2012 S287C120022 07/01/2012 - 09/30/2013 S287C120022-12A 07/01/2012 - 09/30/2013 S287C130022 07/01/2013 - 09/30/2014

<b>Total Expenditures of Federal Awards</b>	\$39,164,717
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-004
<b>State Agency</b>	Michigan Department of Education

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Improving Teacher Quality State Grants: CFDA 84.367	
<b>Award Identification Number and Year</b>	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
	S367A110021-11A	07/01/2011 - 09/30/2012
	S367A110021-11B	07/01/2011 - 09/30/2012
	S367B110019	07/01/2011 - 09/30/2012
	S367B110019-11A	07/01/2011 - 09/30/2012
	S367B110019-11B	07/01/2011 - 09/30/2012
	S367A120021	07/01/2012 - 09/30/2013
	S367A120021-12A	07/01/2012 - 09/30/2013
	S367B120019	07/01/2012 - 09/30/2013
	S367B120019-12A	07/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$88,429,739	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Reporting	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-004	
<b>State Agency</b>	Michigan Department of Education	

Condition

MDE did not ensure that it timely and accurately reported all subaward information as required by the Federal Funding Accountability and Transparency Act of 2006 (FFATA). Our review of 167 sampled subawards disclosed:

- a. MDE did not report subaward information for 7 (4%) Child Nutrition Cluster; Food Distribution Cluster; Child and Adult Care Food Program; and Title I, Part A Cluster subawards.

- b. MDE did not report accurate subaward information for 22 (13%) Food Distribution Cluster; Child and Adult Care Food Program; Title I, Part A Cluster; and Improving Teacher Quality State Grants subawards.
- c. MDE did not timely report subaward information for 140 (84%) Child Nutrition Cluster; Food Distribution Cluster; Child and Adult Care Food Program; Title I, Part A Cluster; Special Education Cluster (IDEA); School Improvement Grants Cluster; Career and Technical Education - Basic Grants to States; Twenty-First Century Community Learning Centers; and Improving Teacher Quality State Grants subawards. MDE submitted FFATA reports from 1 to 16 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

MDE informed us that a lack of resources and staff and competing priorities resulted in MDE's late reporting. MDE also informed us that an oversight in MDE's review process caused MDE to not report contract amendments and various subawards.

#### Effect

MDE grant information was not accurate or available in a timely manner 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 ensure that it timely and accurately reports all subaward information as required by FFATA.

## Management Views and Corrective Action Plan

### Management Views:

MDE agrees with the finding.

### Planned Corrective Action:

MDE has implemented procedures to ensure that all federal grants are properly reported in the Federal Subrecipient Reporting System (FSRS).

### Anticipated Completion Date:

Completed

### Responsible Individual(s):

Louis Burgess, Michigan Department of Education  
Shulawn Doxie, Michigan Department of Education

## **FINDING 2013-014**

### DCH, Reporting - FFATA Report Accuracy

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
<b>Award Identification Number and Year</b>	2MI700003 10/01/2012 - 09/30/2013 2MI700013 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$184,919,293
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Maternal and Child Health Services Block Grant to the States: CFDA 93.994
<b>Award Identification Number and Year</b>	1 B04MC25350-01-00 10/01/2012 - 09/30/2014 6 B04MC25350-01-01 10/01/2012 - 09/30/2014

	6 B04MC25350-01-02	10/01/2012 - 09/30/2014
	6 B04MC25350-01-03	10/01/2012 - 09/30/2014
	6 B04MC25350-01-04	10/01/2012 - 09/30/2014
	6 B04MC25350-01-05	10/01/2012 - 09/30/2014
	6 B04MC25350-01-06	10/01/2012 - 09/30/2014
	6 B04MC25350-01-07	10/01/2012 - 09/30/2014
	6 B04MC25350-01-08	10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$18,135,162	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Reporting	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Department of Community Health	

### Condition

DCH did not accurately report subaward information for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) and the Maternal and Child Health Services Block Grant to the States (MCHSBG). Our review of the 2 WIC Program and 2 MCHSBG grant awards that required FFATA reporting disclosed:

- a. DCH underreported obligated amounts ranging from \$4.2 million to \$15.0 million for a 5-month period for 1 WIC Program grant award and underreported \$0.4 million for a 7-month period for the other WIC Program grant award.
- b. DCH underreported obligated amounts ranging from \$0.5 million to \$4.5 million for a 3-month period for 1 of the MCHSBG grant awards.

### 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 because of a misunderstanding of the frequency of when DCH received the federal grant awards, DCH reported 25% of its obligations quarterly rather than reporting obligations up to the actual amount of federal grant awards received.

Effect

DCH reported inaccurate grant information 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 accurately report subaward information for the WIC Program and MCHSBG.

Management Views and Corrective Action Plan

Management Views:

DCH agrees with the finding.

Planned Corrective Action:

DCH trained its FFATA reporting staff on the correct reporting methodology to eliminate the periods of reporting noncompliance during the fiscal year.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Kristi Broessel, Department of Community Health

**FINDING 2013-015**

DHS, Reporting - FFATA Report Accuracy

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	TANF Cluster: <i>CFDA</i> 93.558	
<b>Award Identification Number and Year</b>	12 02 MI TANF	10/01/2011 - Until Expended
	13 02 MI TANF	10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898	

<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-006
<b>State Agency</b>	Department of Human Services

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Child Support Enforcement: CFDA 93.563
<b>Award Identification Number and Year</b>	1304MI4005 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$155,613,113
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-006
<b>State Agency</b>	Department of Human Services

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance: CFDA 93.568
<b>Award Identification Number and Year</b>	G 11 BI MI LIEA 10/1/2012 - 09/30/2013 G 12 BI MI LIEA 10/1/2011 - 09/30/2013 G 12 BI MI LIE2 10/1/2011 - 09/30/2013 G 13 BI MI LIEA 10/1/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
<b>Award Identification Number and Year</b>	12 01 MI 1401 10/01/2011 - 09/30/2012 13 01 MI 1401 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$136,227,267
<b>Total ARRA Expenditures</b>	\$(51,235)
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency

<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Social Services Block Grant: <i>CFDA</i> 93.667
<b>Award Identification Number and Year</b>	1301MISOSR 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$128,463,358
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-006
<b>State Agency</b>	Department of Human Services

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Chafee Foster Care Independence Program: <i>CFDA</i> 93.674
<b>Award Identification Number and Year</b>	G 12 01 MI 1420 10/01/2011 - 09/30/2013 G 13 01 MI 1420 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$4,533,861
<b>Total ARRA Expenditures</b>	\$0
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

Condition

DHS did not report required subaward information for all Child Support Enforcement subrecipients. Also, DHS did not always report required subaward information for TANF Cluster, Low-Income Home Energy Assistance, Foster Care - Title IV-E, and Chafee Foster Care Independence Program (CFCIP) sampled subawards. Further, DHS reported all 3 sampled Social Services Block Grant (SSBG) subawards three months late and 1 of these 3 SSBG subawards was not reported accurately.

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 did not design its FFATA reporting preparation process to ensure that it obtained all subaward information prior to submitting FFATA reports or to ensure the accuracy of reported subaward information. DHS also had not implemented a process to obtain and report the required subaward information for DHS's TANF Cluster and CFCIP funds distributed to subrecipients by other State agencies. DHS relied on the other State agencies carrying out the functions of the federal programs to identify and report the subawards; however, DHS did not specify the FFATA reporting requirements in interagency agreements with these other State agencies. Further, DHS had not implemented a control to ensure that information reported on the federal Web site was accurate.

DHS informed us that it submitted the SSBG subawards late because the employee responsible for the subaward reporting did not have access to the federal Web site at the time that the FFATA reports were due to the federal government.

### Effect

DHS grant information was not available for public access through the Web site established by the federal government to improve the 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.

### Recommendations

We recommend that DHS report subaward information as required by FFATA.

We also recommend that DHS improve its internal control to ensure that it identifies all subawards that meet FFATA reporting requirements, including subawards issued by other State agencies for DHS-administered federal programs.

We further recommend that DHS improve its internal control to ensure that it timely and accurately reports subaward information.

## Management Views and Corrective Action Plan

### Management Views:

DHS agrees with the finding.

### Planned Corrective Action:

The DHS Federal Reporting Unit will work with the DHS Office of Contracts and Purchasing to refine the initial query to identify all contracts that are potentially subject to FFATA reporting. The Federal Reporting Unit will also work with the program offices to confirm that all subaward information has been reported as required. The Federal Reporting Unit will review the monthly FFATA reporting information on the USA Spending Web site to ensure that new information has been reported accurately within 14 days after the information was submitted.

### Anticipated Completion Date:

July 1, 2014

### Responsible Individual(s):

Susan Kangas, Department of Human Services  
Marilyn Carey, Department of Human Services  
Paul Onan, Department of Human Services

## **FINDING 2013-016**

### MDE, Subrecipient Monitoring - DUNS Number

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Child Nutrition Cluster: <i>CFDA</i> 10.553, 10.555, 10.556, and 10.559
<b>Award Identification Number and Year</b>	2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012 2MI300060 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$402,496,565
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0

<b>Repeat Finding</b>	2012-007
<b>State Agency</b>	Michigan Department of Education

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Food Distribution Cluster: <i>CFDA</i> 10.565, 10.568, 10.568 (ARRA), and 10.569
<b>Award Identification Number and Year</b>	2MI810053 10/01/2011 - 09/30/2012 2MI400053 10/01/2011 - 09/30/2012 2MI810053 10/01/2012 - 09/30/2013 2MI400053 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$49,593,486
<b>Total ARRA Expenditures</b>	\$(64,738)
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Department of Education

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Child and Adult Care Food Program: <i>CFDA</i> 10.558
<b>Award Identification Number and Year</b>	2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012 2MI300069 10/01/2011 - 09/30/2013 2MI300060 10/01/2012 - 09/30/2013 2MI300069 10/01/2012 - 09/30/2014 2MI300069 10/01/2013 - 09/30/2015
<b>Total Expenditures of Federal Awards</b>	\$63,326,219
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-007
<b>State Agency</b>	Michigan Department of Education

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Title I, Part A Cluster: <i>CFDA</i> 84.010 and 84.389 (ARRA)
<b>Award Identification Number and Year</b>	S010A100022 07/01/2010 - 09/30/2011 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
	S010A120022	07/01/2012 - 09/30/2013
	S010A120022-12A	07/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$521,108,006	
<b>Total ARRA Expenditures</b>	\$7,611,879	
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-007	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Special Education Cluster (IDEA): CFDA 84.027, 84.173, and 84.391 (ARRA)	
<b>Award Identification Number and Year</b>	H027A100110	07/01/2010 - 09/30/2011
	H027A100110A	07/01/2010 - 09/30/2011
	H173A100117	07/01/2010 - 09/30/2011
	H027A110110	07/01/2011 - 09/30/2012
	H027A110110-11A	07/01/2011 - 09/30/2012
	H027A110110-11B	07/01/2011 - 09/30/2012
	H173A110117	07/01/2011 - 09/30/2012
	H027A120110	07/01/2012 - 09/30/2013
	H027A120110-12A	07/01/2012 - 09/30/2013
	H173A120117	07/01/2012 - 09/30/2013
	H027A130144	07/01/2013 - 09/30/2014
	H173A130117	07/01/2013 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$413,149,414	
<b>Total ARRA Expenditures</b>	(\$1,307,855)	
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-007	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	School Improvement Grants Cluster: CFDA 84.377 and 84.388 (ARRA)	
<b>Award Identification Number and Year</b>	S377A100023	07/01/2010 - 09/30/2014
	S377A110023	07/01/2011 - 09/30/2014
	S377A110023-11A	07/01/2011 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$64,444,212	
<b>Total ARRA Expenditures</b>	\$39,044,981	

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

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Career and Technical Education - Basic Grants to States: CFDA 84.048	
<b>Award Identification Number and Year</b>	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
	V048A130022	07/01/2013 - 09/30/2014
	V048A130022-13A	07/01/2013 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$38,641,636	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-007	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Twenty-First Century Community Learning Centers: CFDA 84.287	
<b>Award Identification Number and Year</b>	S287C100022	07/01/2010 - 09/30/2011
	S287C100022-10A	07/01/2010 - 09/30/2011
	S287C110022	07/01/2011 - 09/30/2012
	S287C110022-11A	07/01/2011 - 09/30/2012
	S287C120022	07/01/2012 - 09/30/2013
	S287C120022-12A	07/01/2012 - 09/30/2013
	S287C130022	07/01/2013 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$39,164,717	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Improving Teacher Quality State Grants: CFDA 84.367
<b>Award Identification Number and Year</b>	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 S367A110021-11A 07/01/2011 - 09/30/2012 S367A110021-11B 07/01/2011 - 09/30/2012 S367B110019 07/01/2011 - 09/30/2012 S367B110019-11A 07/01/2011 - 09/30/2012 S367B110019-11B 07/01/2011 - 09/30/2012 S367A120021 07/01/2012 - 09/30/2013 S367A120021-12A 07/01/2012 - 09/30/2013 S367B120019 07/01/2012 - 09/30/2013 S367B120019-12A 07/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$88,429,739
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-007
<b>State Agency</b>	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 designated 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. MDE corrected the deficiencies noted in the finding subsequent to approval of 2012-13 grant awards.

#### Planned Corrective Action:

MDE implemented 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+ prevents MDE staff from awarding funds to subrecipients that have not provided a DUNS number. The control in CMS prevents subrecipients that have not provided MDE a DUNS number 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:

Completed

#### Responsible Individual(s):

Louis Burgess, Michigan Department of Education  
Shulawn Doxie, Michigan Department of Education

## **FINDING 2013-017**

### **MDE, Subrecipient Monitoring - Function Codes**

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Title I, Part A Cluster: <i>CFDA</i> 84.010 and 84.389 (ARRA)	
<b>Award Identification Number and Year</b>	S010A070022	07/01/2007 - 09/30/2008
	S010A07022A	07/01/2007 - 09/30/2008
	S010A080022	07/01/2008 - 09/30/2009
	S010A080022A	07/01/2008 - 09/30/2009
	S389A090022	02/17/2009 - 09/30/2010
	S389A090022A	02/17/2009 - 09/30/2010
	S010A090022	07/01/2009 - 09/30/2012
	S010A090022A	07/01/2009 - 09/30/2012
	S010A100022	07/01/2010 - 09/30/2011
	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
	S010A120022	07/01/2012 - 09/30/2013
	S010A120022-12A	07/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$521,108,006	
<b>Total ARRA Expenditures</b>	\$7,611,879	
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Michigan Department of Education	

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Improving Teacher Quality State Grants: <i>CFDA</i> 84.367	
<b>Award Identification Number and Year</b>	S367A080021	07/01/2008 - 09/30/2009
	S367A080021A	07/01/2008 - 09/30/2009
	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
	S367A120021	07/01/2012 - 09/30/2013
	S367A120021-12A	07/01/2012 - 09/30/2013
	S367B100019	07/01/2010 - 09/30/2011

	S367B100019A	07/01/2010 - 09/30/2011
	S367B110019	07/01/2011 - 09/30/2012
	S367B110019-11A	07/01/2011 - 09/30/2012
	S367B110019-11B	07/01/2011 - 09/30/2012
	S367B120019	07/01/2012 - 09/30/2013
	S367B120019-12A	07/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$88,429,739	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Michigan Department of Education	

### Condition

MDE did not ensure that 2 (8%) of 25 sampled Improving Teacher Quality State Grants subrecipient budgets and 1 (4%) of 25 sampled Title I, Part A Cluster subrecipient budgets only included applicable function codes.

### Criteria

OMB Circular A-133, Section 300(b) requires MDE to maintain internal control over federal programs that provides reasonable assurance that MDE 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 its federal programs.

MDE informed us that the use of function codes in budgets helps to ensure that subrecipients do not charge expenditures that are unallowable to a grant.

### Cause

MDE informed us that for two of the budgets MDE consultants inadvertently processed the subrecipient budget with function codes that were not to be used unless the subrecipient was consolidating or transferring funds. MDE also informed us that the other budget was consolidating Title II, Part A funds, but was not on the list of subrecipients approved to consolidate which was used to determine the applicable function codes.

### Effect

For the exceptions noted, we determined that the expenditures that were budgeted and charged were allowable according to the grant agreement; however, lack of proper review of subrecipient budgets may result in payments to subrecipients for activities that are not allowable according to the grant agreement.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

### Recommendation

We recommend that MDE improve its internal control to ensure that subrecipient budgets only include applicable function codes.

### Management Views and Corrective Action Plan

#### Management Views:

MDE agrees with the finding.

#### Planned Corrective Action:

The Schoolwide Consolidation Function Codes will only be accessible in the MEGS+ software application to subrecipients identified and approved for consolidating funds by May 2014.

Training on the appropriate uses of and processes for function codes will be included as an agenda item at Office of Field Services staff meetings at least twice a year. The function codes will be reviewed with consultants during the initial application process in May/June and during the amendment process in December/January. Special attention will be given to the importance of accuracy, to "special situations," and to the function codes that are not commonly used.

#### Anticipated Completion Date:

January 2015

#### Responsible Individual(s):

Fred Williams, Michigan Department of Education  
Paula Daniels, Michigan Department of Education  
Becky Pennington, Michigan Department of Education

## **FINDING 2013-018**

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

<b>Federal Agency</b>	U.S. Department of Transportation
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Highway Planning and Construction Cluster: CFDA 20.205, 20.205 (ARRA), and 20.219
<b>Award Identification Number and Year</b>	Various
<b>Total Expenditures of Federal Awards</b>	\$1,131,082,561
<b>Total ARRA Expenditures</b>	\$6,955,595
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-012
<b>State Agencies</b>	Accounting Service Center and Michigan Department of Transportation

<b>Federal Agency</b>	U.S. Department of Transportation
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants: CFDA 20.319 and 20.319 (ARRA)
<b>Award Identification Number and Year</b>	FR-HSR-0060-11-01-00                      08/22/2011 - 08/31/2014 FR-HSR-0061-11-01-00                      08/22/2011 - 08/22/2015 FR-HSR-0066-11-01-00                      08/29/2011 - 03/30/2016 FR-HSR-0084-11-01-00                      10/01/2011 - 10/31/2013 FR-HSR-0088-11-01-00                      10/01/2011 - 09/30/2015 FR-HSR-0115-12-01-00                      11/18/2011 - 09/30/2015
<b>Total Expenditures of Federal Awards</b>	\$197,346,668
<b>Total ARRA Expenditures</b>	\$54,046,288
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Accounting Service Center and Michigan Department of Transportation

<b>Federal Agency</b>	U.S. Environmental Protection Agency
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Capitalization Grants for Clean Water State Revolving Funds: CFDA 66.458 and 66.458 (ARRA)
<b>Award Identification Number and Year</b>	2W00E752-01                                  10/01/2008 - 12/31/2013 CS-260001-10                                  10/01/2009 - 09/30/2014 CS-260001-11                                  10/01/2011 - 09/30/2016 CS-260001-12                                  10/01/2012 - 09/30/2017

<b>Total Expenditures of Federal Awards</b>	\$96,505,177
<b>Total ARRA Expenditures</b>	\$374,339
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Accounting Service Center and Department of Environmental Quality

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558	
<b>Award Identification Number and Year</b>	12 02 MI TANF	10/01/2011 - Until Expended
	13 02 MI TANF	10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-012	
<b>State Agencies</b>	Accounting Service Center and Department of Human Services	

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Child Support Enforcement: CFDA 93.563	
<b>Award Identification Number and Year</b>	1304MI4005	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$155,613,113	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-012	
<b>State Agencies</b>	Accounting Service Center and Department of Human Services	

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566	
<b>Award Identification Number and Year</b>	G12AAMI5100	10/01/2011 - 09/30/2012
	G1301MIRCMA	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring	

<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-012
<b>State Agencies</b>	Accounting Service Center and Department of Human Services

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance: <i>CFDA</i> 93.568
<b>Award Identification Number and Year</b>	G 11 BI MI LIEA 10/01/2012 - 09/30/2013 G 12 BI MI LIEA 10/01/2011 - 09/30/2013 G 12 BI MI LIE2 10/01/2011 - 09/30/2013 G 13 BI MI LIEA 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Accounting Service Center and Department of Human Services

<b>Federal Agency</b>	U.S. Department of Homeland Security
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Homeland Security Grant Program: <i>CFDA</i> 97.067
<b>Award Identification Number and Year</b>	2008-GE-T8-0052 09/01/2008 - 01/31/2013 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 EMW-2011-SS-00103-SO1 09/01/2011 - 08/31/2014 EMW-2012-SS-00055-SO1 09/01/2012 - 08/31/2014
<b>Total Expenditures of Federal Awards</b>	\$41,896,051
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-012
<b>State Agencies</b>	Accounting Service Center and Michigan Department of State Police

Condition

MDE's 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 results are summarized in the following table:

State Department	CFDA Number	Number of Subrecipients Reviewed	Audit Reports		Management Decisions Were Not Issued Within 6 Months (part b.)	Number of Days Reports Received After the Required Due Date (part c.)
			Received by MDE	Not Received (part a.)		
MDOT	20.205	15	11	4	1	16 to 235
MDOT	20.319	2	2		0	72 to 93
DEQ	66.458	7	3	4	0	55 to 124
DHS	93.558	8	6		1	221
DHS	93.563	8	8		0	12 to 215
DHS	93.566	3	3		0	0
DHS	93.568	3	3		0	29
MSP	97.067	7	7		0	16 to 215
		<u>53</u>	<u>43</u>	<u>8</u>	<u>2</u>	

Our review disclosed:

- a. MDE's ASC, in conjunction with the participating State departments, did not receive a single audit report or maintain support of their verification that an audit report was not required to be received for 8 (15.1%) of 53 subrecipients reviewed.
- b. Eight of the 43 single audit reports that were received contained a finding that required a management decision. However, ASC, in conjunction with the participating State departments, did not document that a management decision was issued within the six-month required time frame for 2 of the 8 single audits.
- c. Fifteen (34.9%) of the 43 single audit reports that were received by ASC were received between 55 to 235 days after the nine-month due date for the audit to have been completed.

#### 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. In addition, 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. Also, OMB Circular A-133, Sections 320(e)(1) and 320(e)(2) require the subrecipients to submit a copy of their reporting package to each pass-through entity or they shall provide written notification to the pass-through entity that the schedule of findings and questioned costs disclosed no audit findings and the summary schedule of prior audit findings did not report on the status of any audit findings relating to the federal award(s) that the pass-through entity provided. The required single audits are to be completed within nine months of the end of the subrecipient's audit period.

### Cause

Effective October 1, 2011, service level agreements (SLAs) were established between ASC, within MDE, and eight participating State departments for the review and monitoring of subrecipient audits. Participating State departments include the Michigan Department of Agriculture and Rural Development, Department of Environmental Quality, Department of Human Services, Department of Licensing and Regulatory Affairs, Department of Military and Veterans Affairs, Department of Natural Resources, Michigan Department of State Police, and Michigan Department of Transportation. The SLAs established the responsibilities of ASC and the departments. ASC informed us that there were some challenges in the implementation of the centralized subrecipient monitoring process. ASC staff turnover, training, and learning curves associated with this process contributed to audit backlogs. As a result, ASC did not finish its reviews of subrecipients' audit reports within the required time frames.

### 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 the affected 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 responsibility for monitoring of subrecipient audit reports was transferred back to the State departments in February 2014. The State departments will be responsible for developing a process to ensure subrecipient fiscal year 2013 single audit reports are received and that management decisions are issued as required.

The Office of Financial Management (OFM) is currently in the process of analyzing the extent of the backlog for subrecipient fiscal year 2011 and fiscal year 2012 audits. OFM will complete the required reviews of these audits.

#### Anticipated Completion Date:

October 2014

#### Responsible Individual(s):

Sharon Maher, Department of Environmental Quality  
Sharon Roman, Department of Environmental Quality  
Julie Horn Alexander, Department of Human Services  
Josh Larsen, Department of Human Services  
Andrea Mowry, Michigan Department of Transportation  
Nancy Becker-Bennett, Michigan Department of State Police  
Tiffany Vedder, Michigan Department of State Police  
Shawna Hessling, Office of Financial Management

## **FINDING 2013-019**

### **DCH, Allowable Costs/Cost Principles and Special Tests and Provisions - Entity Disclosures**

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
<b>Award Identification Number and Year</b>	05-1305MI5ADM	10/01/2012 - 09/30/2013
	05-1305MI5MAP	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132	
<b>Total ARRA Expenditures</b>	\$61,169,398	
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Special Tests and Provisions - Provider Eligibility	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-051	
<b>State Agency</b>	Department of Community Health	

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
<b>Award Identification Number and Year</b>	1 B04MC25350-01-00	10/01/2012 - 09/30/2014
	6 B04MC25350-01-01	10/01/2012 - 09/30/2014
	6 B04MC25350-01-02	10/01/2012 - 09/30/2014
	6 B04MC25350-01-03	10/01/2012 - 09/30/2014
	6 B04MC25350-01-04	10/01/2012 - 09/30/2014
	6 B04MC25350-01-05	10/01/2012 - 09/30/2014
	6 B04MC25350-01-06	10/01/2012 - 09/30/2014
	6 B04MC25350-01-07	10/01/2012 - 09/30/2014
	6 B04MC25350-01-08	10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$18,135,162	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Special Tests and Provisions	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Department of Community Health	

### Condition

DCH did not obtain all required disclosures from Prepaid Inpatient Health Plan (PIHP) entities, Medicaid Health Plan (MHP) entities, and its pharmacy benefits manager (PBM) during the audit period.

### Criteria

Federal regulations 42 *CFR* 455.104 through 455.106 require DCH to obtain certain identifying information from Medicaid providers, including PIHP entities, MHP entities, and its PBM. These regulations also require DCH to obtain information such as identification information of the owners, agents, and managing employees and information on the ownership and control interest in the provider's subcontractors. In addition, these regulations state that federal assistance is not available to providers who fail to disclose the information. According to its Medicaid State Plan, DCH has established procedures for the disclosure of information by providers and fiscal agents as specified in federal regulations 42 *CFR* 455.104 through 42 *CFR* 455.106. According to DCH's fiscal year 2012-13 Maternal and Child Health Services Block Grant State Narrative, DCH stated that the Maternal and Child Health Services Block Grant to the States (MCHSBG) will follow the same provider reimbursement policies as Medicaid.

### Cause

DCH stated that it had not developed a process to collect PIHP entity disclosures until December 2013. DCH stated that it did develop a process to collect MHP entity disclosures in February 2013; however, the process did not require submission of all required disclosure elements. In addition, DCH stated that it had not developed a single mechanism that ensured collection of all required disclosures from its PBM.

### 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 collect all required disclosures from PIHP entities, MHP entities, and its PBM.

### Management Views and Corrective Action Plan

#### Management Views:

DCH agrees with the finding.

#### Planned Corrective Action:

DCH will review disclosure requirements and make any necessary revisions to the disclosure template and collect all required disclosures from its managed care organization provider entities. DCH obtained required disclosures for PIHPs in December 2013 and its PBMs in April 2014.

#### Anticipated Completion Date:

December 2014

#### Responsible Individual(s):

Samantha Wolf, Department of Community Health  
Trish O'Keefe, Department of Community Health

### **FINDING 2013-020**

#### DCH, Special Tests and Provisions - Pharmacy Provider State License Monitoring

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Special Tests and Provisions - Provider Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
<b>Award Identification Number and Year</b>	1 B04MC25350-01-00	10/01/2012 - 09/30/2014
	6 B04MC25350-01-01	10/01/2012 - 09/30/2014
	6 B04MC25350-01-02	10/01/2012 - 09/30/2014
	6 B04MC25350-01-03	10/01/2012 - 09/30/2014
	6 B04MC25350-01-04	10/01/2012 - 09/30/2014
	6 B04MC25350-01-05	10/01/2012 - 09/30/2014
	6 B04MC25350-01-06	10/01/2012 - 09/30/2014
	6 B04MC25350-01-07	10/01/2012 - 09/30/2014
	6 B04MC25350-01-08	10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$18,135,162	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Special Tests and Provisions	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Department of Community Health	

Condition

DCH did not have a control in place to monitor pharmacy providers' State licenses for 3 (25%) of 12 months during the audit period.

DCH suspended its automated file interface process with its PBM for monitoring pharmacy providers' State license status in July 2013. At that time, DCH started requiring all pharmacies to enroll directly into DCH's Community Health Automated Medicaid Processing System (CHAMPS), which would allow DCH to obtain and monitor pharmacy providers' State license information directly. However, we noted that 13 (87%) of 15 pharmacies reviewed had still not provided State licensing information in CHAMPS at the time of our fieldwork in April 2014.

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. DCH's Medicaid State Plan states that all providers of medical care are licensed by the appropriate State agency in compliance with State licensing requirements. According to

DCH's fiscal year 2012-13 Maternal and Child Health Services Block Grant State Narrative, DCH stated that MCHSBG will follow the same provider reimbursement policies as Medicaid.

#### Cause

DCH had not established a required timetable for pharmacies to enroll in CHAMPS and did not have a process in place to follow up with pharmacies that did not enroll timely.

#### Effect

Without State licensing information in CHAMPS, DCH cannot monitor changes in pharmacy providers' State license status. 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 implement a control to monitor pharmacy providers' State license status.

#### Management Views and Corrective Action Plan

##### Management Views:

DCH disagrees in part with the finding. The pharmacy providers did provide their State license information, which was validated during their initial enrollment period and captured in CHAMPS. However, it was not reflected in the correct screen in CHAMPS, preventing future validation checks against the Department of Licensing and Regulatory Affairs (LARA). DCH agrees that it did not establish a required timetable for pharmacy providers to complete revalidation of enrollment record details in CHAMPS.

##### Planned Corrective Action:

DCH will work with all pharmacy providers that have not yet revalidated in CHAMPS to ensure that revalidation occurs. Future pharmacy licensure monitoring will be conducted by the CHAMPS on-line monitoring system.

Anticipated Completion Date:  
September 30, 2014

Responsible Individual(s):  
Teri Chamberlain, Department of Community Health  
Trish O'Keefe, Department of Community Health

**FINDING 2013-021**

DCH, Special Tests and Provisions - Prepaid Inpatient Health Plan, Pharmacy Benefits Manager, and MI Choice Provider Network Monitoring

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
<b>Award Identification Number and Year</b>	05-1305MI5ADM	10/01/2012 - 09/30/2013
	05-1305MI5MAP	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132	
<b>Total ARRA Expenditures</b>	\$61,169,398	
<b>Compliance Requirement(s)</b>	Special Tests and Provisions - Provider Eligibility	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Department of Community Health	

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
<b>Award Identification Number and Year</b>	1 B04MC25350-01-00	10/01/2012 - 09/30/2014
	6 B04MC25350-01-01	10/01/2012 - 09/30/2014
	6 B04MC25350-01-02	10/01/2012 - 09/30/2014
	6 B04MC25350-01-03	10/01/2012 - 09/30/2014
	6 B04MC25350-01-04	10/01/2012 - 09/30/2014
	6 B04MC25350-01-05	10/01/2012 - 09/30/2014
	6 B04MC25350-01-06	10/01/2012 - 09/30/2014
	6 B04MC25350-01-07	10/01/2012 - 09/30/2014
	6 B04MC25350-01-08	10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$18,135,162	
<b>Total ARRA Expenditures</b>	Not Applicable	

<b>Compliance Requirement(s)</b>	Special Tests and Provisions
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

Condition

DCH did not monitor pharmacy providers or its PIHP entities' network of providers to ensure that providers entered into provider agreements and made all required disclosures. Also, DCH did not maintain documentation to support its monitoring of the MI Choice Waiver Program (MI Choice) waiver agent's provider agreements and provider disclosures.

Prior to July 2013, the PBM enrolled pharmacy providers. The DCH provider enrollment policy manual required its PBM to obtain provider agreements and all required pharmacy provider disclosures; however, DCH did not monitor its PBM and pharmacy providers to ensure that they complied with the policy. DCH began directly enrolling pharmacy providers in CHAMPS in July 2013, including directly entering into provider agreements with pharmacy providers and directly collecting pharmacy provider disclosures. We noted that 4 (27%) of 15 pharmacy providers reviewed had still not entered into provider agreements or provided required disclosures in CHAMPS at the time of our fieldwork in April 2014.

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. Also, federal regulations 42 *CFR* 455.104 through 42 *CFR* 455.106 require DCH to obtain certain identifying information from Medicaid providers. In addition, these regulations state that federal assistance is not available to Medicaid providers who fail to disclose the information. According to its Medicaid State Plan, DCH has established procedures for the disclosure of information by providers and fiscal agents as specified in federal regulations 42 *CFR* 455.104 through 42 *CFR* 455.106. Also, according to DCH's fiscal year 2012-13 Maternal and Child Health Services Block Grant State Narrative, DCH stated that MCHSBG will follow the same provider reimbursement policies as Medicaid.

## Cause

DCH stated:

- It trained its PBM on pharmacy provider agreement and disclosure policy and, therefore, relied on its PBM to correctly implement the policy.
- It had not established a required timetable for pharmacy providers to enroll in CHAMPS and did not have a mechanism in place to identify and follow up with pharmacies that had not enrolled.
- It does not have a mechanism to monitor the PIHP entities' network of providers for provider agreements and disclosures.
- Its monitoring of MI Choice waiver agents' providers included monitoring provider agreements and provider disclosures; however, our review showed that only high-level checklists are maintained to support DCH's monitoring and those checklists do not specifically indicate coverage of provider agreements or provider disclosures.

## Effect

DCH could potentially reimburse PIHPs, its PBM, or MI Choice waiver agents for Medicaid 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.

## Recommendations

We recommend that DCH monitor pharmacy providers and its PIHP entities' network of providers to ensure that providers entered into provider agreements and make all required disclosures.

We also recommend that DCH maintain documentation to support its monitoring of MI Choice waiver agents' provider agreements and provider disclosures.

## Management Views and Corrective Action Plan

### Management Views:

DCH agrees with the finding.

### Planned Corrective Action:

In the interim, until all pharmacy providers have revalidated in CHAMPS, DCH will develop a process to verify that enrolled pharmacy providers have entered into provider agreements and made all required disclosures.

DCH has updated the template used during the Administrative Quality Assurance Review process to properly document the review of MI Choice waiver agents agreements and disclosures with providers.

DCH will develop a process for its External Quality Review Organization to verify that its PIHPs entered into provider agreements with their providers and obtained all required disclosures.

### Anticipated Completion Date:

December 2014

### Responsible Individual(s):

Trish O'Keefe, Department of Community Health

Cindy Kelly, Department of Community Health

Elizabeth Gallagher, Department of Community Health

## **FINDING 2013-022**

### Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, Cash Management - Formula Rebates

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
<b>Award Identification Number and Year</b>	2MI700003 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$184,919,293

<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Cash Management
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

Condition

DCH did not timely apply Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Program formula rebate funds to WIC Program expenditures before requesting additional federal funds for 5 of the 12 WIC Program formula rebates received during the audit period.

Criteria

Federal regulation 7 *CFR* 3016.21(f)(2) states that grantees and subgrantees shall disburse rebates before requesting additional cash payments.

Cause

DCH indicated that it did not have an internal control in place to ensure that WIC Program formula rebate funds were considered before requesting additional federal funds. Also, DCH stated that human error contributed to the early federal cash requests.

Effect

DCH prematurely requested federal funds. For the five noted formula rebates, DCH continued to request federal funds for 1 to 6 business days before applying available WIC Program formula rebates to cover WIC Program costs. Also, DCH did not report the early federal draws on its quarterly noncompliant federal cash draws report to the Department of Treasury for inclusion in the State's calculation of interest due to the federal government.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that DCH timely apply WIC formula rebate funds to WIC Program expenditures before requesting additional federal funds.

## Management Views and Corrective Action Plan

### Management Views:

DCH agrees with the finding.

### Planned Corrective Action:

DCH has implemented policies/procedures outlining future federal draws, so that draws are done on a timely basis. In addition, DCH will monitor the timing/synchronization of actual deposits going forward to ensure compliance.

### Anticipated Completion Date:

Completed

### Responsible Individual(s):

Paul McDonald, Department of Community Health  
Ed Willoughby, Department of Community Health

## **FINDING 2013-023**

### Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557, Cash Management - Late Administrative Draws

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
<b>Award Identification Number and Year</b>	2MI700003 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$184,919,293
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Cash Management
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

### Condition

DCH did not request federal reimbursement in accordance with the required funding technique for \$2,492,562 of WIC Program administrative expenditures.

### Criteria

Federal regulation 31 *CFR* 205 requires State recipients to enter into agreements with the U.S. Department of the Treasury that prescribe specific methods of drawing down federal funds for selected large programs, including the WIC Program. In the agreement, the State agreed to draw federal funds for WIC administrative expenditures on a biweekly payroll cycle.

### Cause

The WIC Program administrative expenditures were improperly coded in the Michigan Administrative Information Network\* (MAIN), causing the expenditures to go undetected for federal reimbursement request purposes for a period of time.

### Effect

DCH requested federal funds 36, 26, and 17 business days late for WIC Program administrative expenditures totaling \$1,506,805, \$576,612, and \$409,145, respectively. Also, DCH did not report the late federal draws on its quarterly noncompliant federal cash draws report to the Department of Treasury for inclusion in the State's calculation of interest due to the federal government.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

### Recommendation

We recommend that DCH request federal reimbursement in accordance with the required funding technique for WIC Program administrative expenditures.

### Management Views and Corrective Action Plan

#### Management Views:

DCH agrees with the finding.

#### Planned Corrective Action:

DCH has implemented additional review protocols, which require a review of all open phases of any grant before a request for federal funds is made. Any coding errors would be identified at the time of the review, corrected if required, and included in the draw request if needed.

\* See glossary at end of report for definition.

Anticipated Completion Date:  
Completed

Responsible Individual(s):  
Paul McDonald, Department of Community Health  
Ed Willoughby, Department of Community Health

### **FINDING 2013-024**

Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557,  
Reporting - FFATA Reporting Timeliness

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
<b>Award Identification Number and Year</b>	2MI700003 10/01/2012 - 09/30/2013 2MI700013 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$184,919,293
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-005
<b>State Agency</b>	Department of Community Health

#### Condition

DCH did not timely submit the Federal Funding Accountability and Transparency Act of 2006 (FFATA) reports for the WIC Program. For 2 of 10 WIC Program subawards reviewed, DCH submitted 3 of the 7 required FFATA reports 1 to 2 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 an error in the script used to compile data for FFATA reporting caused untimely reporting.

Effect

DCH grant information was not available in a timely manner 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.

Management Views and Corrective Action Plan

Management Views:

DCH agrees with the finding.

Planned Corrective Action:

DCH corrected the script used to identify the reportable obligations for the period that resulted in the error.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Kristi Broessel, Department of Community Health

**FINDING 2013-025**

**Child and Adult Care Food Program, CFDA 10.558, Allowable Costs/Cost Principles, Subrecipient Monitoring - Claims in Excess of Authorized Capacity**

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Child and Adult Care Food Program: CFDA 10.558

<b>Award Identification Number and Year</b>	2MI300069	10/01/2013 - 09/30/2015
	2MI300060	10/01/2012 - 09/30/2013
	2MI300069	10/01/2012 - 09/30/2014
	2MI300060	10/01/2011 - 09/30/2012
	2MI300069	10/01/2011 - 09/30/2013
	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2009 - 09/30/2010
	2MI300060	10/01/2008 - 09/30/2009
	2MI300060	10/01/2004 - 09/30/2005
	2MI300060	10/01/2002 - 09/30/2003
<b>Total Expenditures of Federal Awards</b>	\$63,326,219	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Subrecipient Monitoring	
<b>Type of Finding</b>	Significant Deficiency and Noncompliance	
<b>Known Questioned Costs</b>	\$32,608	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Michigan Department of Education	

### Condition

MDE reimbursed the Child and Adult Care Food Program (CACFP) center sponsors for meals served in excess of the authorized capacity of the sponsors' independent centers, adult day care facilities, or child care facilities (institutions).

We analyzed all fiscal year 2012-13 claims for 465 of the 558 total sponsors. Our analysis noted that 20 (4.3%) of 465 sponsors submitted claims in excess of the authorized capacity for its institutions.

### Criteria

Federal regulation 7 *CFR* 226.7 requires MDE to ensure that payment is not made for meals served to participants attending in excess of the authorized capacity of each independent center, adult day care facility, or child care facility.

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

MDE had an edit check in its meals claims system that ensured meals claimed from the sponsors could not exceed the number of participants enrolled in total for all of the sponsor's institutions. The number of institutions per sponsor ranged from 1 to 131.

However, this edit check did not take into account each institution's number of days of meal service, authorized capacity, and meal shifts which might be less than the total enrollment for the sponsor.

### Effect

MDE reimbursed sponsors for 11,476 unallowable meals served in fiscal year 2012-13.

### Known Questioned Costs

We identified questioned costs of \$32,608.

### Recommendation

We recommend that MDE ensure that reimbursements for meal claims do not exceed the authorized capacity of each institution.

### Management Views and Corrective Action Plan

#### Management Views:

MDE agrees with the finding.

CACFP staff reviewed the excess claims for all of the identified centers. MDE contacted large community action and Head Start agencies and requested daily attendance and meal attendance to support the claims in question. MDE conducted on-site, unannounced visits to for-profit centers and reviewed their support for the claims in question.

As a result of its reviews, MDE determined that applications for seven institutions with total claims of \$6,005.76 had shift errors, but all of the reimbursed meals were eligible under the program. The applications will be amended to correct the errors.

One institution with claims totaling \$1,176.79 had a flood and lost all CACFP paperwork. The U.S. Department of Agriculture (USDA) granted an "outside of

control" exception to the institution for the missing records. Four institutions with total claims of \$1,745.51 were over capacity for claim months. Referrals for these institutions will be made to DHS. DHS licenses institutions for child care and monitors health and safety standards, including capacity. Two institutions with total claims of \$3,284.47 had claiming errors. One institution with \$6,019.64 in total claims was referred to the Office of the Inspector General for the USDA. Reimbursement for meals claimed in excess of the licensed capacity will be recouped through claim amendments.

Three institutions with total claims of \$8,476.13 no longer participate in the program. One institution's participation was terminated by MDE, and two no longer participate in CACFP due to loss of Head Start grant funding. Two institutions with total claims of \$5,900.13 are still being reviewed.

**Planned Corrective Action:**

Although the current edit check of enrollment and days of meal service is in compliance with federal regulation 7 *CFR* 226.7(k), it will be discontinued beginning in fiscal year 2014-15. MDE will institute a new edit check to enforce a higher level of oversight for CACFP claims. The edit check will calculate the maximum number of meals or snacks that can be claimed using the number of days of meal service, capacity, and the number of shifts in the CACFP application.

**Anticipated Completion Date:**

October 1, 2014

**Responsible Individual(s):**

Kim Bilyk, Michigan Department of Education  
 Doug Wilson, Michigan Department of Education

**FINDING 2013-026**

**CDBG - State-Administered CDBG Cluster, *CFDA* 14.228, Reporting - Section 3 Summary Report**

<b>Federal Agency</b>	U.S. Department of Housing and Urban Development
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and <i>CFDA</i> Number</b>	CDBG - State-Administered CDBG Cluster: <i>CFDA</i> 14.228

<b>Award Identification Number and Year</b>	B-12-DC-26-0001	07/01/2012 - 01/31/2015
	B-11-DC-26-0001	07/01/2011 - Until Expended
	B-10-DC-26-0001	07/01/2010 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$49,278,009	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Reporting	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-017	
<b>State Agency</b>	Michigan Strategic Fund	

### Condition

The Michigan Strategic Fund (MSF) did not report all information required in the Section 3 Summary Report (HUD 60002) for other public construction awards prior to sending it to Michigan State Housing Development Authority (MSHDA) for submission to the U.S. Department of Housing and Urban Development (HUD).

### Criteria

Federal regulation 24 *CFR* 135 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, prior to fiscal year 2012-13, it believed that MSF was in compliance with the Section 3 Summary Report requirements. In fiscal year 2012-13, it received Section 3 Summary Report guidance from HUD regarding reporting for other public construction and developed a procedure requiring subrecipients to submit Section 3 Summary Reports for other public construction to MSF. However, because MSF had not implemented its Section 3 compliance subrecipient monitoring procedure in fiscal year 2012-13, it was unable to complete portions of the September 30, 2013 Section 3 Summary Report (including certain mandatory fields). MSF was able to prepare a portion of the report, including the total amount of construction contracts and nonconstruction contracts awarded on the projects.

### 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.

### Recommendation

We recommend that MSF report all information required in the Section 3 Summary Report (HUD 60002) for other public construction awards prior to sending it to MSHDA for submission to HUD.

### Management Views and Corrective Action Plan

#### Management Views:

MSF agrees with the finding.

#### Planned Corrective Action:

HUD guidance regarding 2013 Section 3 monitoring of subrecipient requirements was issued late in 2013, causing MSF to be unable to comply with reporting of all mandatory fields in Section 3 reporting for fiscal year 2012-13. MSF issued the report, but not all data elements were presented, because these new data elements were received too late to implement for fiscal year 2012-13.

MSF has implemented new program policies and monitoring and reporting procedures for fiscal year 2013-14 that will capture all Section 3 reporting requirements.

#### Anticipated Completion Date:

Completed

#### Responsible Individual(s):

Deborah Stuart, Michigan Strategic Fund

## **FINDING 2013-027**

### **CDBG - State-Administered CDBG Cluster, CFDA 14.228, Reporting - FFATA**

<b>Federal Agency</b>	U.S. Department of Housing and Urban Development
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CDBG - State-Administered CDBG Cluster: CFDA 14.228
<b>Award Identification Number and Year</b>	B-12-DC-26-0001 07/01/2012 - 01/31/2015 B-11-DC-26-0001 07/01/2011 - Until Expended B-10-DC-26-0001 07/01/2010 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$49,278,009
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-018
<b>State Agency</b>	Michigan Strategic Fund

#### **Condition**

MSF did not report required subaward information for any of the 37 CDBG - State-Administered CDBG Cluster subawards distributed to subrecipients by other State agencies. In addition, we reviewed 8 CDBG subawards that were distributed to subrecipients by MSF and noted that MSF did not report 1 CDBG subaward and did not timely report 7 CDBG subawards. MSF reported the 7 CDBG subawards from 1 to 7 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**

MSF had not implemented a process to obtain and report the required subaward information for CDBG funds distributed to subrecipients by other State agencies. In fiscal year 2012-13, MSF implemented FFATA policy and procedures and reported subaward information for MSF subrecipients. However, these procedures did not address obtaining subaward information for CDBG funds distributed to subrecipients by other State agencies. MSF also indicated that limited federal guidance and technical assistance affected the timeliness of MSF's FFATA reporting.

### Effect

MSF grant information was not available or available in a timely manner for public access through the Web site that was 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.

### Recommendations

We recommend that MSF report required subaward information for CDBG subawards distributed to subrecipients by other State agencies.

We also recommend that MSF timely report all required subawards.

### Management Views and Corrective Action Plan

#### Management Views:

MSF agrees with the finding.

#### Planned Corrective Action:

MSF collaborates with MSHDA for FFATA reporting. MSF instituted a new reporting process during fiscal year 2012-13 that was implemented at the beginning of fiscal year 2013-14.

A fiscal year 2013-14 memorandum of understanding with MSHDA will ensure that MSHDA will report all required subrecipient and subaward data for all State agencies in a timely fashion to MSF. MSF will ensure timely and complete FFATA reporting for MSF and all subawards. Subrecipients that do not comply will be subject to sanctions.

#### Anticipated Completion Date:

August 1, 2014

#### Responsible Individual(s):

Deborah Stuart, Michigan Strategic Fund

## **FINDING 2013-028**

### **CDBG - State-Administered CDBG Cluster, CFDA 14.228, Subrecipient Monitoring - Monitoring Subrecipients for Section 3 Requirements**

<b>Federal Agency</b>	U.S. Department of Housing and Urban Development
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CDBG - State-Administered CDBG Cluster: CFDA 14.228
<b>Award Identification Number and Year</b>	B-12-DC-26-0001 07/01/2012 - 01/31/2015 B-11-DC-26-0001 07/01/2011 - Until Expended B-10-DC-26-0001 07/01/2010 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$49,278,009
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-019
<b>State Agency</b>	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, such as ensuring that assistance programs are directed at low-income or very low-income persons.

#### **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, in fiscal year 2012-13, after receiving guidance from HUD regarding how to monitor subrecipients for compliance with Section 3 requirements, it updated its program policies and procedures and developed Section 3 Summary Reports that the subrecipients are required to complete and submit to MSF. However, because of the timing of these activities, MSF did not monitor subrecipients for compliance with Section 3 requirements during fiscal year 2012-13.

### 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:

HUD guidance regarding 2013 Section 3 monitoring of subrecipient requirements was issued late in fiscal year 2012-13, causing the MSF to be unable to comply with Section 3 monitoring requirements for fiscal year 2012-13. The program immediately began corrective action to comply with new requirements.

MSF has implemented new program policies and monitoring procedures for fiscal year 2013-14 that will capture all Section 3 requirements.

#### Anticipated Completion Date:

Completed

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

**FINDING 2013-029**

**Airport Improvement Program, CFDA 20.106, Period of Availability - Expenditures Made After the Period of Availability**

<b>Federal Agency</b>	U.S. Department of Transportation	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Airport Improvement Program: CFDA 20.106	
<b>Award Identification Number and Year</b>	3-26-SBGP-5508	04/15/2008 - 09/30/2012
	3-26-SBGP-5708	08/25/2008 - 09/30/2012
	3-26-SBGP-6108	09/16/2008 - 09/30/2012
	3-26-SBGP-6209	02/19/2009 - 09/30/2013
	3-26-SBGP-6509	06/22/2009 - 09/30/2013
	3-26-SBGP-6610	03/09/2010 - 09/30/2014
	3-26-SBGP-7010	07/01/2010 - 09/30/2014
	3-26-SBGP-7110	08/11/2010 - 09/30/2014
	3-26-SBGP-7210	08/11/2010 - 09/30/2014
	3-26-SBGP-7410	08/11/2010 - 09/30/2014
	3-26-SBGP-7711	03/11/2011 - 09/30/2015
	3-26-SBGP-8011	09/12/2011 - 09/30/2015
	3-26-SBGP-8111	09/12/2011 - 09/30/2015
	3-26-SBGP-8211	09/23/2011 - 09/30/2015
	3-26-SBGP-8412	08/03/2012 - 09/30/2016
	3-26-SBGP-8512	08/03/2012 - 09/30/2016
	3-26-SBGP-8612	09/07/2012 - 09/30/2016
	3-26-SBGP-8712	09/19/2012 - 09/30/2016
	3-26-SBGP-8813	08/05/2013 - 09/30/2017
<b>Total Expenditures of Federal Awards</b>	\$19,495,784	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Period of Availability	
<b>Type of Finding</b>	Significant Deficiency and Noncompliance	
<b>Known Questioned Costs</b>	\$46,868	
<b>Repeat Finding</b>	2011-010	
<b>State Agency</b>	Michigan Department of Transportation	

**Condition**

The Michigan Department of Transportation (MDOT) did not expend Airport Improvement Program (AIP) grant funding within the period of availability. Our comparison of grant expenditures for 2 of 3 grant awards with periods of availability that

ended on or before September 30, 2012 and that had drawn federal funds during fiscal year 2012-13 disclosed that MDOT expended a total of \$46,868 more than four years after the date of grant acceptance for both awards.

#### Criteria

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

#### Cause

Prior to January 2013, MDOT expended grant funding within five years from the date of the grant awards based on guidance that the FAA provided to MDOT. After receiving further clarification from the FAA, MDOT revised its process in January 2013 to expend funds within the required four-year period of availability. The \$46,868 was incurred prior to January 2013.

#### Effect

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

#### Known Questioned Costs

We identified questioned costs of \$46,868. The questioned costs represent the known amount of AIP expenditures made after the period of availability for the 2 grants reviewed.

#### Recommendation

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

#### Management Views and Corrective Action Plan

##### Management Views:

MDOT agrees with the finding.

Planned Corrective Action:

The questioned costs were incurred prior to MDOT's implementation of updated procedures in January 2013. As a result of the updated procedures, MDOT monitors all federal grants to ensure that funds are spent only within the four-year period of availability.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Mike Trout, Michigan Department of Transportation

**FINDING 2013-030**

Airport Improvement Program, CFDA 20.106, Reporting - Accuracy of Reports

<b>Federal Agency</b>	U.S. Department of Transportation
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Airport Improvement Program: CFDA 20.106
<b>Award Identification Number and Year</b>	3-26-SBGP-5508 04/15/2008 - 09/30/2012 3-26-SBGP-5708 08/25/2008 - 09/30/2012 3-26-SBGP-6108 09/16/2008 - 09/30/2012 3-26-SBGP-6209 02/19/2009 - 09/30/2013 3-26-SBGP-6509 06/22/2009 - 09/30/2013 3-26-SBGP-6610 03/09/2010 - 09/30/2014 3-26-SBGP-7010 07/01/2010 - 09/30/2014 3-26-SBGP-7110 08/11/2010 - 09/30/2014 3-26-SBGP-7210 08/11/2010 - 09/30/2014 3-26-SBGP-7410 08/11/2010 - 09/30/2014 3-26-SBGP-7711 03/11/2011 - 09/30/2015 3-26-SBGP-8011 09/12/2011 - 09/30/2015 3-26-SBGP-8111 09/12/2011 - 09/30/2015 3-26-SBGP-8211 09/23/2011 - 09/30/2015 3-26-SBGP-8412 08/03/2012 - 09/30/2016 3-26-SBGP-8512 08/03/2012 - 09/30/2016 3-26-SBGP-8612 09/07/2012 - 09/30/2016 3-26-SBGP-8712 09/19/2012 - 09/30/2016 3-26-SBGP-8813 08/05/2013 - 09/30/2017
<b>Total Expenditures of Federal Awards</b>	\$19,495,784
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting

<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Department of Transportation

Condition

MDOT did not prepare Standard Form 271 (SF-271) and Standard Form 425 (SF-425) reports in accordance with the reports' instructions. Our review of 5 of 26 SF-271 reports and the 1 SF-425 report for the reporting period ended September 30, 2013 disclosed:

- a. MDOT reported federal cash draw amounts as total federal expenditures and estimated all of the remaining expenditure amounts required on the SF-271 report based on the federal cash draw amounts.
- b. MDOT reported federal cash draw amounts as federal cash expenditures on the SF-425 report.

Criteria

Federal regulations 49 *CFR* 18.20 and 49 *CFR* 18.41 require MDOT to submit accurate and complete financial data in accordance with the AIP reporting requirements. AIP requires MDOT to submit annual SF-271 reports for each federal grant award and one annual SF-425 report that includes all federal grant awards. The instructions for the SF-271 and SF-425 reports require MDOT to report expenditures for the reporting period.

Cause

MDOT records the federal grant award(s) initially associated with each sub-grant award in its Project Accounting and Billing System (PAB). However, MDOT did not transfer expenditures between federal grant awards within PAB when the initial federal grant awards associated with the sub-grant award changes. As a result, PAB did not accurately identify federal and State expenditures by federal grant award.

Effect

MDOT may have diminished the FAA's ability to ensure appropriate oversight and monitoring of AIP 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 MDOT prepare SF-271 and SF-425 reports in accordance with the reports' instructions.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees with the finding. However, in regard to part b. of the finding, MDOT filed the SF-425 report in accordance with guidance provided by the FAA.

Planned Corrective Action:

MDOT will prepare future SF-271 and SF-425 reports in accordance with instructions.

Anticipated Completion Date:

September 30, 2014

Responsible Individual(s):

Patrick McCarthy, Michigan Department of Transportation

**FINDING 2013-031**

High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants, CFDA 20.319 and 20.319 (ARRA), Matching, Level of Effort, and Earmarking and Reporting - Meeting Matching Requirements

<b>Federal Agency</b>	U.S. Department of Transportation	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants: CFDA 20.319 and 20.319 (ARRA)	
<b>Award Identification Number and Year</b>	FR-HSR-0060-11-01-00	08/22/2011 - 08/31/2014
	FR-HSR-0061-11-01-00	08/22/2011 - 08/22/2015
	FR-HSR-0066-11-01-00	08/29/2011 - 03/30/2016
	FR-HSR-0084-11-01-00	10/01/2011 - 10/31/2013

	FR-HSR-0088-11-01-00	10/01/2011 - 09/30/2015
	FR-HSR-0115-12-01-00	11/18/2011 - 09/30/2015
<b>Total Expenditures of Federal Awards</b>	\$197,346,668	
<b>Total ARRA Expenditures</b>	\$54,046,288	
<b>Compliance Requirement(s)</b>	Matching, Level of Effort, and Earmarking and Reporting	
<b>Type of Finding</b>	Material Weakness and Noncompliance	
<b>Known Questioned Costs</b>	Undeterminable	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Michigan Department of Transportation	

### Condition

MDOT did not ensure that match expenditures reported to the Federal Railroad Administration (FRA) were for activities allowed and allowable costs. Our review of the fourth-quarter federal financial reports (FFRs) for the reporting period ended September 30, 2013 for the 3 grants with matching requirements disclosed:

- a. MDOT could not identify in its accounting records \$2,505,453 of the \$19,918,654 that it reported to the FRA as matching costs for federal award FR-HSR-0115-12-01-00.
- b. MDOT could not ensure that only activities allowed and allowable costs were included in the portion of the match it could identify in its accounting records for federal award FR-HSR-0115-12-01-00. Our review of \$3,665,787 of the \$17,413,201 that MDOT could identify as matching costs disclosed:
  - (1) MDOT incurred \$174,972 of costs prior to the date authorized in the cooperative agreement.
  - (2) MDOT used activities that were not associated with the federal award as a match, totaling \$7,636.

### Criteria

Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal programs conform to terms and conditions of the federal award and be adequately documented. Cooperative agreement FR-HSR-0015-12-01-00 requires MDOT to provide an overall 20% State match for the project outlined in the agreement. The agreement also authorizes MDOT to incur pre-agreement costs on or after April 1, 2010, but only to the extent that such costs are otherwise allowable under the terms of

the cooperative agreement. In addition, the agreement requires MDOT to submit FFRs and to report the matching share of actual cash disbursements and contributions for the period reported.

#### Cause

MDOT did not maintain documentation to support how it had identified the \$19,918,654 that it reported to FRA as matching costs. Also, MDOT incorrectly determined that costs incurred prior to April 1, 2010 were allowable because it relied on the Notice of Funding Availability, which stated that FRA will consider costs prior to April 1, 2010, instead of relying on the cooperative agreement between FRA and MDOT, which stated that costs are not allowed prior to April 1, 2010. In addition, MDOT had improperly recorded State expenditures in MAIN which caused MDOT to identify the costs when summarizing its matching costs.

#### Effect

FRA may deny the use of funds and matching credit for all or part of the cost of the activity or action not in compliance, wholly or partly suspend or terminate the current award for the grantee's program, and withhold further awards for the program. Also, MDOT may have diminished the FRA's ability to ensure appropriate oversight and monitoring of High-Speed Rail Corridors and Intercity Passenger Rail Service (HSIPR) Program federal funds.

#### Known Questioned Costs

Questioned costs were undeterminable because the project was not yet complete as of September 30, 2013.

#### Recommendation

We recommend that MDOT ensure that match expenditures reported to FRA are for activities allowed and allowable costs.

#### Management Views and Corrective Action Plan

##### Management Views:

MDOT agrees with the finding.

Planned Corrective Action:

MDOT will update procedures to ensure that all future matching costs conform to terms and conditions of the federal award and are adequately documented.

Anticipated Completion Date:

September 30, 2014

Responsible Individual(s):

Tim Hoeffner, Michigan Department of Transportation

**FINDING 2013-032**

High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants, CFDA 20.319 and 20.319 (ARRA), Reporting - Accuracy of Reports

<b>Federal Agency</b>	U.S. Department of Transportation
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants: CFDA 20.319 and 20.319 (ARRA)
<b>Award Identification Number and Year</b>	FR-HSR-0060-11-01-00 08/22/2011 - 08/31/2014 FR-HSR-0061-11-01-00 08/22/2011 - 08/22/2015 FR-HSR-0066-11-01-00 08/29/2011 - 03/30/2016 FR-HSR-0084-11-01-00 10/01/2011 - 10/31/2013 FR-HSR-0088-11-01-00 10/01/2011 - 09/30/2015 FR-HSR-0115-12-01-00 11/18/2011 - 09/30/2015
<b>Total Expenditures of Federal Awards</b>	\$197,346,668
<b>Total ARRA Expenditures</b>	\$54,046,288
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Department of Transportation

Condition

MDOT did not submit accurate reports to FRA. Our review of the 6 fourth-quarter FFRs and 2 of 12 ARRA 1512 reports\* disclosed:

- a. MDOT understated federal expenditures on the FFRs by a total of \$38,678,399, overstated unliquidated obligations by a total of \$46,301,934, and understated unobligated balances by a total of \$7,623,535.

\* See glossary at end of report for definition.

b. MDOT understated federal expenditures on 1 ARRA 1512 report by \$30,044,743.

#### Criteria

Federal regulations 49 *CFR* 18.20 and 49 *CFR* 18.41 require grantees to submit accurate and complete financial data in accordance with a grant program's reporting requirements. The HSIPR Program 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. Section 1512 of the American Recovery and Reinvestment Act of 2009\* (ARRA) provides that prime recipients are responsible for reporting certain detailed information, including the total amount of funds expended on ARRA projects and activities.

#### Cause

MDOT excluded accrued expenditures when determining the expenditure amount to report on the FFRs. Also, MDOT did not capture all expenditures to report on the FFRs and the ARRA 1512 report because it summarized expenditures in MAIN by grant number, but MDOT did not record a federal grant number for each transaction that it recorded in MAIN. In addition, MDOT determined that funds were obligated when FRA authorized the funds to MDOT instead of when MDOT obligated the funds.

#### Effect

MDOT may have diminished the FRA's ability to ensure appropriate oversight and monitoring of HSIPR Program 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 MDOT submit accurate reports to FRA.

#### Management Views and Corrective Action Plan

Management Views:

MDOT agrees with the finding.

\* See glossary at end of report for definition.

Planned Corrective Action:

- a. MDOT verified with FRA the information that should be included on the FFR. MDOT will update procedures to ensure that the accrual method is used for all future report submissions.
- b. MDOT will contact FRA to determine the necessary corrective action.

Anticipated Completion Date:

October 31, 2014

Responsible Individual(s):

Patrick McCarthy, Michigan Department of Transportation

**FINDING 2013-033**

**Capitalization Grants for Clean Water State Revolving Funds, CFDA 66.458 and 66.458 (ARRA), Reporting - FFATA and ARRA Reporting**

<b>Federal Agency</b>	U.S. Environmental Protection Agency
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Capitalization Grants for Clean Water State Revolving Funds: CFDA 66.458 and 66.458 (ARRA)
<b>Award Identification Number and Year</b>	2W00E752-01 10/01/2008 - 12/31/2013 CS-260001-10 10/01/2009 - 09/30/2014 CS-260001-11 10/01/2011 - 09/30/2016 CS-260001-12 10/01/2012 - 09/30/2017
<b>Total Expenditures of Federal Awards</b>	\$96,505,177
<b>Total ARRA Expenditures</b>	\$374,339
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Environmental Quality

Condition

The Department of Environmental Quality (DEQ) did not report subaward information for 5 of 7 sampled Capitalization Grants for Clean Water State Revolving Funds (CWSRF) subawards and did not timely report subaward information for 2 CWSRF subawards as required by FFATA.

In addition, DEQ did not report on its final ARRA 1512 report 1 of the 3 payments made to subrecipients in fiscal year 2012-13, resulting in a \$33,769 understatement of ARRA expenditures.

### 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.

Also, Section 1512 of American Recovery and Reinvestment Act of 2009 (ARRA) provides that prime recipients are responsible for reporting certain detailed information including total amount of funds received and expended on ARRA projects and activities.

### Cause

DEQ informed us that for the 5 subawards that were not reported it misunderstood the FFATA requirement and believed that the requirement only applied to certain CWSRF projects. Also, DEQ informed us that a lack of resources and staff resulted in late FFATA reporting for the 2 CWSRF subawards.

Further, DEQ informed us that the final ARRA 1512 report did not contain the correct expenditure amounts because DEQ did not take into consideration ARRA funds that were reallocated to other projects when completing its final ARRA 1512 report.

### Effect

DEQ grant information was not accurate, available, or available in a timely manner for public access through the Web sites 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 DEQ report accurate and timely information as required by applicable federal regulations.

## Management Views and Corrective Action Plan

### Management Views:

DEQ agrees with the finding.

### Planned Corrective Action:

The DEQ Federal Aid section is responsible for accumulating the required information for the FFATA reporting and entering it into the federal Web site. The Office of Drinking Water and Municipal Assistance is responsible for providing the information regarding CWSRF recipients to Federal Aid.

During fiscal year 2013-14, Federal Aid established a procedure whereby each month, it solicits information from all divisions regarding agreements signed with subrecipients with an amount exceeding \$25,000. Federal Aid staff will use the information provided to update the federal Web site. The Office of Drinking Water and Municipal Assistance will review the regulations regarding the subrecipients which are required to be reported and will revise its procedures to comply.

The reports required by Section 1512 of ARRA were prepared in the Office of Drinking Water and Municipal Assistance and submitted electronically by the Federal Aid section. Through an oversight, the final ARRA report was inaccurate. Federal Aid staff attempted to submit a corrected report, but the system used for submittal was inactive. Federal Aid staff also contacted EPA staff regarding the oversight and were advised that no corrections would be accepted. The 1512 reports are no longer required.

### Anticipated Completion Date:

Completed

### Responsible Individual(s):

Sharon Maher, Department of Environmental Quality  
Sonya Butler, Department of Environmental Quality

## **FINDING 2013-034**

### **Energy Efficiency and Conservation Block Grant Program (EECBG), CFDA 81.128 (ARRA), Reporting - Internal Control**

<b>Federal Agency</b>	U.S. Department of Energy
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Energy Efficiency and Conservation Block Grant Program (EECBG): CFDA 81.128 (ARRA)
<b>Award Identification Number and Year</b>	DE-EE0003559 06/30/2010 - 11/01/2014
<b>Total Expenditures of Federal Awards</b>	\$6,211,918
<b>Total ARRA Expenditures</b>	\$6,211,918
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Strategic Fund

#### **Condition**

MSF did not ensure that federal reports were appropriately reviewed and approved prior to submission to the federal agency. We reviewed 4 quarterly reports, comprising 2 FFRs and 2 ARRA 1512 reports, and noted that 1 FFR and 1 ARRA 1512 report was not appropriately reviewed and approved prior to submission.

#### **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 its federal programs.

#### **Cause**

The EECBG Program was transferred from the Department of Energy, Labor & Economic Growth (DELEG) to MSF, effective October 1, 2011. The preparer of the report, previously a DELEG employee, was unaware of MSF's procedures requiring supervisory review and approval prior to the submission of federal reports.

#### **Effect**

MSF may submit inaccurate financial reports to the federal grantor agency. 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 federal reports are appropriately reviewed and approved prior to submission to the federal agency.

Management Views and Corrective Action Plan

Management Views:

MSF agrees with the finding.

Planned Corrective Action:

MSF employees have been instructed to ensure that supervisory review is part of the federal financial reporting process.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Lori Schomisch, Michigan Strategic Fund

**FINDING 2013-035**

School Improvement Grants Cluster, CFDA 84.377 and 84.388 (ARRA), Subrecipient Monitoring - Incorrect CFDA

<b>Federal Agency</b>	U.S. Department of Education	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	School Improvement Grants Cluster: CFDA 84.377 and 84.388 (ARRA)	
<b>Award Identification Number and Year</b>	S377A080024	07/01/2008 - 09/30/2012
	S377A090023	07/01/2009 - 09/30/2014
	S377A090023A	07/01/2009 - 09/30/2014
	S377A100023	07/01/2010 - 09/30/2014
	S377A110023	07/01/2011 - 09/30/2014
	S377A110023-11A	07/01/2011 - 09/30/2014
	S388A090023A	02/17/2009 - 09/30/2014

<b>Total Expenditures of Federal Awards</b>	\$64,444,212
<b>Total ARRA Expenditures</b>	\$39,044,981
<b>Compliance Requirement(s)</b>	Subrecipient Monitoring
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Department of Education

### Condition

MDE did not ensure that subrecipients were notified of the correct *Catalog of Federal Domestic Assistance (CFDA)* number. For 2 of the 7 subrecipient grant award notifications (GAN) sampled, MDE did not provide the correct *CFDA* number to the subrecipient.

### Criteria

OMB Circular A-133, Section 400(d)(1) requires the State to identify federal awards made by informing each subrecipient of the *CFDA* title and number.

### Cause

MDE had not established separate applications for the School Improvement Grant (SIG) and the ARRA SIG. Only the ARRA SIG was established in Michigan Electronic Grants System (MEGS), resulting in all of the SIG applications being generated with the same *CFDA*.

### Effect

MDE could not ensure that subrecipients were aware of and followed the compliance requirements of the grant that they were awarded.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

### Recommendation

We recommend that MDE ensure that subrecipients are notified of the correct *CFDA* number.

## Management Views and Corrective Action Plan

### Management Views:

MDE agrees with the finding. One application was set up in MEGS to handle both the ARRA (*CFDA* 84.388) and regular SIG funds (*CFDA* 84.377). This applied to SIG Cohort II which was awarded funds from both *CFDA*s.

The limitations of MEGS allowed program staff to enter profile information for only one grant funding source. The ARRA *CFDA* was entered and, as a result, the grant award notifications (GAN) generated in MEGS for both funding sources listed the *CFDA* as 84.388.

MDE would like to note that the program compliance requirements for *CFDA* 84.388 and *CFDA* 84.377 are the same with the exception of the additional ARRA related requirements for *CFDA* 84.388. Subrecipients were notified of the different funding periods for regular SIG and ARRA funds, as well as the additional ARRA reporting requirements.

### Planned Corrective Action:

The deficiencies noted in the finding have been corrected in the migration to MEGS+ for SIG Cohort II. MDE loads ARRA and regular 1003(g) funding into separate allocations in the MEGS+ SIG application. Separate budgets are developed and GAN is created under the correct *CFDA*.

MDE will survey the SIG Cohort II applications to determine which local educational agencies (LEAs) received funding under both *CFDA*s. Any with incorrect *CFDA*s will be revised, and the corrected GAN will be uploaded as an attachment in MEGS. LEAs will be notified via e-mail of the corrected GAN.

### Anticipated Completion Date:

September 30, 2014

### Responsible Individual(s):

Bill Witt, Michigan Department of Education  
Christi Lopez, Michigan Department of Education

## **FINDING 2013-036**

### **Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, Cash Management - Inappropriate Funding Techniques**

<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Rehabilitation Services - Vocational Rehabilitation Grants to States: CFDA 84.126
<b>Award Identification Number and Year</b>	H126A120031 10/01/2011 - 09/30/2012 H126A130031 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$95,661,600
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Cash Management
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Treasury and Department of Licensing and Regulatory Affairs

#### **Condition**

The Department of Treasury, in conjunction with the Department of Licensing and Regulatory Affairs (LARA), did not include LARA's portion of the total Statewide expenditures for the Rehabilitation Services - Vocational Rehabilitation Grants to States Program in the Treasury-State Agreement in fiscal year 2012-13.

#### **Criteria**

Federal regulation 31 *CFR* 205.4(b)(1) states that when a program's draws are made by multiple state agencies, an agency can only be exempt from the Treasury-State Agreement if that agency's portion of the federal program does not exceed 10% of the total statewide expenditures for the federal program. LARA's portion of the total statewide expenditures for the Rehabilitation Services - Vocational Rehabilitation Grants to States Program was 18% in fiscal year 2012-13.

#### **Cause**

The Department of Treasury informed us that it did not consider that LARA was directly drawing down its portion of the Rehabilitation Services - Vocational Rehabilitation Grants to States Program when developing the Treasury-State Agreement as prescribed under the federal Cash Management Improvement Act (CMIA).

LARA's federal reporting section informed us that cash draws were not made in accordance with the Treasury-State Agreement because LARA was not aware its portion of the Statewide Rehabilitation Services - Vocational Rehabilitation Grants to States Program was subject to the CMIA.

#### Effect

LARA did not make 7 of 8 sampled cash draws in accordance with the funding technique required in the approved Treasury-State Agreement for the Rehabilitation Services - Vocational Rehabilitation Grants to States 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.

#### Recommendation

We recommend that the Department of Treasury, in conjunction with LARA, include LARA's portion of the total Statewide expenditures for the Rehabilitation Services - Vocational Rehabilitation Grants to States Program in the Treasury-State Agreement.

#### Management Views and Corrective Action Plan

##### Management Views:

The Department of Treasury and LARA agree with the finding. The total federal assistance for the program, including awards to LARA and DHS, exceeds the threshold amount calculated in determining programs to include in Part A of the Treasury-State Agreement.

##### Planned Corrective Action:

The Department of Treasury, in conjunction with LARA and DHS, will amend the Treasury-State Agreement to include LARA's portion of the program in Part A.

##### Anticipated Completion Date:

September 30, 2014

##### Responsible Individual(s):

Mike Krouse, Department of Treasury

## **FINDING 2013-037**

### **TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Lack of Survey Documentation for Reverse Commute Expenditures**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$1,100,000
<b>Repeat Finding</b>	2012-030
<b>State Agencies</b>	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 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 the ridership survey attached to the fiscal year 2012-13 agreement between DHS and MDOT included a question 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 ensure the transit authority used the ridership survey included in the agreement during fiscal year 2012-13. 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 2012-13 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 agrees with the finding.

Planned Corrective Action:

DHS is developing a process to monitor the interagency agreement for compliance with the agreement terms. This includes obtaining the surveys administered by the transit authority to ensure the correct survey form is used.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services

Sheryl Thompson, Department of Human Services

**FINDING 2013-038**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	2012-029
<b>State Agency</b>	Department of Human Services

Condition

DHS may not have appropriately excluded juvenile justice expenditures from TANF Cluster claims. Our review disclosed:

- a. DHS could not document if it had excluded county program expenditures that appeared to be for juvenile justice services and may not have qualified as an allowable activity under the TANF Cluster in a \$3,480,292 TANF Cluster claim amount.

- b. DHS claimed \$1,112,500 of TANF Cluster funds for a county's expansion of community-based services to serve the county's adjudicated and pre-adjudicated juveniles that may not have qualified as an allowable activity.

These county program expenditures included juvenile detention diversion activities such as assessment and evaluation services, rehabilitative services, counseling, case management, and community-based supervision and treatment services that may not have qualified as an allowable activity under the TANF Cluster.

DHS considers the expenditures it claimed as allowable per *Federal Register* 64:69 (12 April 1999) p. 17831. That citation discusses the placement of a juvenile within the definition of juvenile justice; therefore, DHS believes that the placement of the juvenile is key in defining what constitutes a juvenile justice system. However, we consider such an interpretation as inconsistent with today's juvenile justice system practices. Such an interpretation does not consider that current juvenile justice practices focus on addressing the adjudicated or pre-adjudicated juvenile's delinquency through diversion programs to prevent delinquent behavior and rehabilitation to protect public safety, instead of through institutional care. Based on our review of documentation related to the county programs, we noted that the program services were designed to divert delinquent juveniles from institutional care and to enable delinquent juveniles to be supervised and treated in their own communities and home. Even though the juveniles are not institutionalized, we believe that the substance of the services provided by the counties could still be considered as meeting the intent of juvenile justice services and, therefore, the services may not be allowable under TANF.

#### 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 Aid to Families with Dependent Children (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, 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 indicated that, although the children being served in the county programs may have some connection to the juvenile justice system, they are not in a setting designed to protect society from them, such as a correctional facility or juvenile residential facility, when they are taking part in the programs. DHS informed us that it interprets the *Federal Register* 64:69 (12 April 1999) preamble to define juvenile justice services as centered on a principal purpose of placement of the juvenile in order to protect society because of the youth's behavior, not to care for the child in his or her home. Thus, DHS claimed the expenditures because the programs in question place the youths among the public and support the prevention or diversion of juvenile from more stringent living arrangements that DHS believes would qualify as juvenile justice situations.

In addition, for part a., DHS determined the TANF Cluster claim amounts at a summary level, which did not provide for an adequate audit trail for DHS to document whether it included unallowable juvenile justice expenditures in the TANF Cluster claim amounts. DHS relied on program titles in a summary level report to identify county program expenditures that appeared to be for services provided to youth for activities related to the prevention and reduction of out-of-wedlock pregnancies. DHS's process to determine the TANF Cluster claim amount did not include a review of county Child Care Fund annual plans to determine whether the programs included unallowable juvenile justice services provided to adjudicated delinquent youth and should be excluded from the TANF Cluster claim.

### Effect

DHS may have received TANF Cluster reimbursement for claims that were not allowable under 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

Questioned costs were undeterminable.

### Recommendation

We recommend that DHS seek clarification from the U.S. Department of Health and Human Services' (HHS's) Administration for Children and Families (ACF) to determine that the services provided by the county programs are not considered juvenile justice system services and therefore meet the requirements for TANF Cluster claims.

### Management Views and Corrective Action Plan

#### Management Views:

DHS partially agrees with the finding.

- a. DHS disagrees that the county program expenditures claimed as TANF may not have qualified as an allowable activity under the TANF cluster. DHS makes the TANF claim for Child Care Fund In-Home Care Services as included in the TANF State Plan under the category of programs targeted toward "at-risk" youth and intended to prevent and reduce the incidence of out-of-wedlock pregnancies (TANF Goal 3). Research indicates that these types of youth programs and activities reduce the incidence of out-of-wedlock pregnancies by providing positive supports for youth who may otherwise engage in risky behaviors. ACF spoke to this use of TANF funding to support after school programs and other positive activities for youth in the TANF funding guide. "Potential activities that would be reasonably calculated to accomplish this purpose include abstinence programs, visiting nurse services, and programs and services for youth such as counseling, teen pregnancy prevention campaigns, and after-school programs that provide supervision when school is not in session."

As stated in the finding, DHS does not consider the services in question to be juvenile justice services based on ACF's concept of the juvenile justice system as a mechanism to shield the public from youth that could be a danger to others - an idea not generally associated with community-based and in-home services. At *Federal Register* 64:69 (April 12, 1999) p. 17831, ACF writes, "The principal purpose of a child's placement in the juvenile justice system is to protect society because of the child's behavior, not to care for the child in his or her own home..."

Although DHS believes the services in question are TANF eligible, DHS will seek clarification from ACF to determine whether the services provided by the county programs are not considered juvenile justice system services and therefore meet the requirements for TANF Cluster claims.

- b. DHS agrees that the fiscal controls over the programs reviewed for TANF eligibility could be strengthened. DHS does not believe it was necessary to document which of the county expenditures were included in the \$3,480,292 TANF Cluster claim amount because DHS had already determined that more than enough allowable expenditures existed to substantiate the amount of the claim. Child Care Fund expenditures are compared to the approved CCF spending plan for allowability, regardless of the funding source. In accordance with the Child Care Fund Handbook, staff visit and monitor counties periodically to review their practices, spending, and programs against their spending plans. For programs claimed under TANF, DHS also takes the extra step of reviewing individual programs based on previous selected reviews of program descriptions and program titles to determine TANF eligibility.

To improve DHS processes and TANF claims, DHS will implement an annual review of County Child Care Fund annual plans to determine if the programs include unallowable juvenile justice services rather than relying on past reviews and program titles.

**Planned Corrective Action:**

DHS will implement an annual review of County Child Care Fund annual plans to determine the allowability of TANF claims.

DHS will seek clarification from ACF to determine whether the services provided by the county programs are not considered juvenile justice system services and therefore meet the requirements for TANF Cluster claims.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Amanda Bright-McClanahan, Department of Human Services

Steve Yager, Department of Human Services

### **FINDING 2013-039**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: <i>CFDA 93.558</i>
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	2012-028
<b>State Agency</b>	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 activities for children under the jurisdiction of the family division of circuit court or court of general criminal jurisdiction. Through a monthly billing and

reimbursement offset process, DHS reimburses the counties' child care fund for 50% of the foster care and juvenile justice expenditures that the county incurs for children supervised by the counties and the counties reimburse DHS for 50% of the foster care and juvenile justice expenditures that the State incurs for children supervised by the State.

Quarterly, DHS obtains a report of the total previously authorized AFDC State Plan emergency foster care expenditures incurred by the State and county during the quarter. DHS completes a TANF Cluster federal reimbursement claim to HHS based on the reported expenditures. DHS records 50% of the counties' emergency foster care expenditures in MAIN but includes 100% of the counties' emergency foster care expenditures in DHS's schedule of expenditures of federal awards (SEFA) as TANF expenditures.

#### Condition

DHS could not document that it appropriately used TANF Cluster funds it received for previously authorized AFDC State Plan expenditures.

During our audit period, DHS completed federal cash draws of TANF Cluster funds for 100% of previously authorized AFDC State Plan emergency foster care expenditures incurred by the counties. DHS retained 50% of the TANF Cluster funds drawn for other purposes rather than remitting the funds to the counties as reimbursement. DHS informed us that it used the TANF Cluster funds it retained as a funding source for its required 50% reimbursement to the county child care funds per State statute. However, our review of county child care fund reimbursements disclosed that DHS funded activities, such as institutional care, juvenile detention, detention alternatives, probation, and foster care independent living, 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 under 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

In an effort to maximize State recovery of TANF Cluster funds, in 2000 the State Budget Office sought advice from a private attorney regarding the State's ability to draw TANF Cluster funds based on county emergency foster care expenditures and retain the county share (50% per State statute) for other purposes. The private attorney advised the State Budget Office that this would be allowable; consequently, DHS drew down the TANF Cluster funds based on 100% of the county emergency foster care expenditures and retained the funds.

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 retained 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 with the retained funds. The TANF Cluster spending budget simply included a plan for a gross "child care fund" amount.

### Effect

DHS likely used TANF Cluster funds for activities not allowed by TANF Cluster laws or regulations. DHS combined foster care and juvenile justice activities within its child care fund reimbursements and, therefore, it was not possible to estimate the known improper payments. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

On April 10, 2014, HHS's ACF issued an audit decision letter to the DHS director regarding this condition as reported in the DHS single audit for the period October 1, 2008 through September 30, 2010 (431-0100-11), located at <[http://audgen.michigan.gov/finalpdfs/10\\_11/r431010011.pdf](http://audgen.michigan.gov/finalpdfs/10_11/r431010011.pdf)>. ACF indicated in its audit decision letter that it concurred with the Office of the Auditor General's position that county expenditures not reimbursed by the State were not eligible for federal recovery by the State and has issued the State a penalty of \$113,831,059. The State has the right to appeal this decision.

#### Known Questioned Costs

Questioned costs were undeterminable.

#### Recommendation

We recommend that DHS document that it appropriately used TANF Cluster funds it received for previously authorized AFDC State Plan expenditures.

#### Management Views and Corrective Action Plan

##### Management Views:

DHS disagrees with the finding and is currently working with ACF to resolve the issue.

##### Planned Corrective Action:

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

##### 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 2013-040**

**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**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$1,838
<b>Repeat Finding</b>	2012-031
<b>State Agency</b>	Department of Human Services

### **Condition**

DHS did not maintain sufficient case record documentation to support client eligibility for 27 (45%) of 60 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 27 families were in need of TANF Cluster assistance.

In addition, we noted that DHS counted 26 of the 27 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. DHS's policies and procedures also require that documentation used to verify eligibility be maintained in the case file.

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 the total questioned costs would exceed \$10,000. Accordingly, we are reporting identified questioned costs of \$1,838 for the TANF Cluster federal share. These questioned costs represent the amount of the 27 sampled cases noted for which DHS did not maintain case record documentation to support client eligibility. In addition, we identified \$318 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 will continue its efforts to educate staff regarding policy, eligibility factors, and documentation requirements. DHS Field Operations Administration will issue a communication to provide staff with guidance on the program eligibility requirements, the sources of information needed to determine eligibility, and the requirement to obtain and retain documentation in the case record to support eligibility determinations. County offices will review the communication with staff.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services  
Business Center Directors, Department of Human Services  
County Office Directors, Department of Human Services

**FINDING 2013-041**

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Reporting - Unallowable Juvenile Justice MOE Expenditures

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Reporting
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

### Condition

DHS counted \$15,746,806 of expenditures toward State MOE for a county's programs that provided services to adjudicated and pre-adjudicated juveniles. These programs included services such as assessment and evaluation services, rehabilitative services, counseling, case management, and community-based supervision and treatment services that may not have qualified as an allowable activity under the TANF Cluster and therefore may not have met the requirements of TANF Cluster laws and regulations for MOE qualified State expenditures. DHS reported the expenditures on its federal reports as State MOE activities related to the prevention and reduction of out-of-wedlock pregnancies (TANF purpose 3).

DHS considers the MOE expenditures it counted as allowable according to *Federal Register* 64:69 (12 April 1999) p. 17831. That citation discusses the placement of a juvenile within the definition of juvenile justice; therefore, DHS believes that the placement of the juvenile is key in defining what constitutes a juvenile justice program. However, we consider such an interpretation as inconsistent with today's juvenile justice system practices. The county began reforming its juvenile justice system in 2000 to shift the focus of juvenile justice programs to addressing the adjudicated or pre-adjudicated juvenile's delinquency through diversion programs to prevent delinquent behavior and rehabilitation to protect public safety, instead of through institutional care. Based on our review of documentation related to the county's programs, we noted that the program services were designed to divert delinquent juveniles from institutional care and to enable delinquent juveniles to be supervised and treated in their own communities and home. Even though the juveniles are not institutionalized, we believe that the substance of the services provided by the county could still be considered as meeting the intent of juvenile justice services and, therefore, the services may not be allowable MOE expenditures under the TANF Cluster.

### Criteria

Federal law 42 *USC* 609(a)(7) requires states to maintain a certain level of historic spending on programs on behalf of eligible families (MOE). Federal law 42 *USC* 609(a)(7)(B)(i)(I) allows DHS to count toward its annual State MOE requirement expenditures of State funds that were used to accomplish any of the 4 TANF Cluster purposes. *Federal Register* 64:69 (12 April 1999) p. 17820 states that state funds used to pay for the costs of benefits or services provided to children in the juvenile justice system do not count toward MOE. More specifically, as juvenile justice services do not

meet any of the purposes of the TANF Cluster program, they are not an allowable use of funds under federal law 42 USC 604(a)(1) and, therefore, would not be allowed under TANF purpose 3.

Also, *Federal Register* 64:69 (12 April 1999) p. 17823 states that expenditures for residential care as well as assessment or rehabilitative services, including services provided to children in the juvenile justice system, do not meet any of the purposes of the TANF Cluster and would not count toward MOE.

In addition, federal regulation 45 CFR 92.24 states that costs may be used to meet cost sharing requirements if the costs are allowable costs of the TANF Cluster.

#### Cause

DHS indicated that while the children taking part in the county's programs may have some connection to the juvenile justice system, they are not in a setting designed to protect society from them, such as a correctional facility or juvenile residential facility, when they are taking part in the programs. DHS informed us that it interprets the *Federal Register* 64:69 (12 April 1999) preamble to define juvenile justice services as centered on a principal purpose of placement of the juvenile in order to protect society because of the juvenile's behavior, not to care for the child in his or her home. Thus, DHS counted the expenditures as TANF purpose 3 because the county's programs are community-based services.

#### Effect

DHS may have counted juvenile justice expenditures toward its State MOE requirement in fiscal year 2012-13 that were not in accordance with TANF Cluster laws and regulations. In addition, DHS may have inaccurately reported required State MOE information in its TANF Financial Report (ACF-196) and Annual Report on State Maintenance of Effort Programs (ACF-204). 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 clarification from HHS's ACF to determine that the services provided by the county's programs are not considered juvenile justice system services and therefore meet the requirements of the TANF Cluster laws and regulations for MOE qualified State expenditures.

### Management Views and Corrective Action Plan

#### Management Views:

DHS disagrees with the finding.

DHS believes that the ACF language equates juvenile justice situations with a child living outside the home. The finding references *Federal Register* 64:69 (April 12, 1999) p. 17820, which states that state funds used to pay for the costs of benefits or services provided to children in the juvenile justice system do not count toward TANF MOE. However, *Federal Register* 64:69 (April 12, 1999) p. 17831 further states ". . . juvenile justice expenditures do not count for basic MOE purposes. The principal purpose of a child's placement in the juvenile justice system is to protect society because of the child's behavior, not to care for the child in his or her own home . . . ." This language establishes the concept of the juvenile justice system as shielding the public from youth who could be a danger to others - an idea not generally associated with community-based programming provided for youth who remain in the home of parents or relatives. DHS determined eligibility based on existing federal guidance and believes the services provided by the county are allowable MOE expenditures under TANF.

The services do meet a purpose of the TANF Cluster program. DHS made the MOE claim for Child Care Fund In-Home Care Services in line with the TANF State Plan under the category of programs targeted toward "at-risk" youth and intended to prevent and reduce the incidence of out-of-wedlock pregnancies (TANF Goal 3). Research indicates that these types of youth programs and activities reduce the incidence of out-of-wedlock pregnancies by providing positive supports for youth who may otherwise engage in risky behaviors. ACF spoke to this use of TANF funding to support after school programs and other positive activities for youth in the TANF funding guide. "Potential activities that would be reasonably calculated to accomplish this purpose include abstinence programs, visiting nurse services, and programs and services for youth such as counseling, teen pregnancy

prevention campaigns, and after-school programs that provide supervision when school is not in session."

**Planned Corrective Action:**

Although DHS disagrees with this finding, DHS will seek clarification from ACF to determine that the services provided by the county's programs are not considered juvenile justice system services and therefore meet the requirements of the TANF Cluster laws and regulations for MOE qualified State expenditures.

**Anticipated Completion Date:**

October 1, 2014

**Responsible Individual(s):**

Susan Kangas, Department of Human Services  
 Marilyn Carey, Department of Human Services  
 Paul Onan, Department of Human Services

**FINDING 2013-042**

**TANF Cluster, CFDA 93.558, Eligibility - Lack of Process to Identify Drug Felony Violations**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: <i>CFDA</i> 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-033
<b>State Agency</b>	Department of Human Services

**Condition**

DHS had not established a sufficient process to identify all individuals receiving TANF Cluster assistance who were convicted of a drug-related felony and were in violation of their probation or parole requirements or had two or more drug-related felonies. 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

Federal law 21 *USC* 862a permits the State to provide TANF Cluster-funded assistance to individuals convicted of a drug-related felony if the State has exempted in State law any individuals from the provisions of federal law 21 *USC* 862a. Section 619, Act 200, P.A. 2012, 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 were in violation of their probation or parole requirements or if the individual has been convicted of two or more drug-related felonies. Federal regulation 45 *CFR* 205.60(a) requires DHS to maintain individual records which contain pertinent facts about each applicant and recipient. The records will include the facts essential to the determination of eligibility.

### Cause

DHS informed us that it implemented a data match between the Bridges Integrated Automated Eligibility Determination System (Bridges) and the Michigan Department of State Police Law Enforcement Information Network (LEIN) to identify if individuals who received TANF Cluster assistance were currently fugitive felons. However, for those individuals who are not fugitive felons, DHS informed us that it relied on the individuals' self-reporting on their assistance application to identify if the individual had been convicted of a drug felony and were in violation of their probation or parole requirements or convicted of two or more drug-related felonies.

In addition, DHS had not implemented internal control to ensure that it did not automatically deny TANF Cluster-funded adoption subsidy payments to individuals convicted of a drug-related felony.

### 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 or convicted of two or more drug-related felonies. 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 establish a sufficient process to identify all individuals receiving TANF Cluster assistance who were convicted of a drug-related felony and are in violation of their probation or parole requirements or who were convicted of two or more drug-related felonies.

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 Field Operations Administration (FOA) will research the provisions of the agreement with the Michigan Department of State Police and, if necessary, will explore the feasibility of expanding the agreement to include individuals convicted of a drug-related felony and in violation of probation requirements or had two or more drug-related felonies.

##### Anticipated Completion Date:

Research activities will be completed by October 1, 2014. If a new data match is to be implemented, the time frame for implementation will be determined as the IT work project is prioritized.

##### Responsible Individual(s):

Terry Beurer, Department of Human Services

Sheryl Thompson, Department of Human Services

## **FINDING 2013-043**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-035
<b>State Agency</b>	Department of Human Services

#### **Condition**

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

We compared federally funded Family Independence Program (FIP) cash assistance payments to the federal time limit counter in Bridges for 28 FIP cases. We noted 6 (21%) of the 28 FIP cases contained an inaccurate federal time limit counter as compared to the number of federally funded FIP cash assistance payments received by the household.

#### **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 case 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, in conjunction with DTMB, hired a contractor to update and incorporate the federal time limit counter into Bridges, effective October 2011. DHS informed us that DTMB provided the contractor with a conversion file of FIP cash assistance payment data to incorporate into the Bridges federal time limit counter. DHS indicated that it did not know the reason why Bridges counted extra months toward the 60-month federal time limit for 2 of the FIP cases when the adult head of household was ineligible for federally funded FIP cash assistance. For the remaining 4 cases, DHS informed us that Bridges did not count all months toward the 60-month federal time limit because county office caseworkers incorrectly entered the payment reason code into the client information system that DHS used prior to Bridges.

### Effect

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

### Known Questioned Costs

We did not identify questioned costs because the adult head of household had not reached the 60-month federal time limit for FIP benefits as of the end of the audit period for all 6 sampled cases.

### Recommendation

We recommend that DHS ensure it appropriately counts each month of federally funded cash assistance received by a household toward the 60-month federal time limit counter.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

These errors occurred during the transition from the legacy system to Bridges. DHS ran an ad hoc report identifying all federally funded FIP initial payments with a payment reason of "other" for active and closed FIP cases whose federal time limit

was less than 60 months. DHS reviewed those payments to determine if the payments should be included in the federal time limit counter. The counter is being corrected for the cases as needed.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services

Sheryl Thompson, Department of Human Services

### **FINDING 2013-044**

#### **TANF Cluster, CFDA 93.558, Matching, Level of Effort, and Earmarking and Reporting - Lack of Signed Agreements to Support MOE Expenditures**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Matching, Level of Effort, and Earmarking and Reporting
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

#### **Condition**

DHS did not always timely execute agreements with nonfederal third parties to appropriately count the third parties' expenditures toward the State's TANF Cluster MOE requirement for fiscal year 2012-13.

DHS did not execute agreements for 8 (53%) of 15 nonfederal third parties prior to the submission of TANF Cluster reports. In addition, the nonfederal third parties signed 4 (27%) of the 15 agreements prior to DHS's submission of TANF Cluster reports; however, DHS did not sign and, therefore, execute the agreement until after it submitted

the TANF Cluster reports. TANF Cluster reports are the means by which DHS reports its annual MOE to HHS's ACF.

### Criteria

Federal regulation 45 *CFR* 263.2(e)(2) states that expenditures for benefits or services may include allowable costs borne by others in the State including cash donations from nonfederal third parties and the value of third party in-kind contributions\*. The expenditures for benefits or services may count if there is an agreement between the State and the other party allowing the State to count the expenditures toward its MOE requirement. Also, TANF Policy Announcement 2004-01 states that the third party must be aware of and agree with the State's intentions to count the expenditures for TANF Cluster MOE. Further, *Federal Register* 73:24 (February 5, 2008) p. 6817 states that HHS's ACF requires an agreement in writing between the State and any third party to allow the State to count such expenditures toward its MOE requirements.

### Cause

DHS informed us that it did not execute the agreements prior to submission of TANF Cluster reports on December 20, 2013 because DHS did not make the final determination of which nonfederal third party expenditures it would count toward the fiscal year 2012-13 TANF Cluster MOE requirement until fall 2013.

### Effect

Failure to execute agreements with nonfederal third parties could result in DHS counting expenditures toward the State's MOE requirement that were not mutually agreed upon by both parties or that were used to match other federal awards of the State. In addition, DHS may not have accurately reported required State MOE information in its TANF Financial Report (ACF-196) and Annual Report on State Maintenance of Effort Programs (ACF-204). The federal grantor agency could issue sanctions or disallowances related to noncompliance.

### Known Questioned Costs

Questioned costs were undeterminable. We identified \$12,648,509 of State expenditures that DHS should not have counted as State MOE. This amount represents the total nonfederal third party expenditures counted as State MOE for the 8 agreements that the nonfederal third party had not signed at the time DHS submitted the required TANF Cluster reports.

\* See glossary at end of report for definition.

### Recommendation

We recommend that DHS timely execute all agreements with nonfederal third parties to appropriately count the third parties' expenditures toward the TANF Cluster MOE requirement.

### Management Views and Corrective Action Plan

#### Management Views:

DHS disagrees with the finding. The federal regulations cited in the finding do not specify an agreement format nor require agreements with nonfederal third parties to be executed by both parties prior to the submission of TANF Cluster reports.

DHS did have agreements with the third parties to count their expenditures toward its MOE requirement. The department corresponded, beginning in May 2013, with third parties in preparation for counting their expenditures toward its MOE requirement. These communications occurred in a variety of formats including teleconference, in-person meetings, Web-ex trainings, e-mail, and U.S. mail. The third party agencies voluntarily provided expenditure information prior to submission of the TANF reports, in a State-specified format, with the knowledge the information was to be used for MOE purposes. Also, DHS had provided the final version of the memorandum of understanding to 6 of the 8 nonfederal third parties prior to submission of the TANF Cluster reports. The remaining two nonfederal third parties had participated in the TANF MOE project every year since fiscal year 2008-09 and were aware of the third-party claiming and memorandum of understanding processes. DHS executed agreements with the 8 nonfederal third parties, beginning in December 2013 through February 2014, subsequent to submission of the TANF Cluster reports.

#### Planned Corrective Action:

Although DHS disagrees with the finding, DHS will make efforts in the future to execute agreements with nonfederal third parties for the purpose of counting the third parties' expenditures toward the State's TANF MOE requirement prior to submission of federal TANF reports.

#### Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Paul Onan, Department of Human Services

### **FINDING 2013-045**

#### **TANF Cluster, CFDA 93.558, Matching, Level of Effort, and Earmarking and Reporting - MOE New Spending Test**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Matching, Level of Effort, and Earmarking and Reporting
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	2012-034
<b>State Agency</b>	Department of Human Services

#### **Condition**

DHS may have inappropriately excluded the Section 31a At-Risk Pupils Program and the Great Start Readiness Program expenditures totaling \$131,607,088 from the new spending test used to meet the State's maintenance of effort (MOE) requirement in fiscal year 2012-13.

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 2012-13 because it did not have other State expenditures to replace these unallowable MOE expenditures. In addition, DHS may not have accurately reported required State MOE information in its TANF Financial Report (ACF-196) and Annual Report on State Maintenance of Effort Programs (ACF-204). 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 HHS to ascertain whether these programs are exempt from the new spending test.

## Management Views and Corrective Action Plan

### Management Views:

DHS disagrees with the finding. The 1995 new spending limitation in federal regulation 45 *CFR* 263.5 applies unless there has been a change in the program since 1995. HHS's ACF has indicated that the new spending test applies where an "apples to apples" comparison can be made between current expenditures and fiscal year 1994-95 expenditures. If a State or local program has undergone any changes to its mission, purpose, costs, procedures, etc., then the "apples to apples" comparison is not possible. If a State or local program operating since fiscal year 1994-95 has undergone any changes in its operational components, it is reasonable to conclude that the program is no longer a pre-existing program and therefore it is not necessary to apply the new spending test to the program.

The legislation and funding allocation of Michigan School Aid Act Section 31a has continuously changed since 1995 in regard 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 is a new program initiated in fiscal year 2008-09 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.

### 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

Office of the Auditor General Epilogue

Management states

The 1995 new spending limitation in federal regulation 45 CFR 263.5 applies unless there has been a change in the program since 1995. HHS's 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 and 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 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, February 24, 2014, and March 11, 2014, we made follow-up contacts 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 2 programs from the 1995 statutory limitation.

**FINDING 2013-046**

**TANF Cluster, CFDA 93.558, Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Child Support Noncooperation**

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558	
<b>Award Identification Number and Year</b>	12 02 MI TANF	10/01/2011 - Until Expended
	13 02 MI TANF	10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Child Support Noncooperation	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-039	
<b>State Agency</b>	Department of Human Services	

**Condition**

DHS did not appropriately and timely 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 3 (5%) of the 60 case records. DHS uses an automated interface between the Michigan Child Support Enforcement System (MiCSES) and Bridges to identify and sanction TANF Cluster families not cooperating with establishing paternity and child support orders. In all 3 of these instances, the automated interface identified that the TANF Cluster family was not cooperating but the benefits did not stop and the clients' case records did not contain evidence that the clients' met good cause criteria for not cooperating.

### 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 county office caseworkers to document follow-up on noncooperation information or determine if the client met good cause criteria for not cooperating.

In addition, 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's internal control was not designed effectively. DHS informed us that the automated interface did not apply the sanctions to these 3 cases because the county office caseworker was making other changes to the client's case at the time and the case was in "change" status, not in "ongoing" status. The automated interface will only allow Bridges to apply the sanction if a case is in "ongoing" status. The county office caseworker has to electronically certify a case after changes are made to make the case "ongoing". DHS did not have a process to monitor the length of time the case was in change status to ensure that sanctions were applied in a timely manner.

### 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

We did not identify questioned costs required to be reported under OMB Circular A-133.

### Recommendations

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

We also recommend that DHS improve its internal control to ensure that it timely 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:

DHS county offices will be provided instructions regarding use of "change mode" status and "ongoing" status in the Bridges application. DHS business service centers and DHS county offices will be provided instructions to monitor the activity utilizing the MU-100 Mass Update Report.

Anticipated Completion Date:

July 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services  
 Sheryl Thompson, Department of Human Services  
 Business Center Directors, Department of Human Services  
 County Office Directors, Department of Human Services

**FINDING 2013-047**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Penalty for Refusal to Work

<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-038
<b>State Agency</b>	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 2012-13. In 4 (7%) of the 60 sampled case records, DHS county office caseworkers did not follow established DHS good cause policy, did not apply minimum sanction periods, or did not sanction the recipients on a timely basis.

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 good cause 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 to needy families.

Cause

For 2 of 4 cases, DHS granted good cause because the client's address was not current in the case record when DHS sent the notice of noncooperation to the client, even though it is the responsibility of the client to notify DHS within 10 days if there is a change in the client's address.

For 1 of 4 cases, DHS did not apply the correct sanction period for a case that was identified as noncompliant. The case was allowed to reopen after two months as opposed to the three month minimum sanction requirement.

For 1 of 4 cases, the county office caseworker did not schedule an appointment with the client to complete the Family Self-Sufficiency Plan until 3 months after the client was required to complete the plan.

#### 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

We did not identify questioned costs required to be reported under OMB Circular A-133.

#### 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:

DHS will continue its efforts to educate staff regarding policy, eligibility factors, and documentation requirements. DHS Field Operations Administration will issue a communication to provide staff with guidance on the program eligibility requirements, the sources of information needed to determine eligibility, the requirement to obtain and retain documentation in the case record to support eligibility determinations, and the requirements and actions for noncooperation with work requirements. County offices will review the communication with staff.

##### Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services

Sheryl Thompson, Department of Human Services

County Office Directors, Department of Human Services

## **FINDING 2013-048**

### **TANF Cluster, CFDA 93.558, Reporting - Accuracy of Reports**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	TANF Cluster: CFDA 93.558
<b>Award Identification Number and Year</b>	12 02 MI TANF 10/01/2011 - Until Expended 13 02 MI TANF 10/01/2012 - Until Expended
<b>Total Expenditures of Federal Awards</b>	\$774,322,898
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-036, parts b.(1), b.(2), and b.(3)
<b>State Agency</b>	Department of Human Services

### **Condition**

DHS did not accurately report or maintain documentation to support key expenditure and program information in its Annual Report on State Maintenance of Effort Programs (ACF-204) for fiscal year 2012-13. We noted:

- a. DHS did not accurately report the total State expenditures for 2 (10%) of 21 State MOE programs. DHS understated total annual State MOE expenditures by \$2,096,086.
- b. DHS did not accurately report the total State expenditures for 2 (10%) of 21 State MOE programs. DHS overstated total State expenditures by \$247,973.
- c. DHS did not maintain documentation to support 68,464 (6%) of the 1,176,405 reported families served by State MOE programs.

### Criteria

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. In addition, federal regulation 45 *CFR* 92.20 requires financial reports to be accurate.

### Cause

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

### Effect

DHS diminished HHS's ability to ensure appropriate oversight and monitoring of the TANF Cluster federal funds. See Findings 2013-041, 2013-044, and 2013-045 for additional inaccurate TANF Cluster reporting. 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 ACF-204 reports and maintain documentation to support key expenditure and program information in its ACF-204.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

DHS will develop a process to compare the report to the supporting documentation to ensure these reports are accurate and supported prior to submission to HHS.

Anticipated Completion Date:

January 1, 2015

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Paul Onan, Department of Human Services

### **FINDING 2013-049**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CCDF Cluster: CFDA 93.575 and 93.596
<b>Award Identification Number and Year</b>	G 12 03 MI CCDF 10/01/2011 - 09/30/2012 G 13 03 MI CCDF 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$140,906,230
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	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.)
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$2,401
<b>Repeat Finding</b>	2012-040
<b>State Agencies</b>	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. MDE assumed responsibility for unlicensed provider eligibility determinations on January 1, 2013.

### 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 20 licensed providers and 40 unlicensed providers, we noted:

- a. DHS did not maintain case record documentation to support client and/or child eligibility for 6 (10%) of the 60 sampled CCDF Cluster child care payments. We noted incomplete supporting documentation related to 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 county 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 30% of the total CCDF Cluster child care payments that MDE made during fiscal year 2012-13 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 (71%) of 34 TANF - FIP payments sampled for fiscal year 2012-13. 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 that DHS authorized in Bridges for 8 (13%) of 60 sampled CCDF Cluster child care payments. DHS authorized hours of child care in Bridges that exceeded the client's documented need for hours of child care services.
- d. DHS did not maintain the provider's application for 11 (27.5%) of 40 unlicensed child care providers. As a result, MDE and DHS could not ensure that the unlicensed providers were eligible with regard to required background checks of the provider's adult household members. Without the provider's application, MDE and DHS could not determine that all adult household members of these unlicensed child care providers received the background checks that MDE required according to the CCDF State Plan. We performed additional audit procedures and

independently verified that the household members disclosed in the 29 applications retained by MDE and DHS did not have unsuitable backgrounds based on program requirements that would result in provider ineligibility.

- e. MDE and 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 11 (18%) 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 DHS county 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.

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. HHS's 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. Also, CCDF program policy deems clients to be categorically eligible if they participate in certain other programs such as TANF.

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 nonfederal 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

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 that DHS authorized in Bridges, and/or to support that the provider was appropriately authorized to render services for a client's child.

#### 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 match 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 \$2,401 and \$800 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 and/or child eligibility, provider eligibility, client need for the number of hours authorized, and/or proper authorization of providers to render services.

### Management Views and Corrective Action Plan

#### Management Views:

MDE and DHS agree with the finding.

#### Planned Corrective Action:

DHS will continue its efforts to educate staff regarding policy eligibility factors and documentation requirements. DHS Field Operations Administration (FOA) will issue a communication to provide staff with guidance on the program eligibility requirements and the requirements to obtain and retain documentation in the case record to support eligibility determinations. County/district offices will review the communication with staff. MDE will continue to complete random Child Development and Care case reads and provide review results quarterly with FOA, business service centers and county/district offices for corrective action and to identify trends to target training.

Additionally, MDE centralized unlicensed provider enrollment 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, and all applications processed by the unit are stored electronically. Four of the provider files reviewed were from periods after MDE assumed responsibility for this function. No errors were cited for these files.

#### Anticipated Completion Date:

October 1, 2014

#### Responsible Individual(s):

Lisa Brewer-Walraven, Michigan Department of Education  
Terry Beurer, Department of Human Services  
Sheryl Thompson, Department of Human Services

Business Service Center Directors, Department of Human Services  
 County/District Office Directors, Department of Human Services

**FINDING 2013-050**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CCDF Cluster: CFDA 93.575 and 93.596
<b>Award Identification Number and Year</b>	G 12 03 MI CCDF 10/01/2011 - 09/30/2012 G 13 03 MI CCDF 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$140,906,230
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Eligibility
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$9,421
<b>Repeat Finding</b>	2012-041
<b>State Agencies</b>	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 whom DHS's Office of Inspector General (OIG) identified as having known violations, from receiving CCDF child care benefits.

Our review of a sample of 30 client child care cases investigated by DHS's OIG for program violations disclosed that 4 (13%) of the 30 cases continued to receive payments after the OIG had identified these clients as having known violations.

**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. The *Michigan Administrative Code* requires the disqualification of clients who violated CCDF program rules.

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 had not established 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. Because of a lack of Bridges technology support, MDE and DHS had not implemented a process to disqualify clients as of September 2013.

#### Effect

MDE issued child care benefits on behalf of clients that have a known history of program violations. 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 \$9,421 for the CCDF Cluster federal share. These questioned costs represent the amount of CCDF Cluster child care benefits paid after the OIG identified the 4 sampled clients noted in this finding as having known violations.

#### 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:

Automation of the client disqualification process within Bridges has been completed and became effective April 1, 2014.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Lisa Brewer Walraven, Michigan Department of Education

### **FINDING 2013-051**

CCDF Cluster, CFDA 93.575 and 93.596, Reporting - ACF-696

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CCDF Cluster: CFDA 93.575 and 93.596
<b>Award Identification Number and Year</b>	G 13 03 MI CCDF 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$140,906,230
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Reporting
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Michigan Department of Education

#### Condition

MDE did not accurately report federal expenditures in the Child Care and Development Fund Financial Report (ACF-696). MDE included \$3.4 million in General Fund expenditures as federal expenditures on its fourth quarter report for fiscal year 2012-13.

#### Criteria

Federal regulation 45 CFR 98.67 requires MDE to have sufficient accounting controls and procedures to prepare fiscal reports as required by the secretary of HHS.

#### Cause

MDE informed us that, during the report preparation process, MDE transferred expenditures from federal to General Fund expenditures and that this activity was not included in the ACF-696.

#### Effect

MDE diminished HHS's ability to ensure appropriate oversight and monitoring of the CCDF Cluster federal funds.

Known Questioned Costs

We did not identify questioned costs related to this finding.

Recommendation

We recommend that MDE accurately report federal expenditures in ACF-696.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with this finding. The finding was a result of running reports from Federal Letter of Credit (FLOC) System, which is updated weekly on Friday nights, and Michigan Administrative Information Network (MAIN), which is updated nightly. Year-end adjustments took place between the time the reports were run in FLOC and the data was pulled from MAIN causing certain expenditures to be counted twice.

Planned Corrective Action:

All documentation for the 696 Report will be compiled on a Monday morning to ensure that the numbers coincide. In addition, a second staff member will be reviewing the ACF-696 Report for accuracy prior to submission.

Anticipated Completion Date:

Complete

Responsible Individual(s):

Craig Thurman, Michigan Department of Education  
Lisa Brewer Walraven, Michigan Department of Education

**FINDING 2013-052**

CCDF Cluster, CFDA 93.575 and 93.596, Special Tests and Provisions - Fraud Detection and Repayment

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CCDF Cluster: CFDA 93.575 and 93.596

<b>Award Identification Number and Year</b>	G 12 03 MI CCDF G 13 03 MI CCDF	10/01/2011 - 09/30/2012 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$140,906,230	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Special Tests and Provisions - Fraud Detection and Repayment	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	2012-042	
<b>State Agencies</b>	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.

DHS's OIG is responsible for detecting fraudulent child care payments based on investigations, and DHS's Reconciliation and Recoupment Section (R&R) is responsible for administering the recovery 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 R&R, and the R&R 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 county office recoupment specialist, and the county 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 R&R established on the BRS for recoupment to ensure that all cases of fraud would be pursued for repayment. We reviewed a sample of 40 fraudulent

client and provider child care cases that had been closed by the OIG during the audit period. We determined that for 3 (8%) of 40 cases, a claim had not been established on the BRS for recoupment. Restitution amounts for these 3 cases totaled \$54,347 (\$13,587 State-funded).

- b. MDE and DHS did not have a process to ensure that the R&R 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 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

For part a., DHS informed us that for most of our audit period, the OIG's process was to provide R&R with paper disposition packets of fraud cases for entry into BRS. DHS did not have a control to ensure that all packets were received and, subsequently, that all cases were entered into BRS. The OIG began providing R&R with weekly lists of all fraud cases identified by the OIG to help ensure that they had been received by R&R for entry into BRS. DHS implemented this process in June 2013 in response to the prior audit finding.

For part b., DHS informed us that the R&R had developed a random check process to mitigate the risk associated with the lack of segregation of duties. DHS implemented this process in June 2013 in response to the prior audit finding.

For part c., DHS informed us that a delinquency date for collections was not programmed into BRS to allow for automated tracking of delinquent claims. DHS also informed us that it lacked adequate staffing to perform referrals to the Department of Treasury on a regular basis.

### Effect

MDE and DHS increased the risk that fraudulent child care payments may not be recovered. 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:

For parts a. and b. of the finding, corrective actions were implemented in June 2013. For part c. of the finding, DHS has submitted work requests for enhancements to Bridges that will automate tracking of delinquent claims in BRS.

#### Anticipated Completion Date:

Corrective actions related to parts a. and b. of the finding are completed. A projected completion date for part c. will not be known until the work requests are prioritized. When prioritized, a time line for completing the project will be established.

#### Responsible Individual(s):

Lisa Brewer-Walraven, Michigan Department of Education

Brian Rooney, Department of Human Services

Al Kimichik, Department of Human Services

Jeff Cook, Department of Human Services

Robert Drake, Department of Human Services

## **FINDING 2013-053**

### **CCDF Cluster, CFDA 93.575 and 93.596, Special Tests and Provisions - Health and Safety Requirements - Licensed Child Care Providers**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	CCDF Cluster: <i>CFDA</i> 93.575 and 93.596
<b>Award Identification Number and Year</b>	G 12 03 MI CCDF 10/01/2011 - 09/30/2012 G 13 03 MI CCDF 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$140,906,230
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Special Tests and Provisions - Health and Safety Requirements
<b>Type of Finding</b>	Material Weakness and Scope Limitation on Compliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	2012-043
<b>State Agencies</b>	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**

Prior to March 2013, 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.

#### **Criteria**

Federal regulation 45 *CFR* 98.41 requires DHS to verify that child care providers serving children who receive subsidies meet requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers.

### Cause

DHS informed us that periodic on-site inspections by DHS staff are one of its primary means to ensure that center-based, group home, and family child care providers serving children who receive CCDF Cluster subsidies meet health and safety requirements. Prior to March 2013, unless a licensing rule violation was noted, DHS did not maintain detailed records of its on-site inspections after DHS issued the licensing study report (LSR). During March 2013, DHS added wording to LSRs to reflect that its studies included a review of the physical environment, provider training, and child immunizations. Our review of 9 LSRs conducted after March 12, 2013 disclosed that all 9 included the new wording.

### Effect

From October 1, 2012 through mid-March 2013, 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 tests and provisions requirements to verify that center-based, group home, and family child care providers serving children who receive subsidies meet requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers.

## Management Views and Corrective Action Plan

### Management Views:

MDE and DHS agree with the finding.

### Planned Corrective Action:

Additional wording was added to the LSRs during March 2013 to address physical environment, provider training, and child immunization requirements.

### Anticipated Completion Date:

Completed

### Responsible Individual(s):

Lisa Brewer-Walraven, Michigan Department of Education  
Steve Yager, Department of Human Services

## **FINDING 2013-054**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

### Background

The Department of Community Health (DCH) uses the Community Health Automated Medicaid Processing System (CHAMPS) to reimburse medical providers for services

delivered to Medicaid beneficiaries. Providers submit medical claims to CHAMPS which processes payments through a claim adjudication process. During adjudication, CHAMPS considers a beneficiary's other health insurance information by reading a Third Party Liability (TPL) coverage file. DCH receives other health insurance information from numerous sources, including commercial insurance carriers via a monthly data interface process and medical providers via submitted medical claims.

#### Condition

DCH did not always add other health insurance information, reported by a commercial insurance carrier, to its TPL coverage file. In addition, DCH did not always add other health insurance information, reported by medical providers via submitted claims, to its TPL coverage file. We noted that for 5 (9%) of 56 cases reviewed, Medicaid beneficiaries had other health insurance through commercial insurance carriers; however, DCH did not add 2 of 5 beneficiaries' other insurance information, reported either by a commercial insurance carrier or by medical providers, to its TPL coverage file.

#### 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. DCH should add Medicaid beneficiary other insurance information to its TPL coverage file to ensure that other insurance information is properly considered during the medical claims adjudication process.

#### Cause

DCH indicated that it did not add beneficiary other health insurance information to its TPL coverage file through the interface file process and the Medicaid provider submitted claims process because of a system edit and business rule limitations.

#### Effect

DCH could potentially reimburse medical providers for medical services that are the legal liability of a third party. Because the medical providers included the Medicaid beneficiaries' other health insurance information on submitted claims, DCH made proper payments on behalf of the two beneficiaries.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

### Recommendations

We recommend that DCH add other insurance information, reported by a commercial insurance carrier, in its TPL coverage file.

We also recommend that DCH add other insurance information, reported by medical providers via submitted claims, to its TPL coverage file.

### Management Views and Corrective Action Plan

#### Management Views:

DCH agrees that the one record was valid coverage that should have been added to the coverage file manually. It was added at a later date after the interface file process. DCH adds other insurance information, reported by a commercial insurance carrier, into the TPL coverage file based on specific business rules in place that will cause a record to error out and be manually reviewed. The one record from the interface file that did not load into the TPL coverage file was due to valid business rules that are in the system. The business rule cannot be removed because doing so would cause access to care issues. DCH has made the decision to manually review these records to ensure that Medicaid beneficiaries receive the healthcare coverage that they need. The number of these records is immaterial in comparison to the total number of records per file.

Other insurance information received directly from claims submitted by Medicaid providers cause a system edit to set directly on the claim when this is identified. Currently DCH receives a majority of the other insurance information that is available on the claim but, due to current edit rules, this claim was not identified.

#### Planned Corrective Action:

DCH is in the process of updating its entire interface process. As part of this process, DCH will ensure that errors are appropriately reported and referred to staff for resolution.

DCH has identified CHAMPS enhancements for our other insurance claim edits to capture additional coverage information. Each enhancement identified will have to be prioritized, approved, designed, tested, and implemented.

**Anticipated Completion Date:**

CHAMPS interface process updates have been completed. CHAMPS enhancements were identified as of May 30, 2014, and activity related to the enhancements is ongoing.

**Responsible Individual(s):**

Keelie Honsowitz, Department of Community Health  
 Jodie Gillespie, Department of Community Health

**FINDING 2013-055**

**Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles - Third Party Liability - Pregnancy and Birthing-Related Costs**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-050
<b>State Agency</b>	Department of Community Health

**Condition**

DCH did not report all pregnancy and birthing-related Medicaid costs to the Friend of the Court (FOC) 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 \$7.5 million of pregnancy and birthing-related Medicaid costs; however, it did not report \$212,000 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 report \$212,000 of pregnancy and birthing-related Medicaid costs to the FOC or the local prosecuting attorney office for their consideration in determining court-ordered child support obligations. Although court-ordered child support obligations may not include all of these identified costs, by not reporting all costs, the FOC and the local prosecuting attorney office did not have the opportunity to consider the cost for inclusion in court-ordered child support obligations. As a result, DCH could not pursue reimbursement of those costs because they were not part of a court-ordered obligation. 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 FOC 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 with the finding. As noted in the finding, federal regulation 42 *CFR* 433.138 requires DCH to develop a methodology for identifying third parties, determining third party liabilities, and recovering reimbursement. DCH has developed a methodology and has consistently applied the methodology for several years. The Medicaid state plan further allows for the State to determine confinement expenses for inclusion into the court order. The Medicaid state plan does not dictate what should be incorporated into confinement expenses. DCH made a conscious decision as to what services would be incorporated into its pregnancy and birthing-related cost methodology and specifically excluded some services.

### Planned Corrective Action:

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

### Anticipated Completion Date:

Not applicable

### Responsible Individual(s):

Dan Voss, Department of Community Health

## **FINDING 2013-056**

Medicaid Cluster, *CFDA* 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles - Third Party Liability - Suspension of Birth Expense Reporting

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and <i>CFDA</i> Number</b>	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency

<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

Condition

DCH did not ensure that it received DHS's Office of Child Support (OCS) birth expense requests to identify and report pregnancy and birthing-related Medicaid costs to the Friend of the Court (FOC) or the local prosecuting attorney office responsible for establishing paternity and for seeking court-ordered child support throughout 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, federal regulation 42 *CFR* 433.139(f) requires that the Medicaid State Plan specify the threshold amount or other guideline that will be used in determining whether to seek recovery of reimbursement from a liable third party. DCH's Medicaid State Plan states that the DHS Child Support Program refers paternity cases to the local prosecuting attorney who petitions the court to order the absent parent to provide support for the minor child and repay Medicaid birth expenses. DHS's Child Support Program Manual states that OCS staff will send a birth expense request to DCH to verify birth expenses incurred in Medicaid cases. After receiving a birth expense request, DCH reports identified birth expenses to FOC or the local prosecuting attorney office responsible for establishing paternity and seeking court-ordered child support.

Cause

DCH did not receive birth expense requests from DHS's OCS between October 2011 and August 2013. Without these requests, DCH could not identify which cases required Medicaid birth expense reports. DCH indicated that the decision to suspend birth expense requests was made unilaterally by DHS's OCS because DHS questioned the accuracy of some of the birth expense amounts that were reported by DCH. DCH resumed receiving birth expense requests from DHS's OCS starting in September 2013.

Effect

We estimated that DCH did not identify and seek recovery of reimbursement for up to \$64,723,861 of pregnancy and birthing-related Medicaid costs from third parties during

fiscal year 2012-13. Many factors impact the actual recovery of these amounts, including subsequent marriage of the parents, a parent is incarcerated or deceased, or a parent is inaccurately identified. As a result, the true recovery amount may vary significantly from the costs identified by DCH.

#### Known Questioned Costs

We did not identify questioned costs related to this finding because the portion that would be recovered is not determinable.

#### Recommendation

We recommend that DCH ensure that it receives DHS's OCS birth expense requests to identify and report pregnancy and birthing-related Medicaid costs to FOC 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 agrees that it did not receive birthing expense requests from the FOC. However, the statutory requirements place responsibility on the Office of Child Support or its designee to obtain Medicaid covered expenses and do not provide DCH a method to ensure the submission of birthing expense requests. The Medicaid State Plan states: The prosecutor and/or court requests from the Third Party Liability Division a statement of confinement (birthing) expenses for inclusion in the court order. Throughout the fiscal year, DCH provided all confinement expenses for cases requested by the prosecutor and/or FOC. However, if DCH is not contacted, it does not have a method for identifying who to provide confinement expenses for.

##### Planned Corrective Action:

DCH continues to work with DHS leadership on the importance of identifying cases that were missed during the suspension period so that birthing expense requests can be submitted and expenses reported.

##### Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):  
 Dan Voss, Department of Community Health

**FINDING 2013-057**

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 - Beneficiary Eligibility

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$903
<b>Repeat Findings</b>	2012-045 and 2012-046
<b>State Agencies</b>	Department of Community Health and Department of Human Services

Condition

DCH and DHS did not ensure or demonstrate compliance with federal laws and regulations relating to beneficiary eligibility for Medicaid services for 3 (4%) of 70 Medicaid cases. Our review disclosed:

- a. Beneficiary eligibility was not determined in accordance with eligibility requirements for 2 (3%) of 70 cases reviewed.
- b. Case file documentation to support beneficiary eligibility was not maintained for 1 (1%) of 70 cases reviewed.

Criteria

Federal regulation 42 CFR 435.1002(b) indicates that federal funding is available only for services provided to eligible beneficiaries. Federal regulation 42 CFR 435.913 requires that case record documentation be maintained to support the eligibility

decision. 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 and for maintaining case record documentation that supports Medicaid eligibility decisions.

#### Cause

DHS did not properly consider all available beneficiary information when determining beneficiary eligibility. DCH and DHS also indicated that internal control was not sufficient to ensure that documentation was retained.

#### Effect

DCH and DHS cannot demonstrate that it is in compliance with established eligibility policies and procedures and, therefore, DCH cannot ensure that payments were made to eligible individuals. 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 \$903. The questioned costs represent the federal share of payments made to providers on behalf of the beneficiaries for the sampled dates of service.

#### Recommendations

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

We also 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:

DHS and DCH agree with the finding.

### Planned Corrective Action:

DHS will continue its efforts to educate staff regarding policy eligibility factors and documentation requirements. DHS Field Operations Administration will issue a communication to provide guidance to staff on the program eligibility requirements and the requirements to obtain and retain documentation in the case record to support eligibility determinations. County offices will review the communication with staff.

### Anticipated Completion Date:

October 1, 2014

### Responsible Individual(s):

Terry Beurer, Department of Human Services  
Business Center Directors, Department of Human Services  
County Office Directors, Department of Human Services

## **FINDING 2013-058**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Material Weakness and Material Noncompliance

<b>Known Questioned Costs</b>	\$4,613,316
<b>Repeat Finding</b>	2012-044
<b>State Agencies</b>	Department of Community Health and Department of Human Services

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

DCH, DHS, and DTMB indicated that there were several contributing factors, including staff actions and potential system issues.

Effect

DCH paid Medicaid providers \$6,948,811 (\$2,335,495 General Fund/general purpose) during fiscal year 2012-13 on behalf of 8,927 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 \$4,613,316. 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, DHS, and DTMB agree that they did not always ensure that benefits for recipients in the under age 21 eligibility group should be continued in another aid category after the beneficiaries' 21st birthday or were appropriately end dated in Bridges and CHAMPS.

#### Planned Corrective Action:

DCH, DHS, and DTMB are evaluating possible root causes and will develop a detailed corrective action plan to address the deficiencies identified when that process is completed.

#### Anticipated Completion Date:

The root cause analysis is expected to be completed by October 2014. A projected completion date for detailed corrective action will be determined after the root cause analysis is completed.

#### Responsible Individual(s):

Karen Parker, Department of Community Health  
Dan Ridge, Department of Community Health  
Terry Beurer, Department of Human Services  
Teresa Spalding, Department of Human Services  
Jim Hogan, Department of Technology, Management, and Budget  
Linda Pung, Department of Technology, Management, and Budget

## **FINDING 2013-059**

### **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**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	(\$187,689)
<b>Repeat Finding</b>	2012-049
<b>State Agency</b>	Department of Community Health

#### **Condition**

DCH credited \$282,706 (\$95,017 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 \$187,689 of federal reimbursement for Medicaid Cluster expenditures.

### Known Questioned Costs

We identified negative questioned costs totaling \$187,689. 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 there was an oversight in the January 2013 non-Medicaid program exclusion coding that allowed some non-Medicaid program funded claims to unintentionally continue to be included in the rebate invoicing during fiscal year 2012-13.

#### Planned Corrective Action:

DCH has partnered with its rebate vendor to correct the coding and has verified that affected rebates were properly reversed as part of the quarterly rebate prior period adjustment process which in turn automatically credits the rebate units back to the drug manufacturers and adjusts the quarterly federal reports accordingly.

#### Anticipated Completion Date:

Completed

#### Responsible Individual(s):

Trish M. O'Keefe, Department of Community Health  
Helen Walley, Department of Community Health

## **FINDING 2013-060**

### **Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Beneficiaries With Multiple Medicaid Identification Numbers**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$13,467
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

#### **Condition**

DCH's internal control did not prevent, detect, or correct payments made on behalf of beneficiaries that were assigned more than one Medicaid identification number.

#### **Criteria**

According to its Medicaid Provider Manual, DCH pays Medicaid Health Plans (MHPs) a fixed capitated rate per month for the healthcare services that it provides to each enrolled Medicaid beneficiary regardless of the frequency, extent, or kind of services provided to each Medicaid beneficiary. In addition, Appendix A of OMB Circular A-87 (federal regulation 2 CFR 225) requires that costs be necessary and reasonable for proper and efficient performance and administration of federal awards.

#### **Cause**

DCH stated that it has a daily automated edit in CHAMPS to identify possible duplicate Medicaid identification numbers on the incoming Bridges eligibility file; however, the edit criteria has not been reviewed for adequacy since CHAMPS implementation. Also, DCH stated that it is not following its established follow-up process for the duplicate Medicaid identification number report generated by the edit.

### Effect

DCH issued multiple monthly capitated payments to MHPs for the same beneficiary totaling approximately \$20,285 (\$6,818 General Fund/general purpose) for 24 beneficiaries from October 1, 2012 through June 30, 2013.

### Known Questioned Costs

We identified questioned costs totaling \$13,467. The questioned costs represent the federal share of improper monthly capitated payments issued to MHPs from October 1, 2012 through June 30, 2013.

### Recommendation

We recommend that DCH implement internal control to prevent, detect, or correct payments made on behalf of beneficiaries that were assigned more than one Medicaid identification number.

### Management Views and Corrective Action Plan

#### Management Views:

DCH agrees with the finding.

#### Planned Corrective Action:

In March 2013, DHS implemented additional monitoring procedures to identify and correct duplicate beneficiary records in Bridges. DCH is also developing a query to pull data from the data warehouse with the intent of identifying duplicate identification numbers. DCH will use the data from that query in conjunction with duplicate information discovered via problem resolution activities to investigate the source, cause, and circumstance of the duplicate identification numbers and work with DHS to resolve the issue. In addition, DCH will explore the findings discovered through this process to consider the development of additional preventative procedures.

#### Anticipated Completion Date:

October 1, 2014

#### Responsible Individual(s):

Jamy Hengesbach, Department of Community Health  
Dan Ridge, Department of Community Health

## **FINDING 2013-061**

### **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**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$133,208
<b>Repeat Finding</b>	2012-047
<b>State Agency</b>	Department of Community Health

#### **Condition**

As originally reported in our performance audit of Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS), Department of Community Health (391-0717-12), located at <[http://audgen.michigan.gov/finalpdfs/12\\_13/r391071712.pdf](http://audgen.michigan.gov/finalpdfs/12_13/r391071712.pdf)>, DCH did not ensure proper payment of DMEPOS. We conducted follow-up procedures during the single audit and our review disclosed 4 reportable conditions that continued to impact single audit conclusions related to claims paid for dually enrolled beneficiaries, duplicate payments, claims paid for beneficiaries in nursing facilities, and incontinence supplies (Findings 1 through 4).

#### **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 follow-up procedures conducted during the single audit, we determined that DCH made improper DMEPOS payments of \$200,645 (\$67,437 General Fund/general purpose) for dates of service from October 1, 2012 through September 30, 2013.

### Known Questioned Costs

We identified questioned costs of \$133,208 for the single audit period October 1, 2012 through September 30, 2013. The questioned costs represent the federal share of improper payments made to providers for dates of service from October 1, 2012 through September 30, 2013.

### Recommendation

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

### Management Views and Corrective Action Plan

#### Management Views:

DCH agrees with the finding.

#### Planned Corrective Action:

DCH is in the process of reviewing all of the claims identified in this finding. As part of this review process, DCH will do the following:

- Review prior authorization codes and claim adjustment reason codes (CARC) again and make changes if necessary to the other insurance bypass edits and recoup where appropriate.

- Work with staff to determine a resolution to the retroactive enrollment/disenrollment of beneficiaries into a health plan.
- Recoup payments made prior to the corrective action implementation.

Anticipated Completion Date:  
September 2014

Responsible Individual(s):  
Susan Klein, Department of Community Health  
Samantha Wolf, Department of Community Health

**FINDING 2013-062**

**Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - MI Choice Annual Cost Reconciliations**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

**Condition**

DCH did not perform annual cost reconciliations for MI Choice Waiver Program (MI Choice) payments for fiscal year 2012-13. Also, DCH did not perform annual reconciliations for fiscal years 2008-09 through 2011-12.

### Criteria

DCH provides home and community-based services through a federally approved MI Choice waiver. Federal regulation 42 *CFR* 441.302 requires DCH to ensure financial accountability for funds expended for home and community-based services. In its MI Choice waiver, DCH states that it provides financial accountability through an annual reconciliation process, which compares claims approved in CHAMPS (Michigan's Medicaid Information System [MMIS]) to monthly prospective payments that have been distributed to MI Choice waiver agents. In addition, within its agreements with MI Choice waiver agents, DCH states that an initial settlement of the expenditures for the contract period will be prepared within 180 days after the close of the contract period and the settlement will be based on DCH's cost and utilization data contained in CHAMPS.

### Cause

DCH indicated that there have been technical issues with MI Choice claim adjudication since the implementation of CHAMPS in October 2009. Without complete adjudicated claim data, DCH cannot complete its annual reconciliation process.

### Effect

DCH could potentially reimburse MI Choice waiver agents for improper amounts, unauthorized services, or services provided to ineligible individuals. The federal grantor agency could terminate the waiver and/or issue sanctions or disallowances related to noncompliance.

### Known Questioned Costs

Questioned costs were undeterminable.

### Recommendation

We recommend that DCH perform annual cost reconciliations to ensure that MI Choice payments are made for the proper amount, for authorized services, and for services provided to eligible individuals.

## Management Views and Corrective Action Plan

### Management Views:

DCH agrees it did not perform annual reconciliations for fiscal years 2008-09 through 2012-13. The delays are attributable to several compounded issues:

- The implementation of a new Medicaid Management Information System (CHAMPS).
- The nearly simultaneous implementation of a new Medicaid Eligibility Information System (Bridges).
- Issues with Level of Care coding in Bridges.

### Planned Corrective Action:

DCH has identified and corrected all known issues related to MI Choice cost reconciliations. The Department is actively processing the cost reconciliations for fiscal years from 2008-09 through 2012-13.

### Anticipated Completion Date:

MI Choice reconciliations for fiscal years 2008-09 through 2011-12 are currently in process and DCH expects to complete them by October 2014. DCH expects to complete fiscal year 2012-13 cost reconciliations by February 2015.

As of fiscal year 2013-14, the Department has converted the MI Choice program to a full risk, managed care, capitated reimbursement model. This conversion eliminates the need for annual reconciliations.

### Responsible Individual(s):

Sherri Gensterblum, Department of Community Health  
Elizabeth Gallagher, Department of Community Health

## **FINDING 2013-063**

### **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 Fee-For-Service Reimbursement**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$334,801
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

#### **Condition**

As reported in our performance audit of Medicaid Practitioner Fee-For-Service Reimbursement, Department of Community Health (391-0713-13), DCH did not ensure proper payment of practitioner fee-for-service claims. The objective of that audit was to assess the effectiveness of DCH's efforts to ensure proper payment of Medicaid practitioner fee-for-service claims as defined by selected DCH policies. Our assessment disclosed three reportable conditions that impacted single audit conclusions. The reportable conditions related to a place of service edit, claims paid for beneficiaries enrolled in a Medicaid Health Plan (MHP), and multiple Medicaid identification numbers (Findings 1, 2, and 5).

#### **Criteria**

According to its Medicaid State Plan, DCH provides coverage of practitioner services 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 practitioner fee-for-service 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 Medicaid Practitioner Fee-For-Service Reimbursement, Department of Community Health. Some examples of the causes of improper practitioner payments include system edits not in place and system edit criteria was not reviewed for adequacy since the implementation of CHAMPS.

### Effect

Based on the results of our performance audit, we determined that DCH made improper payments of \$504,295 (\$169,494 General Fund/general purpose) from October 1, 2012 through June 30, 2013.

### Known Questioned Costs

We identified questioned costs of \$334,801 for the single audit period October 1, 2012 through September 30, 2013. The questioned costs represent the federal share of improper payments made to providers from October 1, 2012 through June 30, 2013.

### Recommendation

We recommend that DCH ensure proper payment of practitioner fee-for-service claims for the Medicaid Cluster.

### Management Views and Corrective Action Plan

#### Management Views:

DCH agrees with the finding.

#### Planned Corrective Action:

DCH is in the process of making necessary changes to help ensure that claims are paid only in the appropriate place of service. DCH has reviewed the claims identified as being paid for beneficiaries in a health plan and made modifications to the health plan carve outs. Additional policy changes and post payment recovery processes will be implemented where applicable regarding retroactive health plan enrollments. In addition, DCH is working with DHS to implement additional monitoring activities to identify and correct duplicate beneficiary identification numbers.

Anticipated Completion Date:

December 31, 2014

Responsible Individual(s):

Sue Klein, Department of Community Health

Samantha Wolf, Department of Community Health

Jamy Hengesbach, Department of Community Health

### **FINDING 2013-064**

**Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Third Party Liability Notification**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$5,563
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health and Department of Human Services

#### Condition

DHS did not always notify DCH when Medicaid beneficiaries reported other insurance on their assistance applications. We noted that for 3 (4%) of 70 cases reviewed Medicaid beneficiaries reported other insurance; however, DHS did not notify DCH of the other insurance for all 3 beneficiaries.

For 1 beneficiary, DCH identified and added other insurance to its third party liability (TPL) coverage file 211 days after the beneficiary reported other insurance on his or her assistance application. DCH added the second beneficiary's other insurance to its TPL coverage file after we notified DCH of the other insurance identified during our review.

The third beneficiary's other insurance was added to the TPL coverage file through an interface process with a commercial insurance carrier the same month the beneficiary reported other insurance on his or her assistance application.

### Criteria

Federal regulation 42 *CFR* 433.138 requires DHS to obtain from the applicant or beneficiary such health insurance information because it would be useful in identifying legally liable third party resources and transmit the information to DCH. In addition, within 60 days, DCH must follow up on such information in order to identify legally liable third party resources and incorporate such information into the eligibility case file and into its third party database and third party recovery unit so DCH may process claims under the third party liability payment procedures. DCH and DHS have an interagency agreement in which DHS is responsible for collecting accurate, complete demographic data on Medicaid applicants, including other insurance information.

### Cause

DCH and DHS did not have sufficient internal control and monitoring activities to ensure that county office staff followed established policies and procedures for sending other insurance information for Medicaid beneficiaries to DCH staff to review.

### Effect

DCH made monthly capitated payments to MHP totaling \$8,380 (\$2,817 General Fund/general purpose) during fiscal year 2012-13 on behalf of one beneficiary. For the second beneficiary, payments were made to providers for fee-for-service claims. The providers submitted other insurance information on the claims, which resulted in proper payment by DCH. For the third beneficiary, other insurance was properly identified through the interface process which resulted in proper payments by DCH.

### 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 \$5,563, which represent the federal share of the monthly capitated payments made to the MHP during our audit period.

Recommendation

We recommend that DHS notify DCH of other insurance for beneficiaries that report other insurance on their assistance applications.

Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS will continue its efforts to educate staff regarding policy eligibility factors and documentation requirements. DHS Field Operations Administration will issue a communication to provide staff with guidance on the program eligibility requirements and notifying DCH when a client discloses other insurance on the assistance application. County offices will review the communication with staff.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services  
Business Center Directors, Department of Human Services  
County Office Directors, Department of Human Services

**FINDING 2013-065**

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - ASW Contact With Clients and Providers

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
<b>Award Identification Number and Year</b>	05-1305MI5ADM	10/01/2012 - 09/30/2013
	05-130MI5MAP	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132	

<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health and Department of Human Services

Condition

DCH and DHS did not ensure that adult service workers (ASWs) timely completed six-month reviews, annual redeterminations, and other required monitoring contacts for their assigned clients and providers. Our review disclosed:

- a. ASWs did not complete 39 (52.7%) of 74 required six-month reviews. Also, ASWs did not timely complete 1 (1.4%) of 74 six-month reviews. ASWs completed the untimely six-month review 4 months late.
- b. ASWs did not complete 47 (34.8%) of 135 required face-to-face or telephone contacts with service providers.
- c. ASWs did not complete 1 (1.6%) of the 62 required annual redeterminations. Also, ASWs did not timely complete 7 (11.3%) of the 62 annual redeterminations. The ASWs completed the untimely annual redeterminations between 1 month and 4 months late.
- d. ASWs did not complete new face-to-face assessments for 6 (5.4%) of 112 clients before authorizing payment for increased service levels. In these cases, there was no documentation supporting the need for the increased service levels.

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 will provide personal care services under the Home Help Program (HHP). DCH and DHS have jointly developed the Adult Services Manual (ASM) to further define specific policies and procedures for delivery of Medicaid HHP services.

ASM 155 requires ASWs to meet face-to-face with clients in their homes six months after each client's initial assessment and annual reassessments to review the quality of and client satisfaction with the services provided and the continued appropriateness of the client's comprehensive individualized service plan.

Also, ASM 155 requires ASWs to complete a face-to-face or telephone contact with the provider for each of their clients at the client's six-month review and annual redetermination to verify that the provider delivered the required services.

In addition, ASM 120 requires ASWs to complete a new face-to-face assessment of clients before authorizing higher payments for increased services.

#### Cause

DHS's HHP supervisors from two of the counties informed us that high ASW caseloads precluded many ASWs from completing all required contacts and, therefore, the ASWs in their respective counties were expected to complete only one contact annually with each client and provider. DHS also informed us that a lack of staffing likely contributed to most of the late or uncompleted contacts.

#### Effect

DCH and DHS could not ensure that clients timely received the most appropriate type and quantity of services for their conditions. Also, because ASWs did not ensure that providers continued to deliver services to their clients, there is an increased risk of client and provider fraud. 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 and DHS ensure that ASWs timely completed six-month reviews, annual redeterminations, and other required monitoring contacts for their assigned clients and providers.

## Management Views and Corrective Action Plan

### Management Views:

DCH and DHS agree with the finding.

### Planned Corrective Action:

DHS is completing independent reviews of the cases that were cited in the audit to ensure that reviews, redeterminations, and required monitoring contacts with clients and providers are completed.

In addition, DCH and DHS are implementing the following corrective actions:

- In May 2014, DHS reorganized and centralized all Adult Services Program functions and is analyzing home help caseloads. This analysis is expected to aid DHS in effectively allocating ASW resources Statewide.
- Steps are currently underway to ensure that the periodic reviews are conducted and monitored by DHS management at all levels. DCH will also monitor compliance with these performance requirements.
- Elements of the six-month review policy are being reviewed and clarified.
- A quality assurance review process will be developed to monitor and confirm compliance with the requirements of the six-month review, annual redeterminations, and other monitoring contacts.
- DHS will reiterate policy requirements to adult services staff by July 1, 2014.
- DHS adult services staff will complete mandatory training by September 30, 2014.
- DCH and DHS management at all levels will develop additional monitoring protocols as necessary to ensure compliance with corrective actions.
- DCH and DHS will either begin design requirements for a new case management system or pursue additional enhancements to the existing system.

Anticipated Completion Date:

January 1, 2015

Responsible Individual(s):

Richard Miles, Department of Community Health

Terry Beurer, Department of Human Services

Bernell Wiggins, Department of Human Services

### **FINDING 2013-066**

**Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Benefit Reduction and Certification of Medical Needs**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-130MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$2,555
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health and Department of Human Services

### **Condition**

DCH and DHS did not ensure that they made required client benefit reductions and timely obtained client certifications of medical need. Our review disclosed:

- a. ASWs did not reduce the number of hours authorized for instrumental activities of daily living (IADLs) for 16 (14.3%) of 112 clients who shared a residence with other adults and who did not meet criteria exempting the clients from the reduction. Failure to reduce the number of hours for IADLs resulted in additional monthly costs for the 16 clients of \$3,872 (\$2,555 federal and \$1,317 General Fund/general purpose) from October 1, 2012 through February 28, 2013.

- b. ASWs did not obtain or timely obtain one or more annual certifications of medical need for 18 (16.1%) of 112 clients. Failure to obtain or timely obtain the certifications of medical need could result in clients receiving services that they are not eligible to receive.

### 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 will provide personal care services under HHP. DCH and DHS have jointly developed the ASM to further define specific policies and procedures for delivery of Medicaid HHP services.

ASM 120 requires ASWs to reduce the assessed hours for IADLs by 50% when there are other adults sharing a residence with the client.

ASM 115 requires most HHP clients to obtain certification from a Medicaid-enrolled medical professional of the clients' medical need for services before initially qualifying for services and annually thereafter to continue to be eligible to receive services.

### Cause

DCH and DHS informed us that the reason for the lapses in applying procedure and obtaining appropriate documentation is likely due to large ASW caseloads.

### Effect

These deficiencies could potentially result in overpayments to providers and untimely services. 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 \$2,555. The questioned costs represent the amounts overpaid for sampled clients from October 1, 2012 through February 28, 2013 that shared a residence with another adult.

### Recommendation

We recommend that DCH and DHS ensure that they make required client benefit reductions and timely obtain client certifications of medical need.

### Management Views and Corrective Action Plan

#### Management Views:

DCH and DHS agree with the finding.

#### Planned Corrective Action:

DHS will complete an independent review of all cases sampled in the audit to identify systemic weakness in policy and procedures. Cases that have missing documentation will be brought into compliance.

In addition, DCH and DHS are implementing the following corrective actions:

- DHS will reiterate policy requirements and expectations to adult services staff by July 1, 2014.
- Adult services staff will complete mandatory training by September 30, 2014.
- DCH and DHS management at all levels will develop additional monitoring protocols as necessary to ensure compliance with corrective actions.
- DCH and DHS will either begin design requirements for a new case management system or pursue additional enhancements to the existing system.

#### Anticipated Completion Date:

January 1, 2015

#### Responsible Individual(s):

Richard Miles, Department of Community Health

Terry Beurer, Department of Human Services

Bernell Wiggins, Department of Human Services

## **FINDING 2013-067**

**Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Ineligible Payments**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-130MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$847,810
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health and Department of Human Services

### **Condition**

DCH and DHS did not ensure that HHP clients met HHP eligibility criteria prior to paying for HHP services. We noted:

- a. DCH and DHS allowed 916 clients, who did not have an assessment score of 3 or higher in at least one activity of daily living (ADL) such as eating, toileting, bathing, grooming, dressing, transferring, or mobility, to inappropriately start or continue to receive services. The inappropriate payments totaled \$1,275,512 (\$846,813 federal and \$428,699 General Fund/general purpose).
- b. DCH and DHS overpaid for 5 of 15 clients that were hospitalized. The overpayments for the 5 hospitalized clients totaled \$540 (\$356 federal and \$184 General Fund/general purpose).
- c. DCH and DHS overpaid for 3 of 724 clients that were in a nursing facility. The overpayments for the 3 clients totaled \$972 (\$641 federal and \$331 General Fund/general purpose).

### 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 will provide personal care services under HHP. DCH and DHS have jointly developed the ASM to further define specific policies and procedures for delivery of Medicaid HHP services.

Effective October 1, 2011, DCH and DHS changed the eligibility criteria for HHP. The new criteria required eligible individuals to have an assessment score of 3 or higher in at least one ADL. An assessment score of 3 or higher signifies that the individual requires some direct physical assistance and/or assistive technology to complete the ADL.

ASM 135 prohibits payment for HHP services on days that a client is admitted to a hospital and for all subsequent days of hospitalization, excluding the day of discharge.

ASM 150 prohibits payment for HHP services on days that a client is admitted to a nursing facility and for all subsequent days of stay, excluding the day of discharge.

### Cause

DCH and DHS informed us that a lack of reporting capability within the HHP data system likely contributed to management's inability to monitor and ensure the implementation of the new ADL eligibility criteria. Also, DCH and DHS stated that there were multiple factors that contributed to providers being reimbursed when clients were hospitalized. These factors included staffing constraints and the lack of a systematic mechanism for ASWs to identify the hospitalizations, the development of which is complicated by the lag time (up to one year) associated with DCH receiving and processing hospital billings. In addition, DCH and DHS informed us that a lack of effective controls allowed for payments to providers while their respective clients were admitted to nursing facilities.

### Effect

DCH and DHS paid for ineligible services from October 1, 2012 through February 28, 2013 a total of \$1,277,023 (\$847,810 Federal and \$429,213 General Fund/general purpose) for individuals who did not qualify for them because they did not have an ADL assessment score of 3 or higher, were hospitalized, or were in a nursing facility. The

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

#### Known Questioned Costs

We identified questioned costs of \$847,810. The questioned costs represent the amounts paid for HHP services for clients that did not have an ADL assessment score of 3 or higher from October 1, 2012 through February 28, 2013 and sampled clients that were either hospitalized or in a nursing facility during that same time period.

#### Recommendation

We recommend that DCH and DHS ensure that HHP clients meet HHP eligibility criteria prior to paying for HHP services.

#### Management Views and Corrective Action Plan

##### Management Views:

DCH and DHS partially agree with the finding.

DCH and DHS agree that services should only be provided to clients who meet established criteria. However, in regard to part a. of the finding, all of the case records were reviewed for each case identified in the audit and the majority of the cases were found to qualify with at least one ADL. Based on this case review process, DCH and DHS disagree with the known questioned costs associated with this part of the finding.

##### Planned Corrective Action:

DHS has reviewed all of the cases identified in this finding and taken necessary actions where appropriate.

In addition, the following actions have been taken or are currently underway:

- A system edit was implemented in March 2014 which prohibits the ASW from entering an authorization for a client without an assessment score of 3 or higher in at least one ADL.

- DCH and DHS are currently developing a post payment review process to identify potential home help reimbursement in conjunction with hospitalization. As part of this process, existing policy will be reviewed and updated if necessary.
- System edits were implemented in April 2014 that effectively stops the authorization from generating a payment for any clients that are identified as being in a nursing facility. In addition, data queries will continue to occur on a monthly basis and any payments identified while the client is receiving nursing home level of care will be referred to DHS for recoupment.
- DHS will reiterate policy requirements and expectations to adult services staff by July 1, 2014.
- Adult services staff will complete mandatory training by September 30, 2014.
- DCH and DHS management at all levels will develop additional monitoring protocols as necessary to ensure compliance with corrective actions.
- DCH and DHS will either begin design requirements for a new case management system or pursue additional enhancements to the existing system.

Anticipated Completion Date:

January 1, 2015

Responsible Individual(s):

Richard Miles, Department of Community Health

Terry Beurer, Department of Human Services

Bernell Wiggins, Department of Human Services

## **FINDING 2013-068**

**Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Provider Log or Invoice Documentation**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-130MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$38,704
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health and Department of Human Services

### **Condition**

DCH and DHS did not obtain or timely obtain sufficient documentation, including provider service logs or invoices and provider and client verification, to ensure that providers had delivered the services paid for through a preauthorized payment process. Our review disclosed:

- a. DCH and DHS did not have provider service logs or invoices to support 151 (30%) of the required 507 monthly payments made to the providers of 149 randomly selected clients from 9 counties for the period October 1, 2012 through February 28, 2013.

The known improper payments associated with the 151 missing provider service logs or invoices totaled \$56,143 (\$37,054 federal and \$19,089 General Fund/general purpose).

- b. DCH and DHS did not ensure that both the client and the provider signed 8 (2.2%) of 356 provider service logs that it received verifying that the services were delivered by providers of 149 randomly selected clients from 9 counties for the period October 1, 2012 through February 28, 2013.

The known improper payments associated with the 8 unsigned provider service logs totaled \$2,500 (\$1,650 federal and \$850 General Fund/general purpose).

### Criteria

The Improper Payments Elimination and Recovery Act of 2012 defines situations that constitute improper payments, one of which is a lack of documentation to support a payment. In this situation, services may have been provided; however, because the documentation is not available to support that assertion, the payment is deemed improper and, therefore, unallowable under federal program guidelines. Also, Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to a federal program be adequately documented to be considered allowable. In addition, federal regulation 45 *CFR* 74.21(b)7 requires that a recipient's financial management system provide for accounting records that are supported by source documentation. Further, CMS requires that amounts claimed for reimbursement be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed.

Also, DCH and DHS's ASM 135 requires providers to prepare and submit a service log or invoice within 10 days of the last service date for each quarterly period and requires the provider and the client to sign the provider service log to verify that the services approved for payment were delivered.

### Cause

ASWs preauthorized monthly payments for up to 13 months for most HHP individual providers and some agency providers. DCH and DHS require providers to prepare and submit a service log or invoice within 10 days of the last service date for each quarterly period. Using this payment process, service providers receive three monthly payments prior to submitting a quarterly provider service log certifying that the services were provided during the preceding three-month period. Consequently, there is limited incentive for the provider to submit the provider service logs or invoices because DCH's payment system generates a monthly payment regardless of whether the providers submit the provider service logs or invoices.

Also, ASWs informed us that large caseloads and the lack of a tracking system impacted their ability to monitor the provider service logs and invoices as required.

### Effect

DCH and DHS could not be sure that the client actually received the approved services and could not support payments made to the provider. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

### Known Questioned Costs

We identified questioned costs of \$38,704. The questioned costs represent the federal share of the payments that were not supported by a provider log or invoice or the provider log was not signed by the client and/or the provider. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

### Recommendation

We recommend that DCH and DHS timely obtain sufficient documentation, including provider service logs or invoices and provider and client verification, to ensure that providers have delivered the services paid for through a preauthorized payment process.

### Management Views and Corrective Action Plan

#### Management Views:

DCH and DHS agree that sufficient provider logs or invoices were not always obtained or timely obtained to support services provided and that the provider service logs were not always appropriately signed by the provider and the client. DCH and DHS rely on the certification of services provided by the client when they endorse the dual party check for services; however, DCH and DHS acknowledge that additional controls are necessary.

#### Planned Corrective Action:

DCH and DHS are undergoing a formal business process review of HHP which has recommended several process improvements, including confirmation of the need for a post service payment system. In addition, DCH and DHS are implementing the following corrective actions:

- DCH and DHS will look at alternative preauthorization periods and assess the impact and feasibility of switching to a shorter period in lieu of the current 13 month preauthorization.

- DHS will reiterate documentation requirements to adult services staff by July 1, 2014.
- DHS adult services staff will complete mandatory training by September 30, 2014.
- DCH and DHS will review short term solutions recommended by the business process review and determine implementation time lines.
- DCH and DHS management at all levels will develop additional monitoring protocols as necessary to ensure compliance with corrective actions.
- DCH and DHS will either begin design requirements for a new case management system or pursue additional enhancements to the existing system.

Anticipated Completion Date:  
January 1, 2015

Responsible Individual(s):  
Richard Miles, Department of Community Health  
Terry Beurer, Department of Human Services  
Bernell Wiggins, Department of Human Services

**FINDING 2013-069**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
<b>Award Identification Number and Year</b>	05-1305MI5ADM	10/01/2012 - 09/30/2013
	05-130MI5MAP	10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132	
<b>Total ARRA Expenditures</b>	\$61,169,398	

<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

Condition

DCH did not ensure that agency providers met the requirements to receive the higher agency pay rate. Individual provider pay rates ranged from \$8.00 to \$11.00 per hour, whereas agency provider pay rates ranged from \$13.50 to \$15.50 per hour. Our review disclosed:

- a. DCH did not have the required supporting documentation for 33 agencies that were on DCH's list of approved agencies. We estimated that DCH paid these agencies \$402,659 at the agency rate from October 1, 2012 through February 28, 2013, an amount that exceeded the individual pay rates by \$155,953.
- b. DCH did not timely follow up on unanswered requests for required information from agencies that DCH provisionally approved to receive the agency pay rate. Also, DCH did not remove the nonresponding agencies from its list of approved agencies and reduce the nonresponding agencies' pay rate to the individual provider pay rate. We estimated that DCH paid these agencies \$2,438,445 at the agency rate from October 1, 2012 through February 28, 2013, an amount that exceeded the individual rates by \$1,014,189.
- c. DCH did not have an automated control in the Adult Services Comprehensive Assessment Program (ASCAP) to prevent ASWs from authorizing payments at the agency pay rate for agencies that were not on DCH's list of approved agencies. We estimated that DCH paid 2 providers \$10,347 at the agency rate from October 1, 2013 through February 28, 2013, an amount that exceeded the provider rate by \$4,638.
- d. DCH did not periodically verify that approved agencies continued to qualify for the agency pay rate. We reviewed 255 of the 284 agencies' listings of employees and subcontractors available at the time of our review and noted that 20 (7.8%), 11 (4.3%), and 14 (5.5%) of the agencies reported having 0, 1, and 2 employees or

subcontractors, respectively. None of 31 agencies with less than 2 employees or subcontractors continued to qualify for the agency pay rate. However, we could not determine how many of the 14 agencies with 2 employees or subcontractors no longer qualified for the agency pay rate because we could not readily identify whether any of the listed employees and subcontractors were agency owners.

### 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 will provide personal care services under HHP. DCH and DHS have jointly developed the ASM to further define specific policies and procedures for delivery of Medicaid HHP services.

ASM 136 requires an agency provider to either be a current Medicaid-enrolled home health agency or provide DCH with the agency's federal employment identification number and evidence that the agency either employed or subcontracted with two individuals, excluding the owner, to receive the agency pay rate. ASM 136 also states that, after an agency is on the approved provider list, an ASW can authorize payment to the agency at the applicable agency pay rate. Prior to appearing on the approved provider list, ASW can only authorize agencies to be paid at the applicable individual provider pay rate. In addition, ASM 136 requires DCH to periodically verify that approved agencies continue to meet the requirements to receive the higher agency pay rate.

### Cause

DCH informed us that the cited conditions were caused by systems limitations, outdated policies, and limited staff resources.

### Effect

We estimated that DCH may have overpaid agencies \$1,174,780 (\$398,172 General Fund/general purpose) from October 1, 2012 through February 28, 2013. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

### Known Questioned Costs

Questioned costs were undeterminable.

### Recommendation

We recommend that DCH ensure that agency providers meet the requirements to receive the higher agency pay rate.

### Management Views and Corrective Action Plan

#### Management Views:

DCH agrees that adequate documentation to support agency rates being paid to only approved agency providers was not always maintained.

#### Planned Corrective Action:

DCH is conducting a complete review of all current provider agencies. Agencies with incomplete applications will be required to submit the necessary documentation within 30 days. Agencies that do not provide the requested documents will be removed from the agency provider listing. If they are currently providing services, they will be referred to DHS for a rate reduction to the individual provider rate. DCH has discontinued the practice of provisional approval. Agencies are not placed on the approved agency listing until all required documents have been received.

DCH will run monthly reports to ensure that payments are not being made to agencies that are not on the approved agency listing. If unapproved providers are identified, they will be referred to DHS for reduction to the individual rate or removal as providers.

#### Anticipated Completion Date:

August 1, 2014

#### Responsible Individual(s):

Richard Miles, Department of Community Health

## **FINDING 2013-070**

**Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Utilization Control and Program Integrity - Referral of Suspected Client and Provider Frauds**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-130MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Utilization Control and Program Integrity
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Community Health and Department of Human Services

### **Condition**

DCH and DHS had not established a process for ASWs to refer suspected HHP provider frauds to DCH's OIG for investigation and potential referral for prosecution. Also, DHS did not ensure that ASWs referred suspected HHP client frauds to the OIG for investigation and potential referral for prosecution. Our review of 154 case files disclosed:

- a. ASWs identified 3 (1.9%) cases of suspected provider fraud totaling \$2,688 but did not refer them anywhere for investigation and potential prosecution.
- b. ASWs identified 3 (1.9%) cases of suspected client fraud but did not refer them to the OIG for investigation and prosecution. One of the 3 clients admitted to illegally obtaining approximately \$4,200 in HHP payments over seven months and another client allegedly provided DHS with a forged medical authorization form. The remaining client was suspected of lying about her condition to obtain services. The client also had multiple allegations of fraud dating back over 10 years, none of which were referred to the OIG for investigation.

### Criteria

Federal regulation 42 *CFR* 455 requires that DCH have a process for referring suspected provider fraud to the Michigan's MFCU (Healthcare Fraud Division, Department of Attorney General) for prosecution. The regulation also requires DCH to refer cases of suspected client fraud for prosecution to an appropriate law enforcement agency. ASM 165 requires ASWs to refer HHP overpayments that appear to be willful on the part of the client (i.e., fraudulent) and that exceed \$500 to the OIG for investigation and subsequent referral to the Healthcare Fraud Division for prosecution, as appropriate.

### Cause

DHS informed us that ASWs did not refer suspected provider frauds for investigation and potential prosecution because the OIG, which investigates suspected provider frauds, was established only a few years ago and DCH and DHS have not yet updated ASM 165 or their process for ASWs' handling of suspected provider fraud to reflect the OIG's establishment. There was no documentation in the case files explaining why the ASWs did not refer cases to the OIG.

### Effect

DCH did not comply with federal fraud control regulations and suspected provider and client frauds may have gone uninvestigated. 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 DCH and DHS establish a process for ASWs to refer suspected HHP provider frauds to DCH's OIG for investigation and potential referral for prosecution.

We also recommend that DHS implement measures to ensure that ASWs refer suspected HHP client frauds to the DHS's OIG for investigation and potential referral for prosecution.

## Management Views and Corrective Action Plan

### Management Views:

DCH and DHS agree with the finding.

### Planned Corrective Action:

In April 2014, DCH, DHS, and the Office of the Attorney General developed a coordinated process that delineated responsibilities across departments. This new process designates the DHS Inspector General as the single point of entry for suspected HHP fraud referrals. This new process includes tracking mechanisms so that referrals can be adequately tracked from start to finish.

DHS is completing an independent review of all the cases cited in the audit. Based on these reviews, appropriate overpayment referrals will be made to DCH for recovery, and referrals will be made to the DHS Office of the Inspector General for suspected fraud if appropriate.

In addition, DCH and DHS are implementing the following corrective actions:

- DHS will reiterate policy requirements and expectations to adult services staff by July 1, 2014.
- Adult services staff will complete mandatory training by September 30, 2014.
- DCH and DHS management will develop additional monitoring protocols as necessary to ensure compliance with corrective actions.

### Anticipated Completion Date:

October 1, 2014

### Responsible Individual(s):

Richard Miles, Department of Community Health  
Terry Beurer, Department of Human Services  
Bernell Wiggins, Department of Human Services

## **FINDING 2013-071**

### **Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Special Tests and Provisions - MI Choice and PACE Program Recoveries**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
<b>Award Identification Number and Year</b>	05-1305MI5ADM 10/01/2012 - 09/30/2013 05-1305MI5MAP 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$8,520,493,132
<b>Total ARRA Expenditures</b>	\$61,169,398
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Special Tests and Provisions - Utilization Control and Program Integrity
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$58,501
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Community Health

#### **Condition**

DCH did not recover overpayments identified by its contracted quality improvement organization for the MI Choice Waiver Program (MI Choice) and the Program of All-Inclusive Care for the Elderly (PACE). Also, DCH did not refund the federal share of identified MI Choice and PACE overpayments within one year of discovery.

#### **Criteria**

Federal regulation 42 *CFR* 456.22 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 MI Choice and PACE provider reviews to identify overpayments from inappropriate claims. Federal regulation 42 *CFR* 433.316 states that DCH has one year from the date of discovery of an overpayment to recover the amount before a refund of the federal share must be made to the federal government.

#### **Cause**

DCH indicated it plans to recover and refund the federal share of MI Choice overpayments through its cost reconciliation process; however, the cost reconciliations are not yet complete. Also, DCH indicated it had not recovered PACE overpayments

because all potential PACE recoveries are under appeal and DCH stated it does not plan to refund the federal share until the appeals are complete.

#### Effect

DCH's contracted quality improvement organization identified overpayments totaling \$88,117 (\$29,616 General Fund/general purpose) for claims with dates of service during fiscal year 2012-13. Untimely recovery or refund of overpayments could result in the federal grantor agency issuing sanctions or disallowances related to noncompliance.

#### Known Questioned Costs

We identified questioned costs totaling \$58,501 related to overpayments identified by DCH's contracted quality improvement organization for claims with dates of service during fiscal year 2012-13. The questioned costs represent the federal share of overpayments to providers.

#### Recommendations

We recommend that DCH recover MI Choice and PACE overpayments identified by its contracted quality improvement organization.

We also recommend that DCH refund the federal share of identified MI Choice and PACE overpayments within one year of discovery.

#### Management Views and Corrective Action Plan

##### Management Views:

DCH agrees with the finding.

##### Planned Corrective Action:

DCH will review existing overpayment recoupment practices to ensure compliance with 42 *CFR* 433.312 through 42 *CFR* 433.320.

##### Anticipated Completion Date:

September 2014

##### Responsible Individual(s):

Elizabeth Gallagher, Department of Community Health  
Susan Yontz, Department of Community Health

## **FINDING 2013-072**

### **Child Support Enforcement, CFDA 93.563, Allowable Costs/Cost Principles; Procurement and Suspension, and Debarment; and Subrecipient Monitoring - E-GrAMS Security Management and Access Controls**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Child Support Enforcement: CFDA 93.563
<b>Award Identification Number and Year</b>	1304MI4005 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$155,613,113
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles; Procurement and Suspension and Debarment; and Subrecipient Monitoring
<b>Type of Finding</b>	Material Weakness
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	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 the Electronic Grants Administration and Management System (E-GrAMS). E-GrAMS is used by DHS to administer the Child Support Enforcement Program. We noted:

- a. DHS and DTMB did not require security agreements for any State employees or grant recipients who used E-GrAMS. Also, DHS did not maintain documentation to show that user access was authorized by DHS before system administrators from DHS, DTMB, or the vendor granted user access. Signed security agreements ensure that employees and users agree to the conditions of access and have been properly approved for access.
- b. DHS and DTMB could not prevent privileged users from making changes to E-GrAMS data while using the impersonation function. The impersonation function allows a user to log in as another user and have the same access rights and capabilities as the user he/she is impersonating. This capability can be used when assisting another user with questions because he/she will be able to see the same screens as the person he/she is impersonating. Changes made while

impersonating another user are shown as having been made by the user being impersonated. In addition, DHS and DTMB did not restrict access or monitor vendor employees who had privileged access to E-GrAMS.

#### 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. According to the U.S. Government Accountability Office's (GAO's) Federal Information System Controls Audit Manual (FISCAM), before a user obtains a user account and password for the application, the user's level should be authorized by a manager and the application administrator. In addition, special access privileges, such as impersonation, should be approved by security management and routinely reviewed.

#### Cause

DHS and DTMB had not established formal documented policies and procedures for assigning and authorizing access to the E-GrAMS application. Also, DHS and DTMB had not developed reports or other tools to monitor use of the impersonation function.

#### Effect

Without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to E-GrAMS. As a result, an increased risk exists that DHS and DTMB cannot ensure the confidentiality, integrity, and security of the E-GrAMS application and data used to process and approve grant applications for the Child Support Enforcement Program.

#### Known Questioned Costs

We did not identify questioned costs related to this finding.

#### Recommendation

We recommend that DHS and DTMB establish effective security management and access controls over E-GrAMS.

## Management Views and Corrective Action Plan

### Management Views:

DHS and DTMB partially agree with the finding.

- a. DHS and DTMB agree that security agreements were not required and that they did not maintain documentation to show authorization for user access. However, due to the functionality of the E-GrAMS application, there are processes that minimize the risk of unauthorized access.
- b. DHS and DTMB agree with part b. The impersonation function was used for trouble shooting user application issues. Privileged users with the impersonation function would not benefit from changes to data in E-GrAMS because they were not authorized to receive payments or other benefits. The ability for DHS, DTMB, or the system vendor to use the impersonation function has been revoked. The contractor/grantee ability to use the impersonation function has been left intact, but a report was created to facilitate monitoring of the user impersonation function. This will provide assurance that bills are not submitted when the user impersonation function is used. By October 1, 2014, the system vendor will implement user impersonation logging that will record any actions performed. This will enhance the monitoring function to include all actions, not just the submittal.

### Planned Corrective Action:

DHS and DTMB will analyze this issue further to ensure that appropriate controls are in place.

### Anticipated Completion Date:

October 1, 2014

### Responsible Individual(s):

Jim Hogan, Department of Technology, Management, and Budget  
Nate Buckwalter, Department of Technology, Management, and Budget  
Sherilyn Hart, Department of Technology, Management, and Budget  
Teresa Spalding, Department of Human Services  
Kathryn Tober, Department of Human Services

Erin Frisch, Department of Human Services  
 Duane Noworyta, Department of Human Services

**FINDING 2013-073**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
<b>Award Identification Number and Year</b>	G12AAMI5100 10/01/2011 - 09/30/2012 G1301MIRCMA 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$15,556
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

**Condition**

DHS inappropriately charged Refugee and Entrant Assistance - State Administered Programs (REAP) for \$15,556 of medical services incurred by a refugee who was not eligible for refugee medical assistance because the refugee was eligible for Medicaid.

**Criteria**

Federal regulation 45 *CFR* 400.100 limits refugee medical assistance to refugees who are ineligible for Medicaid.

Also, Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal programs be necessary and reasonable for the administration of the federal award and be in accordance with the relative benefits received by the program.

### Cause

After DHS determined that the refugee was eligible for refugee medical assistance, DHS learned that the refugee was retroactively eligible for Medicaid at the time of application. DHS did not prepare accounting adjustments and appropriately charge Medicaid for the medical services already incurred by the refugee that DHS charged to REAP.

### Effect

DHS paid for services on behalf of a refugee who was not eligible for REAP refugee medical assistance. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

### Known Questioned Costs

We identified questioned costs of \$15,556, which represent the total refugee medical assistance paid on behalf of the refugee for medical services incurred and charged to REAP.

### Recommendation

We recommend that DHS appropriately use REAP funds for medical services incurred on behalf of eligible refugees.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

DHS will evaluate possibilities for a cost-effective process to make adjustments when it learns a client receiving refugee medical assistance is retroactively eligible for Medicaid at the time of application.

#### Anticipated Completion Date:

October 1, 2014

#### Responsible Individual(s):

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

County Office Directors, Department of Human Services  
 Business Service Center Directors, Department of Human Services

**FINDING 2013-074**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
<b>Award Identification Number and Year</b>	G12AAMI5100 10/01/2011 - 09/30/2012 G1301MIRCMA 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$6,028
<b>Repeat Finding</b>	2012-054, parts a. and b.
<b>State Agency</b>	Department of Human Services

**Condition**

DHS did not maintain documentation to support client eligibility and/or did not limit REAP eligibility to a period of less than 8 months as required by HHS's Office of Refugee Resettlement (ORR).

Our review disclosed:

- a. For 23 (38%) of 60 REAP case records, DHS did not maintain documentation to support that clients receiving refugee medical assistance and/or refugee cash assistance met the following eligibility requirements:
  - Were not enrolled in an institution of higher learning.
  - Were not receiving or not eligible to receive other federally funded financial assistance.
  - Were in compliance with work registry requirements.

- b. For 4 (6%) of 68 REAP case records, DHS paid for services during fiscal year 2012-13 that were incurred approximately 2 to 21 months after the client's 8-month eligibility period ended.

### 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 are 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, and be in accordance with the relative benefits received by the program.

### Cause

DHS informed us that its internal control was insufficient to detect that it did not maintain the required verification documentation in clients' case records. DHS also informed us that county 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 the Bridges Integrated Automated Eligibility Determination System (Bridges) sent the automatic notification.

### 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 \$6,028, which represent sampled payments selected from our case record review and total payments made for services incurred by refugees beyond the 8-month eligibility period.

### Recommendation

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

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

DHS has assigned eligibility workers in each DHS county office to process and maintain the refugee caseload. A Web-based training was developed to specifically address refugee policy and federal program regulations. The assigned workers and their supervisors have completed the training. Bridges will terminate refugee cash and medical assistance after eight months based on a refugee's country entry date input into the system by the worker. A review of the prior audit finding found most errors occurred because the worker entered a future date into Bridges. A Bridges edit was implemented that will not allow the worker to enter a future date to mitigate the risk.

#### Anticipated Completion Date:

Completed

#### Responsible Individual(s):

Terry Beurer, Department of Human Services

Al Horn, Department of Human Services

## **FINDING 2013-075**

### **Refugee and Entrant Assistance - State Administered Programs, CFDA 93.566, Eligibility - Accuracy of Medical Assistance Eligibility Calculations**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
<b>Award Identification Number and Year</b>	G12AAMI5100 10/01/2011 - 09/30/2012 G1301MIRCMA 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Eligibility
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-056
<b>State Agency</b>	Department of Human Services

#### **Condition**

DHS did not ensure the accuracy of REAP medical assistance eligibility calculations.

Our review disclosed that Bridges did not exclude exempt income amounts in refugee medical assistance eligibility calculations for 6 (10%) of 60 sampled case records.

#### **Criteria**

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.

In addition, DHS policy requires that income from refugee matching grants be excluded from income for refugee medical assistance.

#### **Cause**

DHS improperly designed its eligibility determination system (Bridges) to include exempt income in the client's refugee medical assistance eligibility calculations. DHS informed us that in January 2014 it implemented a Bridges work request to include the refugee matching grant income as an income type and to exclude that income type from the client's Bridges REAP medical assistance eligibility calculation.

### Effect

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

### Known Questioned Costs

We did not identify questioned costs of REAP benefits for the 6 clients because the inclusion of the exempt income did not make the clients ineligible for REAP.

### Recommendation

We recommend that DHS ensure the accuracy of REAP medical assistance eligibility calculations.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

A change was made to Bridges to include Refugee Matching Grant income as an income type and to exclude this income type from the client's Bridges' REAP budget.

#### Anticipated Completion Date:

Completed

#### Responsible Individual(s):

Terry Beurer, Department of Human Services

Al Horn, Department of Human Services

County Office Directors, Department of Human Services

Business Service Center Directors, Department of Human Services

## **FINDING 2013-076**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
<b>Award Identification Number and Year</b>	G12AAMI5100 10/01/2011 - 09/30/2012 G1301MIRCMA 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$21,556,556
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Period of Availability
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$20,013
<b>Repeat Finding</b>	2012-057
<b>State Agency</b>	Department of Human Services

#### **Condition**

DHS did not have a process to identify and obligate refugee medical assistance expenditures in the appropriate REAP Cash, Medical, and Administrative (CMA) grant award year.

Our review disclosed that DHS paid medical providers using the fiscal year 2012-13 REAP CMA grant funds for services that were provided in fiscal years 2008-09 through 2010-11 funding periods. In these instances, 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 that 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

We identified questioned costs of \$20,013, which represent the total fiscal year 2012-13 expenditures related to the payments made to the providers 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 implement procedures to ensure that refugee medical assistance expenditures are obligated and charged to the appropriate year.

#### Anticipated Completion Date:

October 1, 2014

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 2013-077**

**Low-Income Home Energy Assistance, CFDA 93.568, Allowable Costs/Cost Principles - Lack of State Plan Amendment for Change in Home Heating Credit Reduction Factor**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance, CFDA 93.568
<b>Award Identification Number and Year</b>	G 11 B1 MI LIEA 10/01/2012 - 09/30/2013 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013 G 12 B2 MI LIE2 10/01/2011 - 09/30/2013 G 13 B1 MI LIEA 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

Condition

DHS's internal control did not ensure that it amended the fiscal year 2012-13 Low-Income Home Energy Assistance Program (LIHEAP) State Plan to reflect a change in the reduction factor used to calculate home heating credit (HHC) assistance.

The Department of Treasury, via an agreement with DHS, is responsible for determining HHC eligibility and processing HHC assistance. DHS annually provides a certification to the Department of Treasury indicating the amount of LIHEAP funds available for HHC assistance and the reduction factor that the Department of Treasury is to apply to each HHC. The fiscal year 2012-13 certification for the 2012 tax year HHC benefits required the Department of Treasury to apply a reduction factor of 48% to each HHC to ensure that HHC assistance did not exceed available LIHEAP funds. However, DHS's LIHEAP

State Plan indicated that a reduction factor of 52%, not 48%, would be applied to each HHC.

#### Criteria

Federal law 42 *USC* 8624(d) requires that the State expend funds in accordance with the LIHEAP State Plan. Federal law 42 *USC* 8624(c)(1) requires DHS's LIHEAP State Plan to describe the eligibility requirements, benefit levels, and an estimate of the amount of assistance to be provided for each type of assistance included in the State Plan. Federal law 42 *USC* 8624(c)(1) allows DHS to submit a revised LIHEAP State Plan to the federal government.

#### Cause

DHS informed us that the Department of Treasury notified the LIHEAP financial specialist of the change in the HHC reduction factor; however, the policy specialist who prepares and amends the LIHEAP State Plan was not notified. Upon our notification of the discrepancy, DHS submitted an amended LIHEAP State Plan in December 2013.

#### Effect

DHS's failure to amend the LIHEAP State Plan for changes in the HHC reduction factor increases the risk that DHS may not spend LIHEAP funds in accordance with its estimate of the amount of HHC assistance included in the State Plan.

#### Known Questioned Costs

We did not identify questioned costs related to this finding because DHS's total HHC assistance spent for fiscal year 2012-13 was consistent with the percentage of the grant award that DHS planned to spend on HHC assistance as outlined in the LIHEAP State Plan.

#### Recommendation

We recommend that DHS improve its internal control to ensure that it amends the LIHEAP State Plan for changes in the reduction factor used to calculate HHC assistance.

#### Management Views and Corrective Action Plan

##### Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS and the Department of Treasury will add a provision in the interagency agreement to require that the Department of Treasury inform DHS of any reduction factor changes. DHS will use this information to amend the State Plan.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services

Sheryl Thompson, Department of Human Services

**FINDING 2013-078**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance: CFDA 93.568
<b>Award Identification Number and Year</b>	G 11 B1 MI LIEA 10/01/2012 - 09/30/2013 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013 G 12 B2 MI LIE2 10/01/2011 - 09/30/2013 G 13 B1 MI LIEA 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	2012-059
<b>State Agency</b>	Department of Human Services

Condition

DHS had not implemented a process to periodically reconcile the Department of Treasury electronic 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 7 (29%) of 24 sampled HHC processing runs.

#### 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 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 2012-13.

#### 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:

DHS has evaluated the underlying cause for the differences between the HHC claim detail information and the paper summary reports. DHS believes that a reconciliation process can be accomplished and has assigned staff to reconcile the reports.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Terry Beurer, Department of Human Services

Sheryl Thompson, Department of Human Services

**FINDING 2013-079**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance: CFDA 93.568
<b>Award Identification Number and Year</b>	G 11 B1 MI LIEA 10/01/2012 - 09/30/2013 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013 G 12 B2 MI LIE2 10/01/2011 - 09/30/2013 G 13 B1 MI LIEA 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$1,262
<b>Repeat Finding</b>	2012-058, part d.
<b>State Agency</b>	Department of Human Services

Condition

DHS did not document that it verified and considered all client assets when determining eligibility for 6 (50%) of 12 State Emergency Relief (SER) energy payments.

We randomly selected 33 SER energy payments, of which 12 were for clients who had disclosed assets on the SER energy services applications used to determine the clients' eligibility.

### 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 restrictions and prohibitions of LIHEAP laws and federal regulations.

The LIHEAP State Plan and DHS policy required county 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 \$1,262, which represent the amount of the SER energy payments for the 6 sampled cases for which DHS did not maintain case record documentation to support client eligibility.

### Recommendation

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

## Management Views and Corrective Action Plan

### Management Views:

DHS agrees with the finding.

### Planned Corrective Action:

DHS issued a Field Operations Administration (FOA) memorandum emphasizing that staff must verify and count all nonexcluded assets of SER group members for all SER services with each application. Assets must be verified and counted for categorically eligible applicants as well as noncategorically eligible applicants. A link to the FOA memorandum was included in the weekly DHS newsletter and was sent to all assistance payments (AP) specialists to review within their DHS county offices.

### Anticipated Completion Date:

Completed

### Responsible Individual(s):

Terry Beurer, Department of Human Services  
County Office Directors, Department of Human Services

## **FINDING 2013-080**

### Low-Income Home Energy Assistance, CFDA 93.568, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Propriety of LIHEAP-Funded Payments

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance: CFDA 93.568
<b>Award Identification Number and Year</b>	G 11 B1 MI LIEA 10/01/2012 - 09/30/2013 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013 G 12 B2 MI LIE2 10/01/2011 - 09/30/2013 G 13 B1 MI LIEA 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$0

<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

Condition

DHS did not ensure the propriety of LIHEAP-funded SER energy payments.

We reviewed 33 randomly selected SER energy payments, of which 27 payments were for clients who were categorically eligible and 6 payments were for clients who were not categorically eligible and noted:

- a. DHS improperly applied prior SER energy payments toward the client's required payments for 1 (17%) of the 6 SER energy payments made on behalf of clients who were not categorically eligible.
- b. DHS could not document that a payment authorization form was completed to authorize the SER payment made for 1 (3%) of the 33 SER energy payments reviewed.
- c. DHS paid the current amount of the client's energy bill and not the shut-off amount for 1 (3%) of 33 SER energy payments reviewed.

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 restrictions and prohibitions of LIHEAP laws and federal regulations.

DHS policy stated that previously issued SER energy payments cannot be used in determining if clients made required monthly payments toward their energy costs. In addition, DHS policy requires that the county office caseworkers sign the SER payment authorization form to authorize the fiscal unit to make the SER energy payment. Further, the LIHEAP State Plan and DHS policy require that the amount of the SER energy payment is the minimum amount necessary to prevent shutoff or restore service

and current bills that are not subject to shutoff should not be included in the amount needed.

#### Cause

DHS's internal control and monitoring activities were insufficient to detect that county office caseworkers did not follow established policies and procedures.

#### 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 identified questioned costs of \$229 for these SER energy payments, which is questioned in Finding 2013-079 and as a result is not reported in this finding.

#### Recommendation

We recommend that DHS ensure the propriety of LIHEAP-funded SER energy payments.

#### Management Views and Corrective Action Plan

##### Management Views:

DHS agrees with the finding.

##### Planned Corrective Action:

DHS is developing a continuous quality improvement case review process for the SER program to monitor compliance with client eligibility and case file documentation requirements to ensure the propriety of LIHEAP-funded SER energy payments.

DHS will continue its efforts to educate staff regarding policy eligibility factors and documentation requirements. DHS Field Operations Administration will issue a

communication to provide staff with guidance on the program eligibility requirements, the sources of information needed to determine eligibility, and the requirements to obtain and retain documentation in the case record to support eligibility determinations. County offices will review the communication with staff.

Anticipated Completion Date:  
October 1, 2014

Responsible Individual(s):  
Terry Beurer, Department of Human Services  
Sheryl Thompson, Department of Human Services  
Julie Horn Alexander, Department of Human Services

**FINDING 2013-081**

**Low-Income Home Energy Assistance, CFDA 93.568, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Energy Direct Program Compliance**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Low-Income Home Energy Assistance: CFDA 93.568
<b>Award Identification Number and Year</b>	G 11 B1 MI LIEA 10/01/2012 - 09/30/2013 G 12 B1 MI LIEA 10/01/2011 - 09/30/2013 G 12 B2 MI LIEA2 10/01/2011 - 09/30/2013 G 13 B1 MI LIEA 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$172,378,562
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$1,780,229
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

**Background**

In accordance with the LIHEAP State Plan, DHS contracted with an energy provider to administer the Energy Direct Program during fiscal year 2012-13. In an effort to help low-income clients achieve self-sufficiency, the Energy Direct Program required clients to contribute a standard monthly amount toward their energy costs. In return, DHS would pay the energy provider the difference between the client's standard monthly

amount and the actual energy usage (shortfall) using LIHEAP crisis intervention assistance. The contract specified that the energy provider was a vendor. The contract required the energy provider to enroll clients in the program by October 31, 2012 and to determine a client's eligibility for the Energy Direct Program based on the client's payment history, income limits, and availability of resources. A client was eligible if the client was an active recipient of the Family Independence Program (FIP), the Food Assistance Program (FAP), or Supplemental Security Income (SSI); had energy consumption less than \$2,500 in the last 12 months; and had an energy shut-off notice in the last 12 months. The contract also required the energy provider to determine a client's required monthly payment toward energy costs based on the client's income level.

#### Condition

DHS did not monitor an energy provider's performance of its contractual obligations to ensure that LIHEAP Energy Direct Program payments were made on behalf of LIHEAP eligible clients. In addition, DHS did not require the energy provider to adhere to its contractual obligations.

Our review disclosed:

- a. DHS did not monitor the amounts billed by the energy provider to ensure that Energy Direct payments were only for eligible clients. DHS received some files from the energy provider during fiscal year 2012-13 that included detailed information for DHS to verify that it made Energy Direct payments on behalf of clients who met some of the eligibility criteria. However, DHS did not reconcile these files to the Bridges Integrated Automated Eligibility Determination System (Bridges) to determine that the clients were eligible. We reconciled the detailed information files to Bridges and noted that DHS paid \$82,055 for clients who were not active in FIP, FAP, or SSI.
- b. DHS did not monitor the energy provider's billings to ensure that the payment made for each client was only the client's shortfall in energy costs.
- c. DHS did not ensure that the energy provider refunded DHS \$1,698,174 in SER energy payments that DHS identified it made during fiscal year 2012-13 for clients enrolled in the Energy Direct Program.

- d. DHS did not ensure that the energy provider submitted client payment information files required by the contract. The contract specified that the energy provider was to provide a file that included the client's name, social security number, date of birth, DHS case number, energy service address, energy account number, and payment information. DHS could document that it received some files from the energy provider; however, none of the files contained all of the specified information in the contract. The client payment information files were necessary for DHS to monitor that the payment made for each client was for an eligible client, that the payment was only for the client's shortfall in energy costs, and that the client did not become disenrolled in the program.

### Criteria

OMB Circular A-133, Section 210(f) requires DHS to ensure compliance for a vendor's transactions when the vendor is responsible for program compliance, or the vendor's records must be reviewed to determine program compliance. The energy provider was responsible for the determination of a client's eligibility per the contract.

In addition, the contract specified that the energy provider must refund to DHS any SER energy payments made for clients enrolled in the Energy Direct Program. OMB Circular A-133, Section 300 requires DHS to comply with the provisions of contracts related to its federal programs.

Further, 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 restrictions and prohibitions of LIHEAP laws and federal regulations.

### Cause

DHS informed us that it relied on the energy provider to identify eligible clients and to identify the amount each client was eligible to receive. Also, DHS had not established a process to notify the county office caseworker if clients applying for SER were enrolled in the Energy Direct Program. In addition, DHS did not specify in the contract the frequency that the detailed information files were to be submitted or what client payment information should be submitted to DHS.

### Effect

DHS potentially made Energy Direct payments on behalf of clients who were not eligible and did not qualify for LIHEAP reimbursement according to the contract provisions. In addition, DHS could have potentially made payments for both a client's shortfall and shutoff. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

### Known Questioned Costs

We identified questioned costs of \$1,780,229, which represent the Energy Direct payments DHS made on behalf of clients who were not active in FIP, FAP, or SSI and the amount of SER payments DHS identified that the energy provider did not refund as required.

### Recommendations

We recommend that DHS monitor the energy provider's performance of its contractual obligations to ensure that LIHEAP Energy Direct Program payments are made on behalf of LIHEAP eligible clients.

We also recommend that DHS require the energy provider to adhere to its contractual obligations.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

Future contracts with this provider for energy assistance services will include more specific provisions for reporting expectations, client eligibility, and assistance payments. DHS will monitor contract compliance by reviewing the amounts billed and ensuring that required data files are submitted with all required data elements identified in the contract. DHS is seeking to have the provider return the SER funds for clients enrolled in the Energy Direct Program.

#### Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Terry Beurer, Department of Human Services

Sheryl Thompson, Department of Human Services

## **FINDING 2013-082**

**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 - Foster Parent Household Out-of-State Background Checks**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
<b>Award Identification Number and Year</b>	12 01 MI 1401 10/01/2011 - 09/30/2012 13 01 MI 1401 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$136,227,267
<b>Total ARRA Expenditures</b>	\$(51,235)
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$207
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

### **Condition**

DHS did not always perform out-of-state child abuse and neglect registry checks on prospective foster parents and other adults living in a prospective foster parent's home prior to issuing foster care licenses to the foster parents for 2 sampled maintenance payments.

We reviewed 41 foster care maintenance payments, of which 2 related to foster parents whose application disclosed that their members of the household lived outside of Michigan within the five years preceding their date of application. Our review disclosed that DHS's Bureau of Child and Adult Licensing (BCAL) issued these 2 foster parents licenses without checking the backgrounds of all the adults in the household against the respective out-of-state child abuse and neglect registries as required.

### Criteria

Federal law 42 *USC* 671(a)(20)(B)(i) requires that the State shall check any child abuse and neglect registry maintained by the State for information on any prospective foster parent and on any other adult living in the home of such a prospective parent and check with any other state in which any such prospective parent or other adult has resided in the preceding five years before the prospective foster parent may be finally approved for placement of a child. Also, DHS policy requires that a check for substantiated child abuse or neglect be conducted in every state where the applicant or any adult household member has lived in the five years preceding application.

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.

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

### Cause

DHS informed us that its internal control was insufficient to detect whether BCAL performed the required out-of-state child abuse and neglect registry checks.

### Effect

DHS made maintenance payments 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 \$207 that were federally funded for the Foster Care - Title IV-E program. During our fieldwork, DHS requested the out-of-state checks and received results for 1 of the foster parent households to support the foster parent's eligibility. We questioned the costs of the sampled maintenance payment for the other foster parent household. We also identified \$105 of State-funded costs that DHS inappropriately used as matching expenditures for Foster Care - Title IV-E funds.

### Recommendation

We recommend that DHS perform the required out-of-state child abuse and neglect registry checks on prospective foster parents and other adults living in a prospective foster parent's home prior to issuing foster care licenses to the foster parents.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

DHS has instituted process improvements by improving the Licensing Record Clearance Request for Foster Home/Adoptive Home form (BCAL 1326) to clarify the number of years a person has lived in the State of Michigan and to provide more room for the applicant to enter the data. A new cover memorandum was created that is returned to the child placing agency to identify deficiencies that must be corrected on the BCAL 1326 before BCAL will issue a foster care license. In addition, a comment is entered into the Bureau Information Tracking System (BITS) when the word processor notes that the BCAL 1326 indicates a person has lived in Michigan less than five years. The comment alerts the consultant who reviews the file for opening to ensure this is not missed. Additionally, information on out-of-state central registry clearances that have been received are entered into BITS on the "people screen" so BITS has a record of the clearances completed, the state where they were completed, and the date completed.

DHS subsequently obtained the out-of-state child abuse and neglect registry checks for the two cases cited in the finding.

#### Anticipated Completion Date:

Completed

#### Responsible Individual(s):

Steve Yager, Department of Human Services  
Janice Tribble, Department of Human Services

### **FINDING 2013-083**

**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 Foster Child U.S. Citizenship Documentation**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
<b>Award Identification Number and Year</b>	12 01 MI 1401 10/01/2011 - 09/30/2012 13 01 MI 1401 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$136,227,267
<b>Total ARRA Expenditures</b>	\$(51,235)
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$160
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

#### Condition

DHS did not maintain documentation that verified the foster child's U.S. citizenship for 2 (5%) of 41 sampled foster care maintenance payments.

#### Criteria

Federal law 42 USC 671(a)(27) requires the state to have procedures for verifying the citizenship or immigration status of a foster child. Also, DHS policy requires that the county office caseworker verify the foster child's U.S. citizenship and maintain the verification 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.

Further, federal regulation 45 CFR 92.24 requires that costs used for matching be allowable costs to the federal award.

### Cause

DHS informed us that internal control and monitoring activities were insufficient to detect that required verification documentation of the foster children's U.S. citizenship was not maintained in their case records.

### Effect

DHS may have made maintenance payments on behalf of foster children who did not qualify for Foster Care - Title IV-E federal reimbursement. 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 \$160 that were federally funded. During our fieldwork, DHS obtained verification for one of the foster children's U.S. citizenship to support the foster child's eligibility. We questioned the costs of the sampled maintenance payment for the other foster child. We also identified \$81 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 that verifies foster children's U.S. citizenship.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding. During the life of a foster care case, it is common for a youth or a foster parent to have a need for the birth certificate and for a foster care worker to give them the one in the foster care file. The DHS caseworker can at any time request a new copy from vital records. Therefore, at times, the birth certificate may be missing from a file even though it was verified for funding determinations. DHS has obtained the copy of one birth certificate and is in the process of obtaining the second birth certificate.

**Planned Corrective Action:**

The DHS county offices where deficiencies were identified have already provided refresher training to all foster care supervisors regarding documentation requirements. A communication to all DHS offices will be issued reiterating to staff the importance of proper documentation. In addition, workers will be encouraged to make a photocopy of the birth certificate to be placed in the file until another birth certificate is obtained.

DHS will also evaluate whether a copy can be uploaded into the Michigan Statewide Automated Child Welfare Information System (MiSACWIS) at the time of the funding eligibility determination to ensure that proof of verification was received and to ensure that a copy is always available.

**Anticipated Completion Date:**

July 1, 2014

**Responsible Individual(s):**

Steve Yager, Department of Human Services  
Jenifer Pettibone, Department of Human Services  
County Office Child Welfare Directors, Department of Human Services

**FINDING 2013-084**

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 - Payment on Behalf of Ineligible Child

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
<b>Award Identification Number and Year</b>	12 01 MI 1401 10/01/2011 - 09/30/2012 13 01 MI 1401 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$136,227,267
<b>Total ARRA Expenditures</b>	\$(51,235)
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$182

<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

Condition

DHS did not limit Foster Care - Title IV-E funded child care assistance eligibility to only children in foster care for 1 of 2 sampled maintenance payments.

We reviewed 41 foster care maintenance payments, of which 2 related to child care assistance. Our review of DHS's client case record for the 1 exception found that the foster parent adopted the foster child; however, the foster parent continued to receive Foster Care - Title IV-E funded child care assistance.

Criteria

Federal regulation 45 *CFR* 1355.20(a) states that foster care maintenance payments are payments made on behalf of a child eligible for Title IV-E foster care. Also, federal regulation 45 *CFR* 1355.20(a) allows foster care maintenance payments to be made for daily supervision in licensed child care only when the work or foster parent required obligations preclude foster parents from being at home when the child for whom they have care and responsibility in foster care is not in school.

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

Cause

DHS informed us that it did not ensure that the child care assistance eligibility reason was correctly reflected in the Bridges Integrated Automated Eligibility Determination System (Bridges). Therefore, the child care assistance continued to be funded by Foster Care - Title IV-E.

Effect

DHS made maintenance payments 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 \$182 that were federally funded. We also identified \$92 of State-funded costs that DHS inappropriately used as matching expenditures for Foster Care - Title IV-E funds.

### Recommendations

We recommend that DHS limit Foster Care - Title IV-E funded child care assistance eligibility to only foster children.

We also recommend that DHS appropriately update child care assistance need reasons in Bridges when a foster child is adopted and is no longer eligible for Foster Care - Title IV-E funded child care assistance.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

DHS will continue its efforts to educate staff regarding policy eligibility factors and documentation requirements. DHS Field Operations Administration will issue a communication to provide staff with guidance on the program eligibility requirements, the sources of information needed to determine eligibility, and the requirements to obtain and retain documentation in the case record to support eligibility determinations. County offices will review the communication with staff.

#### Anticipated Completion Date:

July 1, 2014

#### Responsible Individual(s):

Terry Beurer, Department of Human Services  
Business Service Center Directors, Department of Human Services  
County Office Directors, Department of Human Services

## **FINDING 2013-085**

### **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 - Lack of Documentation for Initial Clothing Maintenance Payments**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
<b>Award Identification Number and Year</b>	12 01 MI 1401 10/01/2011 - 09/30/2012 13 01 MI 1401 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$136,227,267
<b>Total ARRA Expenditures</b>	\$(51,235)
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$139
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

#### **Condition**

DHS did not maintain documentation to support the foster child's need for initial clothing items for 1 of 2 sampled foster care non-scheduled payments.

We reviewed 41 sampled foster care maintenance payments, of which 2 related to non-scheduled payments. Our review of DHS's client case record for the 1 exception found that DHS did not maintain the initial clothing inventory checklist to ensure that the services were consistent with the foster child's need for the initial clothing items.

#### **Criteria**

Federal regulations 45 *CFR* 1356.60(a) and 45 *CFR* 1355.20(a) allow states to claim federal financial participation for allowable expenditures in the approved Title IV-E State Plan, including foster care maintenance payment expenditures related to initial clothing items. Also, Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal programs be adequately documented.

In addition, DHS policy requires that the clothing inventory checklist be completed and filed in the youth's case record to document the need for the clothing items.

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

#### Cause

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

#### Effect

DHS may have made maintenance payments 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 \$139 that were federally funded. We also identified \$71 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 to support foster children's need for initial clothing items.

#### Management Views and Corrective Action Plan

##### Management Views:

DHS agrees with the finding.

##### Planned Corrective Action:

The DHS county offices involved have provided refresher training to all foster care supervisors regarding documentation requirements. A communication to all DHS county offices will be issued by June 30, 2014 reiterating to staff the importance of proper documentation.

Anticipated Completion Date:  
June 30, 2014

Responsible Individual(s):

Steve Yager, Department of Human Services  
Bernell Wiggins, Department of Human Services  
Jenifer Pettibone, Department of Human Services  
County Office Child Welfare Directors, Department of Human Services

**FINDING 2013-086**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
<b>Award Identification Number and Year</b>	12 01 MI 1401 10/01/2011 - 09/30/2012 13 01 MI 1401 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$136,227,267
<b>Total ARRA Expenditures</b>	\$(51,235)
<b>Compliance Requirement(s)</b>	Matching, Level of Effort, and Earmarking and Procurement and Suspension and Debarment
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$9,500
<b>Repeat Finding</b>	Not Applicable
<b>State Agencies</b>	Department of Human Services and Department of Technology, Management, and Budget

**Condition**

DTMB did not comply with its Administrative Guide procedure 0610.02 and obtain signatures of all applicable authorized representatives when executing two contract change notices (CCNs) for one information technology contract totaling \$500,000.

DTMB has purchasing authority for procurements over \$25,000 for DHS. DTMB had the authority to procure for goods and services for 11 (28%) of the 40 procurements reviewed.

### Criteria

Federal regulation 2 *CFR* 215.40 requires that the state use the same state policies and procedures used for procurements from nonfederal funds when procuring supplies, equipment, real property, and other services with federal funds. DTMB Administrative Guide procedure 0610.02 requires that CCNs be authorized by both DTMB and the contractor.

### Cause

DTMB informed us that it failed to follow its procedures when executing these two CCNs.

### Effect

DHS paid for services that were not authorized in accordance with State 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 the total questioned costs would exceed \$10,000. We identified \$9,500 in questioned costs that were federally funded, which represent the value of the sampled contract payments. Federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs to the federal award. We also identified \$9,500 in State-funded costs used as matching expenditures for Foster Care - Title IV-E funds.

### Recommendation

We recommend that DTMB comply with its Administrative Guide procedure 0610.02 when executing CCNs.

### Management Views and Corrective Action Plan

#### Management Views:

DTMB agrees with the finding.

#### Planned Corrective Action:

DTMB issued a communication to employees that provided guidance on the importance of following Administrative Guide procedures.

Anticipated Completion Date:  
Completed

Responsible Individual(s):

Jeff Brownlee, Department of Technology, Management, and Budget  
Stephen Davis, Department of Technology, Management, and Budget

### **FINDING 2013-087**

**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**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Adoption Assistance: CFDA 93.659 and 93.659 (ARRA)
<b>Award Identification Number and Year</b>	1301MI1407 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$120,169,710
<b>Total ARRA Expenditures</b>	\$67
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed and Eligibility
<b>Type of Finding</b>	Material Noncompliance
<b>Known Questioned Costs</b>	Undeterminable
<b>Repeat Finding</b>	2012-064
<b>State Agency</b>	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 Aid to Families with Dependent Children (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, 2012 through September 30, 2013, DHS's adoption subsidy payments totaled \$109.5 million. DHS made an estimated 73% 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 module in 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 89% 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, 2012 through September 30, 2013, DHS made adoption subsidy payments on behalf of approximately 14,003 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, 2012 through September 30, 2013) 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.

DHS worked with the U.S. Department of Health and Human Services (HHS) to develop a sampling plan to review Title IV-E case eligibility for adoptions prior to July 2009 in response to the prior audit finding. The review was conducted by the Children's Services Administration Federal Compliance Office. The review results were submitted to HHS's Administration for Children and Families (ACF) on February 6, 2014. DHS provided additional information per request from ACF on March 19, 2014. DHS is awaiting HHS approval to accept the review as complete resolution to the prior audit finding.

##### Anticipated Completion Date:

Complete

Responsible Individual(s):

Steve Yager, Department of Human Services

Christine Rehagan, Department of Human Services

Dawn Ritter, Department of Human Services

### **FINDING 2013-088**

**Adoption Assistance, CFDA 93.659 and 93.659 (ARRA), Cash Management - Cash Draws Prior to Date of Disbursement**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Adoption Assistance: CFDA 93.659 and 93.659 (ARRA)
<b>Award Identification Number and Year</b>	1301MI1407 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$120,169,710
<b>Total ARRA Expenditures</b>	\$67
<b>Compliance Requirement(s)</b>	Cash Management
<b>Type of Finding</b>	Significant Deficiency
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

#### Condition

DHS made Adoption Assistance cash draws up to 178 days before the date of the adoption subsidy disbursement.

DHS also did not report the early cash draws on its annual interest report to the Department of Treasury for inclusion in the State's calculation of interest due to the federal government.

#### Criteria

The Cash Management Improvement Act (CMIA) agreement required DHS to use an average clearance funding technique of four days from the date of adoption subsidy disbursement.

DHS also is required to send draw information on an annual basis to the Department of Treasury when DHS makes an overdraw for the Department of Treasury to calculate federal interest liabilities.

### Cause

During fiscal year 2012-13, DHS changed the process it used to disburse funds. DHS required all parents receiving an adoption subsidy to register in the Michigan Administrative Information Network (MAIN) by January 1, 2013 to comply with State payment procedures. DHS withheld adoption subsidy disbursements until the adoption subsidy parent registered in MAIN. DHS drew down Adoption Assistance funds based on adoption subsidy reports that did not identify the withheld adoption subsidy for unregistered parents at the time of the cash draw. As a result, DHS drew down Adoption Assistance funds prior to the disbursements.

Also, DHS did not consider the impact of the withheld adoption subsidy disbursements on Adoption Assistance CMIA requirements; therefore, DHS did not report the overdraws to the Department of Treasury when required.

### Effect

DHS drew \$609,639 in Adoption Assistance funds prior to the date of disbursement. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

### Known Questioned Costs

We did not identify questioned costs related to the early cash draws because DHS made the disbursements by the end of the audit period and the adoption subsidies were allowable activities of the Adoption Assistance Program.

### Recommendations

We recommend that DHS make Adoption Assistance cash draws within the appropriate number of days after the date of adoption subsidy disbursement.

We also recommend that DHS report early cash draws on its annual interest report to the Department of Treasury for inclusion in the State's calculation of interest due to the federal government.

### Management Views and Corrective Action Plan

Management Views:

DHS agrees with the finding.

Planned Corrective Action:

DHS will work with the Department of Treasury to attempt to identify a funding technique that is interest neutral and that can be accomplished within existing resources.

DHS will also work with the Department of Treasury to establish a reporting method to report the payments that are not immediately disbursed for inclusion in the State's calculation of interest due to the federal government if a new funding technique cannot be identified.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

**FINDING 2013-089**

Chafee Foster Care Independence Program, CFDA 93.674, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Assistance to Ineligible Recipients

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Chafee Foster Care Independence Program: CFDA 93.674
<b>Award Identification Number and Year</b>	G 12 01 MI 1420 10/01/2011 - 09/30/2013 G 13 01 MI 1420 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$4,533,861
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$411
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

### Condition

DHS inappropriately used Chafee Foster Care Independence Program (CFCIP) funds on ineligible youth. Our review of 1 (2%) of 60 CFCIP payments identified that DHS provided household goods and personal care items to 16 youth who attended a CFCIP conference. These youth were not eligible because they were over the age of 21.

### Criteria

Federal law 42 *USC* 677 requires CFCIP funds to provide financial, housing, counseling, employment, education, and other appropriate support and services to former foster care recipients between 18 and 21 years of age to complement their own efforts to achieve self-sufficiency and to ensure that program participants recognize and accept their personal responsibility for preparing for and then making the transition from adolescence to adulthood.

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

DHS policy requires youth who receive CFCIP goods and service must reach their 14th birthday while in foster care. Youth remain eligible for CFCIP goods and services until their 21st birthday.

### Cause

DHS informed us that county office supervisors did not follow established policy to ensure appropriate use of CFCIP funds.

### Effect

DHS paid for goods to youth over the age of 21 who were not eligible for program benefits. 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 \$411 that were federally funded. These questioned costs represent the amount of the sampled CFCIP payments that DHS provided to ineligible

youth. We also identified \$103 of State-funded costs that DHS inappropriately used as matching expenditures for CFCIP funds.

#### Recommendation

We recommend that DHS appropriately use CFCIP funds on eligible youth.

#### Management Views and Corrective Action Plan

##### Management Views:

DHS agrees with the finding.

##### Planned Corrective Action:

The program office began conducting internal reviews of Youth in Transition (YIT) requests in fiscal year 2011-12. As cases are reviewed, caseworkers and supervisors in public and private agencies are asked to secure missing documentation and make corrections as appropriate. County office directors are provided a summary of the findings for cases reviewed in their counties and are asked to take appropriate action. Technical assistance is offered to all DHS county offices that request it or are identified as needing it. The program office utilizes the monthly supervisory phone calls coordinated by Child Welfare Field Operations to provide information related to YIT expenditures and documentation. Monthly technical assistance phone calls with coordinators of the Michigan Youth Opportunities Initiative (MYOI) by the MYOI departmental analyst are used to address the appropriate use and documentation for YIT funds.

Targeted training will be provided to the DHS county office responsible for the transaction regarding the appropriate utilization of CFCIP funds, eligibility, documentation, and alternative funding sources for non-CFCIP eligible youth.

##### Anticipated Completion Date:

July 1, 2014

##### Responsible Individual(s):

Steve Yager, Department of Human Services  
Annie Ray, Department of Human Services  
Stacie Bowens, Department of Human Services  
Janet Kaley, Department of Human Services

## **FINDING 2013-090**

### **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**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Chafee Foster Care Independence Program: CFDA 93.674
<b>Award Identification Number and Year</b>	G 12 01 MI 1420 10/01/2011 - 09/30/2013 G 13 01 MI 1420 10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$4,533,861
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$345,650
<b>Repeat Finding</b>	2012-066, part a.
<b>State Agency</b>	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 7 DHS employees' payroll costs charged to CFCIP. Our review disclosed that DHS charged 100% of 5 employees' payroll costs to CFCIP even though the CFCIP supervisor documented on semiannual certifications that these 5 employees did not work solely on CFCIP activities. DHS did not prepare quarterly or annual comparisons of the time these employees actually spent on CFCIP activities. In addition, DHS did not adjust the amount of payroll costs charged to CFCIP.

#### **Criteria**

For employees who do not work solely on a federal award and are not included in an indirect cost pool, Appendix B of OMB Circular A-87 (federal regulation 2 *CFR* 225) 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 comparisons 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.

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

#### Cause

DHS's Financial Services Administration informed us that no payroll cost adjustments were made because DHS was in the process of evaluating its cost pools and that no changes to the allocation of employees' payroll costs would occur until after the cost pool evaluation is complete. However, these 5 employees were not charged to a cost pool.

#### Effect

DHS potentially charged CFCIP for payroll expenditures for 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 \$345,650 that were federally funded. These questioned costs represent the total payroll expenditures charged related to the employees reviewed. We also identified \$86,413 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 (federal regulation 2 *CFR* 225).

## Management Views and Corrective Action Plan

### Management Views:

DHS agrees with the finding, in part. DHS agrees the employees were charged at 100% to CFCIP. The employees are DHS central office employees who do work in part on CFCIP. As DHS revised its cost allocation process, the employees were miscoded and were charged 100% to CFCIP when they should have been coded to a cost pool. DHS does not believe the entire questioned cost amount is unallowable and will make adjustments to the reported costs as noted in its corrective action plan.

### Planned Corrective Action:

Federal regulations allow DHS to make adjustments retroactively for eight quarters. DHS plans to move the employees into the appropriate cost pool, make adjusting entries, and revise the federal reports.

### Anticipated Completion Date:

July 1, 2014

### Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Amanda Bright-McClanahan, Department of Human Services

## **FINDING 2013-091**

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

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Chafee Foster Care Independence Program: CFDA 93.674
<b>Award Identification Number and Year</b>	G 12 01 MI 1420 10/01/2011 - 09/30/2013 G 13 01 MI 1420 10/01/2011 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$4,533,861
<b>Total ARRA Expenditures</b>	Not Applicable

<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$508
<b>Repeat Finding</b>	2012-065, parts a. and b.
<b>State Agency</b>	Department of Human Services

### Condition

DHS did not maintain documentation to support that it appropriately used CFCIP funds.

We reviewed 60 CFCIP payments, of which 22 related to CFCIP discretionary payments. Our review disclosed that DHS did not maintain youth service plans supporting the youth's need for goods and services, receipts, or payment authorization forms to ensure the services were consistent with the youth's need for 3 (14%) of 22 sampled CFCIP discretionary 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 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 insufficient to detect that required verification documentation was not maintained in the youths' case records.

### 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 \$508 that were federally funded. These questioned costs represent the amount of 2 sampled CFCIP payments to or on behalf of the 22 cases noted for which DHS did not maintain case record documentation to support the propriety of the payment. We also identified \$127 of State-funded costs that DHS inappropriately used as matching expenditures for CFCIP funds. We did not identify questioned costs for the third sampled CFCIP payment.

### 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. Staff did not retain documentation in accordance with policy.

#### Planned Corrective Action:

The program office began conducting internal reviews of YIT requests in fiscal year 2011-12. As cases are reviewed, caseworkers and supervisors in public and private agencies are asked to secure missing documents and make corrections as appropriate. County office directors are provided a summary of the findings for

cases reviewed in their counties and are asked to take appropriate action. Technical assistance is offered to all DHS county offices that request it or are identified as needing technical assistance. The program office utilizes monthly supervisory phone calls coordinated by Child Welfare Field Operations to provide information related to YIT expenditures and documentation. Monthly technical assistance phone calls with coordinators of MYOI by the MYOI departmental analyst are used to address the appropriate use and documentation for YIT funds.

The program office will prepare a communication to be distributed to child welfare workers, supervisors, and administrators documenting the CFCIP findings from the fiscal year 2012-13 single audit. The communication will highlight areas of appropriate documentation, completion of required forms, and the need to obtain receipts. The program office will include instruction for obtaining receipts when making purchases from Internet sites.

Anticipated Completion Date:

July 1, 2014

Responsible Individual(s):

Steve Yager, Department of Human Services  
 Annie Ray, Department of Human Services  
 Stacie Bowens, Department of Human Services  
 Zoe Lyons, Department of Human Services  
 Susan Hull, Department of Human Services  
 Janet Kaley, Department of Human Services

**FINDING 2013-092**

Maternal and Child Health Services Block Grant to the States, CFDA 93.994, Allowable Costs/Cost Principles and Eligibility - EZLink Access and Audit Log Reviews

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Maternal and Child Health Services Block Grant to the States: CFDA 93.994

<b>Award Identification Number and Year</b>	1 B04MC25350-01-00	10/01/2012 - 09/30/2014
	6 B04MC25350-01-01	10/01/2012 - 09/30/2014
	6 B04MC25350-01-02	10/01/2012 - 09/30/2014
	6 B04MC25350-01-03	10/01/2012 - 09/30/2014
	6 B04MC25350-01-04	10/01/2012 - 09/30/2014
	6 B04MC25350-01-05	10/01/2012 - 09/30/2014
	6 B04MC25350-01-06	10/01/2012 - 09/30/2014
	6 B04MC25350-01-07	10/01/2012 - 09/30/2014
	6 B04MC25350-01-08	10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$18,135,162	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Allowable Costs/Cost Principles and Eligibility	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Department of Community Health	

### Background

The Maternal and Child Health Services Block Grant to the States (MCHSBG) helps fund DCH's Children's Special Health Care Services (CSHCS) program, which was created to find, diagnose, and treat children in Michigan who have chronic illnesses or disabling conditions. DCH must establish medical eligibility before an individual is eligible to apply for CSHCS program coverage. DCH physicians review supplied medical reports and document their medical eligibility decision (pend, approve, deny, or renew) and approval in a Web-based application called EZLink.

### Condition

DCH had not established role-based access controls over CSHCS medical eligibility decisions in EZLink. Also, DCH did not review EZLink audit logs to identify unauthorized modifications to the CSHCS medical eligibility decisions.

### 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

DCH stated that EZLink was originally created as a document management system and, therefore, was not originally created to have robust role-based access controls. DCH also stated that, given the volume of documents processed for eligibility and renewal, a review of the audit log on each document would be time prohibitive under current staffing levels.

### Effect

DCH cannot ensure that DCH physician CSHCS medical eligibility decisions are protected from unauthorized modification. All 289 EZLink users can modify DCH physician CSHCS medical eligibility decisions without detection.

### Known Questioned Costs

We did not identify questioned costs related to this finding.

### Recommendation

We recommend that DCH improve internal control to ensure the integrity of CSHCS medical eligibility decisions.

### Management Views and Corrective Action Plan

#### Management Views:

DCH agrees that it had not established role-based access controls over CSHCS medical eligibility decisions in EZLink and did not review EZLink audit logs to identify unauthorized modifications to the CSHCS medical eligibility decisions.

#### Planned Corrective Action:

DCH's CSHCS staff verify that the consultants' decision and the column reference matches and that the column reference was not subsequently modified by reviewing the audit log. This review is documented by CSHCS staff by removing the notation in the column reference once the approval has been received in the CSHCS staff workflow and the appropriate entry has been made into the CSHCS Oracle database. The consultant's approval is replaced with language identifying the verification of the medical records, which will create a corresponding notation in the audit log.

Anticipated Completion Date:  
Completed

Responsible Individual(s):  
Rebecca Start, Department of Community Health

**FINDING 2013-093**

**Maternal and Child Health Services Block Grant to the States, CFDA 93.994, Matching, Level of Effort, and Earmarking - Improper Classification of Expenditures**

<b>Federal Agency</b>	U.S. Department of Health and Human Services	
<b>Pass-Through Entity</b>	Not Applicable	
<b>Program Title and CFDA Number</b>	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
<b>Award Identification Number and Year</b>	1 B04MC25350-01-00	10/01/2012 - 09/30/2014
	6 B04MC25350-01-01	10/01/2012 - 09/30/2014
	6 B04MC25350-01-02	10/01/2012 - 09/30/2014
	6 B04MC25350-01-03	10/01/2012 - 09/30/2014
	6 B04MC25350-01-04	10/01/2012 - 09/30/2014
	6 B04MC25350-01-05	10/01/2012 - 09/30/2014
	6 B04MC25350-01-06	10/01/2012 - 09/30/2014
	6 B04MC25350-01-07	10/01/2012 - 09/30/2014
	6 B04MC25350-01-08	10/01/2012 - 09/30/2014
<b>Total Expenditures of Federal Awards</b>	\$18,135,162	
<b>Total ARRA Expenditures</b>	Not Applicable	
<b>Compliance Requirement(s)</b>	Matching, Level of Effort, and Earmarking	
<b>Type of Finding</b>	Significant Deficiency	
<b>Known Questioned Costs</b>	\$0	
<b>Repeat Finding</b>	Not Applicable	
<b>State Agency</b>	Department of Community Health	

Condition

DCH did not properly classify 3 (12%) of 25 expenditures that we sampled for review as being used toward meeting its minimum preventive and primary care services for children earmarking requirement. We noted that DCH classified the 3 expenditures as preventive and primary care services for children; however, the expenditures were related to services to women and/or the general population.

### Criteria

Federal law 42 USC 705(a)(3)(A) requires DCH to use at least 30% of payment amounts for preventive and primary care services for children.

### Cause

DCH indicated that a lack of communication between its budget section and its applicable MCHSBG program sections led to improper classification of expenditures.

### Effect

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

### Known Questioned Costs

We identified other expenditures in the MCHSBG program outside of the expenditures that DCH classified toward meeting its minimum preventive and primary care services for children earmarking requirement that met the earmarking requirements. These other expenditures were funded by MCHSBG and were primary medical care payments on behalf of children. Upon consideration of these other expenditures, our calculations showed that DCH actually met the minimum earmarking requirement; therefore, we did not identify questioned costs related to this finding.

### Recommendation

We recommend that DCH properly classify expenditures used toward meeting its minimum preventive and primary care services for children earmarking requirement.

### Management Views and Corrective Action Plan

#### Management Views:

DCH agrees that all expenditures should be appropriately classified. However, as noted in the finding, DCH met minimum earmarking requirements.

#### Planned Corrective Action:

DCH will establish two separate account coding blocks for expenditures, one for children and one for women. This will allow the budget liaison and program staff to monitor expenditure levels on an ongoing basis.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Sue Malkin, Department of Community Health

Carol Ogan, Department of Community Health

### **FINDING 2013-094**

**Disability Insurance/SSI Cluster, CFDA 96.001, Cash Management - Inappropriate Funding Technique**

<b>Federal Agency</b>	Social Security Administration
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Disability Insurance/SSI Cluster: CFDA 96.001
<b>Award Identification Number and Year</b>	1304MIDI00 10/01/2012 - 09/30/2013 1204MIDI00 10/01/2011 - 09/30/2013 1104MIDI00 10/01/2010 - 09/30/2013 1004MIDI00 10/01/2009 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$79,622,096
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Cash Management
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

### **Condition**

DHS did not make cash draws within the appropriate number of days for the funding technique as required in the Cash Management Improvement Act (CMIA) agreement for the Disability Insurance/SSI Cluster.

Our review of 20 sampled cash draws disclosed that DHS made all 20 cash draws 3 calendar days or more after the date of disbursement when DHS was required to make the cash draws 2 calendar days after the date of disbursement.

### Criteria

The CMIA agreement requires DHS to use the average clearance funding technique for cash draws related to Disability Insurance/SSI Cluster expenditures. This funding technique requires DHS to make cash draws 2 calendar days from the date of disbursement for the exact amount of the disbursement.

### Cause

DHS's Federal Reporting Section informed us that cash draws were made 3 calendar days or more after the date of disbursement because DHS's process was to make a draw when the cumulative Disability Insurance/SSI Cluster expenditures reached \$100,000; however, this process was not a funding technique included in the CMIA agreement.

### Effect

DHS was not in compliance with federal requirements for the funding technique required for Disability Insurance/SSI Cluster cash draws.

### Known Questioned Costs

Federal regulations 31 *CFR* 205.14(a)(5) and 31 *CFR* 205.14(c) state that the State will not be entitled to lost interest if the State made cash draws late or failed to apply the appropriate funding technique. Therefore, we did not identify questioned costs related to this finding.

### Recommendation

We recommend that DHS make Disability Insurance/SSI Cluster cash draws within the appropriate number of days for the funding technique as required in the CMIA agreement.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding. DHS requested draws when cumulative Disability Insurance/SSI Cluster expenditures exceeded \$100,000 since the effective date of the previous draw to conserve limited administrative resources.

Planned Corrective Action:

DHS will seek to revise the CMIA agreement to include the Disability Insurance/SSI Cluster among those programs with a weekly payment schedule. DHS believes that this methodology will be interest neutral for both parties.

Anticipated Completion Date:

October 1, 2014

Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Paul Onan, Department of Human Services

**FINDING 2013-095**

**Disability Insurance/SSI Cluster, CFDA 96.001, Special Tests and Provisions - Consultative Examinations Process - Verification of Provider's Excluded Status**

<b>Federal Agency</b>	Social Security Administration
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Disability Insurance/SSI Cluster: CFDA 96.001
<b>Award Identification Number and Year</b>	1304MIDI00 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$79,622,096
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Special Tests and Provisions - Consultative Examinations Process
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

Condition

DHS had not established a process to annually verify that Consultative Examination (CE) providers were not excluded from participating in federally funded health care programs.

Our review disclosed that, for 12 (57%) of 21 sampled CE providers, DHS did not complete an annual review.

### Criteria

Federal regulation 20 *CFR* 404.1519g requires that CEs will only be purchased from qualified medical sources, which may not be any individual or entity who is currently excluded, suspended, or otherwise barred from participation in the Medicare or Medicaid programs, or any other federal or federally assisted program (federal regulation 20 *CFR* 404.1503a). Section 39569.300 of the Social Security Administration's Program Operations Manual System (POMS) requires an annual review of the U.S. Department of Health and Human Services' Office of Inspector General's List of Excluded Individuals and Entities (LEIE) for each CE provider.

### Cause

DHS informed us that it was not aware that reviews of the LEIE were to be completed annually. DHS's LEIE review process was to review the LEIE when CE providers renewed their State licenses, which can be completed anywhere from 1 to 3 years. Nine of the 21 sampled items were for providers who had annual license renewals.

### Effect

Failure to obtain verification increases the risk that DHS could use the services of providers who are excluded from participating in federally funded health care programs. 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 we reviewed the LEIE for all 21 sampled providers and verified that the providers were not excluded.

### Recommendation

We recommend that DHS establish a process to annually verify that CE providers were not excluded from participating in federally funded health care programs.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

**Planned Corrective Action:**

Beginning in January 2014, LEIE reviews were initiated and completed for all CE providers (physicians) for calendar year 2014. Support staff statements will be mailed April 1, 2014 with completion date for return by May 1, 2014. These reviews will be done annually for all physicians and support staff at the beginning of each calendar year thereafter.

DHS will implement a new paper filing system and develop an electronic spreadsheet that mimics the paper system. This new system constitutes a checks and balances to ensure that any missing documentation is captured for CE providers.

**Anticipated Completion Date:**

July 1, 2014

**Responsible Individual(s):**

Terry Beurer, Department of Human Services  
Charles A. Jones, Department of Human Services

**FINDING 2013-096**

**Disability Insurance/SSI Cluster, CFDA 96.001, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Employer-Employee Relations Expenditures**

<b>Federal Agency</b>	Social Security Administration
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Disability Insurance/SSI Cluster: CFDA 96.001
<b>Award Identification Number and Year</b>	1304MIDI00 10/1/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$79,622,096
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$132,578
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

### Condition

DHS did not ensure that employer-employee relations expenditures were equitably apportioned and only charged to the Disability Insurance/SSI Cluster for the time spent on Disability Insurance/SSI Cluster activities.

Our review disclosed that DHS charged 100% of three employees' payroll costs to the Disability Insurance/SSI Cluster even though the employees were union representatives for not only DHS employees who worked on the Disability Insurance/SSI Cluster but also for DHS employees who worked on other federal and State programs. DHS did not determine the amount of time the union representatives spent on Disability Insurance/SSI Cluster activities and appropriately apportion the amount of time to the Disability Insurance/SSI Cluster.

### Criteria

Appendix B of OMB Circular A-87 (federal regulation 2 *CFR* 225) allows costs related to employer-employee relations to be charged to federal awards as long as such costs are equitably apportioned to all activities.

### Cause

DHS informed us that it treated the payroll costs of the union representatives as if the employees were disability examiners because the union representatives were disability examiners prior to fiscal year 2012-13.

### Effect

DHS potentially charged the Disability Insurance/SSI Cluster for employer-employee relations expenditures for non-Disability Insurance/SSI Cluster activities. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

### Known Questioned Costs

We identified questioned costs of \$132,578 that were federally funded. These questioned costs represent the total payroll expenditures of the three union representatives charged to the Disability Insurance/SSI Cluster.

### Recommendation

We recommend that DHS ensure that employer-employee relations expenditures are equitably apportioned and only charged to the Disability Insurance/SSI Cluster for the time spent on Disability Insurance/SSI Cluster activities.

## Management Views and Corrective Action Plan

### Management Views:

DHS agrees with the finding.

### Planned Corrective Action:

DHS will take the necessary actions to ensure that staff time for union representatives will not be charged to the federal funding source.

### Anticipated Completion Date:

July 1, 2014

### Responsible Individual(s):

Terry Beurer, Department of Human Services  
Charles A. Jones, Department of Human Services  
Susan Kangas, Department of Human Services  
Marilyn Carey, Department of Human Services  
Paul Onan, Department of Human Services

## **FINDING 2013-097**

### Disability Insurance/SSI Cluster, CFDA 96.001, Cash Management - Incorrect Quarterly Cash Settlement

<b>Federal Agency</b>	Social Security Administration
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Disability Insurance/SSI Cluster: CFDA 96.001
<b>Award Identification Number and Year</b>	1304MIDI00 10/01/2012 - 09/30/2013 1204MIDI00 10/01/2011 - 09/30/2012
<b>Total Expenditures of Federal Awards</b>	\$79,622,096
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Cash Management
<b>Type of Finding</b>	Significant Deficiency and Noncompliance
<b>Known Questioned Costs</b>	\$164,606
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

### Condition

DHS's internal control did not ensure accurate Disability Insurance/SSI Cluster quarterly cash settlements.

Our review disclosed that DHS overdrew the Disability Insurance/SSI Cluster second quarter cash settlement by \$1,310,308. In addition, DHS did not report the overdrawn amount to the Department of Treasury for inclusion in the State's calculation of interest due to the federal government.

### Criteria

The CMIA agreement allows DHS to make quarterly and year-end accounting corrections or adjustments. Also, DHS is required to send draw information on an annual basis to the Department of Treasury when DHS incurs an overdraw for the Department of Treasury to calculate federal interest liabilities.

### Cause

DHS's Federal Reporting Section calculates quarterly cash settlements based on differences between total cash draws and total federal expenditures reported on the quarterly Disability Insurance/SSI Cluster financial report (SSA-4513). DHS's Federal Reporting Section informed us that it incorrectly calculated the second quarter cash settlement amount because DHS used the total obligations amount instead of the total federal expenditure amount reported on the quarterly SSA-4513.

Also, DHS was not aware of the overdrawn amount of the second quarter cash settlement until February 2014; therefore, DHS did not report the overdraw to the Department of Treasury when required.

### Effect

DHS was not in compliance with the CMIA agreement and may owe the federal grantor agency interest on the overdrawn funds.

### Known Questioned Costs

We identified questioned costs of \$164,502 related to the Disability Insurance/SSI Cluster 2012 grant award overdraw balance at September 30, 2013. We did not identify questioned costs related to the Disability Insurance/SSI Cluster 2013 grant award because DHS had an underdrawn balance at September 30, 2013 of \$1,603,764. Also,

we identified questioned costs of approximately \$104 in interest related to the incorrect calculation of the Disability Insurance/SSI Cluster's fiscal year 2012-13 second quarter cash settlement.

### Recommendations

We recommend that DHS improve its internal control to ensure accurate Disability Insurance/SSI Cluster quarterly cash settlements.

We also recommend that DHS report overdrawn amounts to the Department of Treasury for inclusion in the State's interest due to the federal government.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

Based on a detailed review of the program area's reporting of indirect costs on the SSA-4513, an adjustment is necessary and will be made to increase total disbursements reported on line 5 of the SSA-4515 by \$49,959 for the quarter ended September 30, 2013. This will reduce the overdraw calculation for the grant from \$164,502 to \$114,543.

DHS will enhance procedures to better monitor the quarterly cash settlement to ensure compliance with federal cash management requirements contained in the CMIA agreement.

#### Anticipated Completion Date:

October 1, 2014

#### Responsible Individual(s):

Susan Kangas, Department of Human Services

Marilyn Carey, Department of Human Services

Paul Onan, Department of Human Services

## **FINDING 2013-098**

### **Disability Insurance/SSI Cluster, CFDA 96.001, Special Tests and Provisions - Consultative Examinations Process - Verification of Provider's License Status**

<b>Federal Agency</b>	Social Security Administration
<b>Pass-Through Entity</b>	Not Applicable
<b>Program Title and CFDA Number</b>	Disability Insurance/SSI Cluster: CFDA 96.001
<b>Award Identification Number and Year</b>	1304MIDI00 10/01/2012 - 09/30/2013
<b>Total Expenditures of Federal Awards</b>	\$79,622,096
<b>Total ARRA Expenditures</b>	Not Applicable
<b>Compliance Requirement(s)</b>	Special Tests and Provisions - Consultative Examinations Process
<b>Type of Finding</b>	Material Weakness and Material Noncompliance
<b>Known Questioned Costs</b>	\$0
<b>Repeat Finding</b>	Not Applicable
<b>State Agency</b>	Department of Human Services

#### **Condition**

DHS did not have an effective process to track and verify each CE provider's license status every two years or at the license renewal date, whichever occurred first. In addition, DHS did not always obtain and retain documentation to support required CE provider license verifications and staff license certifications.

Our review disclosed that DHS's process was to only verify the CE provider's license status during the provider's license renewal period; however, some CE provider renewal periods exceed two years.

We also noted that, for 4 (19%) of 21 sampled CE providers, DHS did not retain documentation to support that it reviewed the CE provider's license status.

In addition, we noted that, for 1 (5%) of 21 sampled CE providers, DHS did not obtain a license and credentials certification form from the CE provider that certified that all support staff used in a CE met the licensing or certification requirements of the State.

### Criteria

Federal regulation 20 *CFR* 404.1519g requires that CEs will only be purchased from qualified medical sources, which must be currently licensed in the State and have the training and experience to perform the type of examination or test requested.

Also, Section 39569.300 of POMS requires DHS to have a process to track each CE provider's license status every two years or at the license renewal date, whichever occurs first.

In addition, Sections 39569.300 and 39569.400 of POMS require that the CE provider sign the license and credentials certification form that certifies that all support staff used in CEs met the licensing or certification requirements of the State at the time that DHS requests the CE services.

Further, federal regulation 20 *CFR* 437.42(b) requires DHS to maintain Disability Insurance/SSI Cluster records generally for three years.

### Cause

DHS informed us that it was not aware it was required to complete verifications of each CE provider's license status at a minimum of every two years. Also, DHS informed us that it shredded prior license verifications when it completed a new verification.

In addition, DHS informed us that it relied on hospitals to ensure that CE support staff were properly licensed and therefore did not obtain a license and credentials certification form for the 1 sampled CE provider.

### Effect

Failure to track and verify CE providers' license status and obtain certifications increases the risk that DHS could use CE providers who are not currently licensed in the State or do not have the training and experience to perform the type of examination or test requested.

### Known Questioned Costs

We did not identify questioned costs related to this finding because we reviewed the State licensing board's Web site for all 21 sampled CE providers and verified that the providers were licensed during fiscal year 2012-13.

### Recommendations

We recommend that DHS implement a process to track and verify each CE provider's license status every two years or at the license renewal date, whichever occurs first.

We also recommend that DHS obtain and retain documentation to support required CE provider license verifications and staff license certifications.

### Management Views and Corrective Action Plan

#### Management Views:

DHS agrees with the finding.

#### Planned Corrective Action:

Beginning in January 2014, LEIE reviews were initiated and completed for all CE providers (physicians) for calendar year 2014. Support staff licensure requirements statements will be mailed with completion date for return by May 1, 2014. These reviews will be done annually for all physicians and support staff at the beginning of each calendar year thereafter.

DHS will implement a new paper filing system and develop an electronic spreadsheet that mimics the paper system. This new system constitutes a checks and balances to ensure that any missing documentation is captured for CE providers.

#### Anticipated Completion Date:

July 1, 2014

#### Responsible Individual(s):

Terry Beurer, Department of Human Services  
Charles A. Jones, Department of Human Services

### **FINDING 2013-099**

#### Home Investment Partnerships Program, CFDA 14.239

See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2013, Finding 2013-002.

**FINDING 2013-100**

Emergency Solutions Grant Program, CFDA 14.231, and Home Investment Partnerships Program, CFDA 14.239

See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2013, Finding 2013-003.

**FINDING 2013-101**

Unemployment Insurance, CFDA 17.225 and 17.225 (ARRA)

See Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency, Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2013, Finding 13-01.

**FINDING 2013-102**

Unemployment Insurance, CFDA 17.225 and 17.225 (ARRA)

See Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency, Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2013, Finding 13-02.

# OTHER SCHEDULE

STATEWIDE SINGLE AUDIT - Fiscal Year Ended September 30, 2013

Summary Schedule of Prior Audit Findings

**PRIOR AUDIT FINDINGS RELATED TO THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**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 the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Current Status:** DMVA corrected the deficiencies noted in parts a., b., c., and d.(1) of the finding. In addition, the deficiency noted in part d.(2) of the audit finding is no longer valid. The Department of Technology, Management, and Budget (DTMB), in conjunction with DMVA, prepared the Statewide SEFA to present the fiscal year 2012-13 total federal awards expended for each individual federal program and the *Catalog of Federal Domestic Assistance (CFDA)* number in accordance with OMB Circular A-133. The federal expenditures for the National Guard Military Operations and Maintenance Projects Program, *CFDA* 12.401, are no longer presented by individual appendix.

**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 corrected the deficiencies noted in the finding.

**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 corrected the deficiencies noted in the finding.

#### **PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

**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:** The Michigan Department of Education's (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.

Additional training regarding level of effort reporting was provided throughout the State during spring 2013 Early On system updates. Webinar training and a question and answer document were also made available to intermediate school districts (ISDs) to explain the new level of effort reporting procedure.

ISDs were required to report actual spending for early intervention when completing reports in the Financial Information Database (FID) in November 2013. MDE will analyze the information to establish a baseline spending level for Michigan's total Statewide spending from State and local funds for early intervention.

ISDs were required to begin reporting with the July 2013 Michigan Electronic Grants System Plus (MEGS+) application the total of State and local funds being budgeted for the upcoming program year for spending on early intervention.

ISDs will again be required to report with the July 2014 MEGS+ application the total of State and local funds being budgeted for the upcoming program year for spending on early intervention. These amounts will be aggregated to come up with Michigan's total Statewide budgeting from State and local funds for early intervention.

After the aggregated total Statewide budgeting from State and local funds for early intervention (as reported in the July 2014 MEGS+ application) is calculated and the aggregated Statewide spending from State and local funds for early intervention as reported in the November 2013 FID is calculated, the two aggregated totals will be compared to determine whether the budgeted total is equal to or greater than the actual spending total. The federal test for IDEA Part C level of effort is to compare the Statewide budgeted funds to the most recent available data on actual Statewide spending from State and local funds.

**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 corrected the deficiencies noted in the finding.

**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 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:** The Michigan Department of State Police (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 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 and MDE's Accounting Service Center (ASC) did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-018.

**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 and MDE's ASC did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-018.

**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 corrected the deficiencies noted in the finding.

**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 corrected the deficiencies noted in the finding.

**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 corrected the deficiencies noted in the finding.

**Audit Period:** October 1, 2008 through September 30, 2010  
**Finding Number:** 6411103LBFTA  
**Finding Title:** CDBG - State-Administered Small Cities Program Cluster,  
*CFDA* 14.228

**Finding:** The Land Bank Fast Track Authority's (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 corrected the deficiencies noted in the finding.

**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 (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.

**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 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.

DNR has been working with the National Park Service to verify outstanding projects. DNR has developed a process to complete the backlog of delinquent post-completion inspections through a self-certification process. DNR began this process in November 2012 and has complied with federal laws and regulations regarding the reporting of post-completion inspections in 29 of the 83 counties in Michigan. DNR will also continue to complete inspections of projects with its staff to ensure compliance with National Park Service requirements. The targeted date for completion is August 2015.

**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 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 and MDE's ASC did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-018.

**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 initiated corrective action by implementing an accounting solution to separately identify activities required by the grant award during fiscal year 2012-13. DEQ established coding in the Michigan Administrative Information Network (MAIN) to use to segregate excess eligible match expenditures and other grant-related expenditures. However, the grant was subsequently extended for an additional year and the total matching expenditures have not yet exceeded the required match amount. DEQ is prepared to record overmatching expenditures as soon as they are incurred.

**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:** The deficiencies noted for special tests and provisions are no longer valid as DEQ fully expended its ARRA award at the end of fiscal year 2010-11.

DEQ and MDE's ASC did not correct the deficiencies noted in the finding for subrecipient monitoring. See corrective action for Finding 2013-018.

**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 reviewed the process for reserving vehicles utilizing the Vehicle Reservation System (VRS) to determine if there are options available to revise the process to allow for prior supervisory review and approval of travel. DEQ determined that there is not an option available for prior review. DEQ is conducting a post-trip review of VRS charges recorded related to the usage of vehicles managed in the DEQ district field offices. DEQ will continue to try to identify a means of reviewing VRS charges related to the usage of DTMB managed vehicles after-the-fact and will follow up on any discrepancies.

**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. 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 10 calendar days after each quarter ends. 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.

DEQ partially corrected the deficiencies noted for subrecipient monitoring. See corrective action for Finding 2013-018. In addition, DEQ corrected the deficiencies noted for special tests and provisions.

**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 establish a risk-based approach for subrecipient monitoring that will be implemented department-wide. Also see corrective action for Finding 2013-018.

**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 corrected the deficiencies noted for reporting and special tests and provisions.

DEQ partially corrected the deficiencies noted for subrecipient monitoring. See corrective action for Finding 2013-018.

**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. See corrective action for Finding 2013-018.

**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 reviewed the process for reserving vehicles utilizing VRS to determine if there are options available to revise the process to allow for prior supervisory review and approval of travel. DEQ determined that there is not an option available for prior review. DEQ is conducting a post-trip review of VRS charges recorded related to the usage of vehicles managed in the DEQ district field offices. No such review is conducted for charges related to the usage of vehicles managed by DTMB. DEQ will continue to try to identify some means of reviewing VRS charges related to the usage of DTMB managed vehicles after-the-fact and will follow up on any discrepancies.

**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 corrected the deficiencies noted in the finding.

**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 Airport Improvement Program (AIP) grant funding within the period of availability.

**Current Status:** MDOT did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-029.

**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 corrected the deficiencies noted in the finding.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-001

**Finding Title:** DHS Bridges Interface and Change Controls

**Finding:** 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, CCDF Cluster, Medicaid Cluster, Refugee and Entrant Assistance - State Administered Programs, 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 2013-001.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-002

**Finding Title:** DHS Bridges Security Management and Access Controls

**Finding:** DHS and DTMB had not established effective security management and access controls over the Bridges Integrated Automated Eligibility Determination System (Bridges) for privileged and high-risk users.

**Current Status:** DHS and DTMB partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-002.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-003

**Finding Title:** DHS and DTMB - Income Eligibility and Verification System

**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 the SNAP, TANF, and Medicaid Cluster recipients.

In addition, DHS's internal control did not ensure that local office caseworkers considered and used Income Eligibility and

Verification System (IEVS) information when making eligibility and benefit level determinations for these programs.

**Current Status:** DHS and DTMB did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-003.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-004

**Finding Title:** MDE, Reporting - FFATA Reporting

**Finding:** 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.

**Current Status:** MDE partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-013.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-005

**Finding Title:** DCH, Reporting - FFATA Reporting

**Finding:** 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.

**Current Status:** DCH partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-024.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-006

**Finding Title:** DHS, Reporting - FFATA Reporting

**Finding:** 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.

**Current Status:** DHS did not correct the deficiencies noted in the finding for the programs included in Finding 2013-015 and the Weatherization Assistance for Low-Income Persons Program. See corrective action for Finding 2013-015.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-007

**Finding Title:** MDE, Subrecipient Monitoring - DUNS Numbers

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

**Current Status:** MDE corrected the deficiencies noted in the finding subsequent to approval of fiscal year 2012-13 grant awards. See corrective action for Finding 2013-016.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-008

**Finding Title:** DHS, Subrecipient Monitoring - DUNS Number

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-009

**Finding Title:** MDE, Subrecipient Monitoring - Obtaining Subrecipient Single Audit Reports

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

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-010

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

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-011

**Finding Title:** MDE, Subrecipient Monitoring - Notification of Program Areas Affected

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-012

**Finding Title:** Centralized Subrecipient Monitoring - OMB Circular A-133 Subrecipient Audit Requirements

**Finding:** 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.

**Current Status:** MDE's ASC, in conjunction with participating State departments, did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-018.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-013

**Finding Title:** DCH, Special Tests and Provisions - ADP Security Program

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

**Current Status:** DCH partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-006.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-014

**Finding Title:** Child Nutrition Cluster, *CFDA* 10.553, 10.555, 10.556, and 10.559, Subrecipient Monitoring - Required Inspections

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-015

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

**Finding:** 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 within 90 days of the end of the federal fiscal year to ensure that the expenditures would be eligible for federal reimbursement.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-016

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

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-017

**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). Also, MSF did not review the Section 3 Summary Report prepared by

\* See glossary at end of report for definition.

Michigan State Housing Development Authority (MSHDA), the subrecipient responsible for administering the housing component of the Michigan CDBG Program, prior to its submission.

**Current Status:** MSF partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-026.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-018

**Finding Title:** CDBG - State-Administered CDBG Cluster, *CFDA* 14.228 and 14.255 (ARRA), Reporting - FFATA Reporting

**Finding:** MSF did not report any CDBG - State-Administered CDBG Cluster subaward information as required by FFATA.

**Current Status:** MSF partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-027.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-019

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

**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 2013-028.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-020

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

**Finding:** MSF did not ensure that its subrecipients receiving ARRA funding maintained current registrations in the Central Contractor Registration.

**Current Status:** The deficiencies noted in the finding are no longer valid because MSF had fully expended its ARRA award at the end of fiscal year 2011-12.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-021

**Finding Title:** 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

**Finding:** 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.

**Current Status:** MDOT corrected the deficiencies noted in the finding.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-022

**Finding Title:** Highway Planning and Construction Cluster, *CFDA* 20.205, 20.205 (ARRA), and 20.219, Reporting - FFATA Reporting

**Finding:** MDOT did not report any Highway Planning and Construction Cluster subaward information as required by FFATA.

**Current Status:** MDOT corrected the deficiencies noted in the finding.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-023  
**Finding Title:** 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

**Finding:** MDE did not monitor intermediate school districts (ISDs) to ensure that the ISDs properly allocated program funds to new or significantly expanded charter schools.

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

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-024  
**Finding Title:** School Improvement Grants Cluster, *CFDA* 84.377 and 84.388 (ARRA), Procurement and Suspension and Debarment - Subrecipient Certifications

**Finding:** MDE did not obtain a signed certification asserting that the subrecipient was not suspended or debarred for 1 (25%) of 4 subrecipient applications sampled.

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

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-025  
**Finding Title:** English Language Acquisition State Grants, *CFDA* 84.365, Allowable Costs/Cost Principles and Subrecipient Monitoring - Monitoring Subrecipients' Administrative Expenditures

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-026

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

**Finding:** MDE exceeded the federal 6% administrative earmark threshold by \$74,030.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-027

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

**Finding:** 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.

**Current Status:** DCH corrected the deficiencies noted in the finding.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-028

**Finding Title:** TANF Cluster, *CFDA* 93.558, 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 because DHS disagreed with the finding. See management views and corrective action plan for Finding 2013-039.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-029

**Finding Title:** TANF Cluster, *CFDA* 93.558, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Unallowable Juvenile Justice Expenditures

**Finding:** 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.

**Current Status:** DHS did not correct the deficiencies noted because DHS disagreed with the finding. See management views and corrective action plan for Finding 2013-041.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-030

**Finding Title:** TANF Cluster, *CFDA* 93.558, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Lack of Survey Documentation for Reverse Commute Expenditures

**Finding:** DHS did not maintain survey documentation to support TANF 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 2013-037.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-031

**Finding Title:** 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

**Finding:** DHS did not maintain sufficient case record documentation to support client eligibility for 29 (55%) of 53 sampled TANF Cluster assistance case records. 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.

**Current Status:** DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-040.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-032

**Finding Title:** TANF Cluster, *CFDA* 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Lack of Eligibility Redeterminations for TANF-Funded Adoption Subsidy

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-033

**Finding Title:** TANF Cluster, *CFDA* 93.558, Eligibility - Lack of Process to Identify Drug 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 requirements.

**Current Status:** DHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-042.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-034

**Finding Title:** TANF Cluster, *CFDA* 93.558, 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 \$152,926,718 from the new spending test used to meet the State's MOE requirement in fiscal year 2011-12.

**Current Status:** DHS did not correct the deficiencies noted because DHS disagreed with the finding. See management views and corrective action plan for Finding 2013-045.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-035

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

**Finding:** DHS did not ensure that each month of federally funded Family Independence Program (FIP) cash assistance received by a household was counted toward the 60-month federal time limit.

**Current Status:** DHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-043.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-036

**Finding Title:** TANF Cluster, *CFDA* 93.558, Reporting - Accuracy of Reports

**Finding:** DHS did not submit accurate reports to the U.S. Department of Health and Human Services (HHS).

**Current Status:** DHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-048.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-037

**Finding Title:** TANF Cluster, *CFDA* 93.558, Subrecipient Monitoring - Lack of Subrecipient Site Visits

**Finding:** DHS did not conduct annual site visits for 5 of 6 Families First of Michigan and Family Reunification sampled subrecipients.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-038

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

**Finding:** 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. 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.

**Current Status:** DHS partially corrected the deficiencies noted in the finding. Corrective actions were not in effect until late in fiscal year 2012-13. See corrective action for Finding 2013-047.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-039  
**Finding Title:** TANF Cluster, *CFDA* 93.558, 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 partially corrected the deficiencies noted in the finding. Corrective actions were not in effect until late in fiscal year 2012-13. See corrective action for Finding 2013-046.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-040  
**Finding Title:** 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

**Finding:** 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.

**Current Status:** MDE and DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-049.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-041  
**Finding Title:** CCDF Cluster, *CFDA* 93.575 and 93.596, Eligibility - Disqualification of Clients

**Finding:** MDE did not have a process to disqualify clients who violated CCDF program rules, including clients for which DHS's Office of

Inspector General identified as having known violations, from receiving CCDF child care benefits.

**Current Status:** MDE did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-050.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-042

**Finding Title:** CCDF Cluster, *CFDA* 93.575 and 93.596, Special Tests and Provisions - Fraud Detection and Repayment

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

**Current Status:** MDE and DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-052.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-043

**Finding Title:** CCDF Cluster, *CFDA* 93.575 and 93.596, 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:** MDE and DHS corrected the deficiencies noted in the finding as of March 2013.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-044  
**Finding Title:** 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

**Finding:** 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.

**Current Status:** DCH and DHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-058.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-045  
**Finding Title:** 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

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

**Current Status:** DCH and DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-057.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-046  
**Finding Title:** 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

**Finding:** 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.

**Current Status:** DCH and DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-057.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-047

**Finding Title:** 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

**Finding:** 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.

**Current Status:** DCH partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-061.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-048

**Finding Title:** 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

**Finding:** DCH did not accurately calculate practitioner adjuster payments.

**Current Status:** DCH corrected the deficiencies noted in the finding.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-049

**Finding Title:** 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

**Finding:** 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.

**Current Status:** DCH corrected the deficiencies noted in the finding.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-050

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

**Finding:** 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.

**Current Status:** DCH did not correct the deficiencies noted because DCH disagreed with the finding. See management views and corrective action plan for Finding 2013-055.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-051

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

**Finding:** 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.

**Current Status:** DCH partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-019.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-052

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

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

**Current Status:** DCH did not correct the deficiencies noted in the finding. As of April 2014, individuals served by the county health plans will transition to the Healthy Michigan Plan and will be served by Medicaid Health Plans (MHPs).

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-053

**Finding Title:** 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

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

**Current Status:** DCH corrected the deficiencies noted in the finding.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-054

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

**Finding:** 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.

**Current Status:** DHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-074.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-055

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

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-056

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

**Finding:** DHS did not ensure the accuracy of REAP budget calculations.

**Current Status:** DHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-075.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-057  
**Finding Title:** Refugee and Entrant Assistance - State Administered Programs, *CFDA* 93.566, Period of Availability - Services Provided Prior to the Period of Availability

**Finding:** 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.

**Current Status:** DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-076.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-058  
**Finding Title:** Low-Income Home Energy Assistance, *CFDA* 93.568, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Lack of Documentation

**Finding:** 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.

**Current Status:** DHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-079.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-059  
**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 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.

**Current Status:** DHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2013-078.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-060

**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 the foster parent's employment need reason for child care assistance for 1 of 3 sampled maintenance payments.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-061

**Finding Title:** 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

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

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

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-062  
**Finding Title:** 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

**Finding:** DHS did not apply the correct federal medical assistance percentage (FMAP) rates to tribal maintenance payments for 2 of 5 tribes during fiscal year 2011-12.

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

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-063  
**Finding Title:** 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

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-064  
**Finding Title:** Adoption Assistance, *CFDA* 93.659, 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 partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-087.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-065

**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 support its appropriate use of Chafee Foster Care Independence Program (CFCIP) funds.

**Current Status:** DHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-091.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-066

**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 - Inappropriate Payroll Expenditures

**Finding:** 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).

**Current Status:** DHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2013-090.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-067

**Finding Title:** Chafee Foster Care Independence Program, *CFDA* 93.674, Eligibility - Funding Eligibility Checklist

**Finding:** 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.

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-068

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

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

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

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-069

**Finding Title:** Homeland Security Grant Program, *CFDA* 97.067, Reporting - Accuracy of Federal Reports

**Finding:** The Michigan Department of State Police (MSP) did not prepare the Homeland Security Grant Program's federal financial reports (FFRs) in accordance with federal regulations and FFR form instructions.

**Current Status:** MSP corrected the deficiencies noted in the finding.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-070  
**Finding Title:** Housing Voucher Cluster, *CFDA* 14.871

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

**Current Status:** MSHDA corrected the deficiencies noted in the finding. See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2013, Summary Schedule of Prior Audit Findings, Prior Year Finding Number 2012-3.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-071  
**Finding Title:** Housing Voucher Cluster, *CFDA* 14.871

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

**Current Status:** MSHDA corrected the deficiencies noted in the finding. See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2013, Summary Schedule of Prior Audit Findings, Prior Year Finding Number 2012-4.

**Audit Period:** October 1, 2011 through September 30, 2012  
**Finding Number:** 2012-072  
**Finding Title:** Community Development Block Grant, *CFDA* 14.228, ARRA - Neighborhood Stabilization Program, *CFDA* 14.256

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

**Current Status:** MSHDA corrected the deficiencies noted in the finding. See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2013, Summary Schedule of Prior Audit Findings, Prior Year Finding Number 2012-5.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-073

**Finding Title:** Unemployment Insurance, *CFDA* 17.225

**Finding:** 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.

**Current Status:** The Unemployment Insurance Agency (UIA) did not correct the deficiencies noted in the finding. See Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency, Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2013, Finding 13-01.

**Audit Period:** October 1, 2011 through September 30, 2012

**Finding Number:** 2012-074

**Finding Title:** Unemployment Insurance, *CFDA* 17.225

**Finding:** 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.

**Current Status:** UIA did not correct the deficiencies noted in the finding. See Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency, Unemployment Compensation Fund, Report on Expenditures of Federal Awards, Year Ended September 30, 2013, Finding 13-02.

# GLOSSARY

## Glossary of Abbreviations and Terms

ACF	HHS's Administration for Children and Families.
ACF-204	Annual Report on State Maintenance of Effort Programs.
ACF-696	Child Care and Development Fund Financial Report.
ADL	activity of daily living.
ADP	automated data processing.
adverse opinion	A type of modified 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.
ARRA 1512 report	Recipient reporting requirement under ARRA.
ASC	Accounting Service Center.
ASCAP	Adult Services Comprehensive Assessment Program.
ASM	Adult Services Manual.
ASW	Adult Service Worker.

BCAL	Bureau of Child and Adult Licensing.
Bid4Michigan	A bid system implemented by DTMB Purchasing Operations for faster and easier posting and notification of bid information to the public. This system provides instant access on-line to all bids, requests for information, requests for proposals, quotes, addenda, and awards.
BITS	Bureau Information Tracking System.
Bridges Integrated Automated Eligibility Determination System (Bridges)	An automated, integrated service delivery system for Michigan's cash assistance, medical assistance, food assistance, child care assistance, and emergency assistance programs.
BRS	Bridges Benefits Recovery System.
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.
CCN	contract change notice.
CDBG	Community Development Block Grant.
CE	Consultative Examination.
CFCIP	Chafee Foster Care Independence Program.
CHAMPS	Community Health Automated Medicaid Processing System.
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.
CMIA	Cash Management Improvement Act.
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.
CRM	Customer Relationship Management.
CSHCS	Children's Special Health Care Services.
database management system	A software product that aids in controlling and using the data needed by application programs. Database management systems organize data in a database; manage all requests for database actions, such as queries or updates from users; and permit centralized control of security and data integrity.
database administrator	The person responsible for both the design of the database, including the structure and contents, and the access capabilities of application programs and users of the database. Additional responsibilities include operation, performance, integrity, and security of the database.
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.
DELEG	Department of Energy, Labor & Economic Growth.

DEQ	Department of Environmental Quality.
DHS	Department of Human Services.
DMEPOS	durable medical equipment, prosthetics, orthotics, and supplies.
DMVA	Department of Military and Veterans Affairs.
DNR	Department of Natural Resources.
DTMB	Department of Technology, Management, and Budget.
DUNS	Data Universal Numbering System.
EECBG	Energy Efficiency and Conservation Block Grant.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
E-GrAMS	Electronic Grants Administration and Management System.
ESEA	Elementary and Secondary Education Act.
FAA	Federal Aviation Administration.
FAP	Food Assistance Program.
FDC	Food Distribution Cluster.
Federal Information System Controls Audit Manual (FISCAM)	A methodology published by the GAO for performing information system control audits of federal and other governmental entities in accordance with <i>Government Auditing Standards</i> .

FFATA	Federal Funding Accountability and Transparency Act of 2006.
FFEL Program	Federal Family Education Loan Program.
FFR	federal financial report.
FHWA	Federal Highway Administration.
FID	Financial Information Database.
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements and/or financial schedules of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
FIP	Family Independence Program.
FMAP	federal medical assistance percentage.
FNS-FRS	Food Nutrition System - Fiscal Reporting System.
FOA	Field Operations Administration.
FOC	Friend of the Court.
FRA	Federal Railroad Administration.
GAN	grant award notifications.
GAO	U.S. Government Accountability Office.
HSIPR	High-Speed Rail Corridors and Intercity Passenger Rail Service.

HHC	home heating credit.
HHP	Home Help Program.
HHS	U.S. Department of Health and Human Services.
HUD	U.S. Department of Housing and Urban Development.
IADLs	instrumental activities of daily living.
IDEA	Individuals with Disabilities Education Act.
IEVS	Income Eligibility and Verification System.
in-kind contribution	The value of a noncash contribution by a nonfederal third party without charge to the grantee or a cost-type contractor of supplies, equipment, goods, property, and services, directly benefiting and specifically identifiable to a federal program.
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.
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.
LBFTA	Land Bank Fast Track Authority.

LEA	local educational agency.
LEIE	List of Excluded Individuals and Entities.
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 basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof in accordance with the applicable financial reporting framework.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on basic financial statement and/or financial schedule 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 basic 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.
MDE	Michigan Department of Education.
MDOT	Michigan Department of Transportation.
MEGS+	Michigan Electronic Grants System Plus.
MFOS	Map Financial Obligation System.
MHP	Medicaid Health Plan.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
MI Choice	MI Choice Waiver Program.
MiND	Michigan Nutrition Data.
MI-WIC	Michigan Women, Infants, and Children Information System.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
MOE	maintenance of effort.
MSF	Michigan Strategic Fund.
MSHDA	Michigan State Housing Development Authority.
MSP	Michigan Department of State Police.
MYOI	Michigan Youth Opportunities Initiative.

OCS	Office of Child Support.
OIG	DHS's Office of Inspector General.
ORR	HHS's Office of Refugee Resettlement.
other noncompliance	Violations of contracts or grant agreements that are not material to the basic 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> .
PAB	Project Accounting and Billing System.
PACE	Program of All-Inclusive Care for the Elderly.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
PBM	pharmacy benefits manager.
PIHP	Prepaid Inpatient Health Plan.
POMS	Program Operations Manual System.
qualified opinion	A type of modified opinion in which the auditor 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.

R&R	DHS's Reconciliation and Recoupment Section.
REAP	Refugee and Entrant Assistance - State Administered Programs.
SEA	state educational agency.
SEFA	schedule of expenditures of federal awards.
SER	State Emergency Relief.
SIB	State Infrastructure Bank.
SIG	School Improvement Grant.
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.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SSA-4513	Disability/SSI Cluster financial report.
SSBG	Social Services Block Grant.
SSI	Supplemental Security Income.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
SWSS	Services Worker Support System.
SWSS-FAJ	The module in SWSS for Foster Care, Adoption, and Juvenile Justice (including prior AFDC eligibility information).

TANF	Temporary Assistance for Needy Families.
TCS	Technology, Coordination, and Support.
TPL	Third Party Liability.
UIA	Unemployment Insurance Agency.
unmodified opinion	<p>The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes:</p> <ol style="list-style-type: none"> <li>a. The basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.</li> <li>b. The audited entity complied, in all material respects, with the cited compliance requirements that are applicable to each major federal program.</li> </ol>
<i>USC</i>	<i>United States Code.</i>
USDA	U.S. Department of Agriculture.
USDOE	U.S. Department of Education.
U.S. Office of Management and Budget (OMB)	A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.
VRS	Vehicle Reservation System.
WIC Program	Special Supplemental Nutrition Program for Women, Infants, and Children.
YIT	Youth in Transition.



