

Office of the Auditor General

**State of Michigan
Single Audit Report**

Fiscal Year Ended September 30, 2014

June 2015



The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

Article IV, Section 53 of the Michigan Constitution



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Office of the Auditor General

Report Summary

Single Audit Report

State of Michigan

Fiscal Year Ended September 30, 2014

**Report Number:
000-0100-15**

**Released:
June 2015**

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, 2014 and have issued a separate report thereon dated December 29, 2014. 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* (071-0010-15M).

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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 and other auditors audited 35 programs as major programs and reported known questioned costs of \$5.5 million (net). The State expended a total of \$20.8 billion in federal awards during the fiscal year ended September 30, 2014. We issued 27 unmodified opinions, 7 qualified opinions, and 1 adverse opinion. 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 Opinion Issued on Compliance, Known Questioned Costs, and Audit Finding Numbers:

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Known Questioned Costs	Audit Finding Number(s)
10.551 and 10.561	SNAP Cluster, including ARRA	Qualified	\$1,498,832	<u>2014-001</u> <u>2014-002</u> <u>2014-003</u> <u>2014-004</u> <u>2014-010</u>
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster	Unmodified	\$0	<u>2014-009</u> <u>2014-015</u> <u>2014-020</u>
10.565, 10.568, and 10.569	Food Distribution Cluster	Unmodified	\$0	<u>2014-009</u> <u>2014-020</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Unmodified	\$0	<u>2014-004</u> <u>2014-005</u> <u>2014-018</u>
10.558	Child and Adult Care Food Program	Unmodified	\$1,265,549	<u>2014-009</u> <u>2014-015</u> <u>2014-020</u> <u>2014-024</u> <u>2014-025</u> <u>2014-026</u>
14.228	CDBG - State-Administered CDBG Cluster	Unmodified	\$0	Not Applicable
17.258, 17.259, and 17.278	WIA Cluster	Unmodified	\$0	<u>2014-027</u>
20.205 and 20.219	Highway Planning and Construction Cluster, including ARRA	Unmodified	\$0	<u>2014-028</u> <u>2014-029</u>
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants, including ARRA	Unmodified	\$0	<u>2014-030</u> <u>2014-031</u> <u>2014-032</u>
66.458	Clean Water State Revolving Fund Cluster	Unmodified	\$0	Not Applicable
66.468	Drinking Water State Revolving Fund Cluster	Unmodified	\$0	Not Applicable
84.027 and 84.173	Special Education Cluster (IDEA)	Unmodified	\$0	<u>2014-009</u> <u>2014-033</u> <u>2014-034</u>
84.377 and 84.388	School Improvement Grants Cluster, including ARRA	Unmodified	\$0	<u>2014-009</u> <u>2014-035</u>
84.010	Title I Grants to Local Educational Agencies	Unmodified	\$0	<u>2014-009</u> <u>2014-017</u> <u>2014-020</u>
84.048	Career and Technical Education - Basic Grants to States	Unmodified	\$0	<u>2014-009</u> <u>2014-020</u> <u>2014-036</u> <u>2014-037</u>
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Unmodified	\$670,962	<u>2014-010</u> <u>2014-038</u>
84.287	Twenty-First Century Community Learning Centers	Unmodified	\$0	<u>2014-009</u> <u>2014-017</u> <u>2014-020</u> <u>2014-039</u> <u>2014-040</u>
84.367	Improving Teacher Quality State Grants	Unmodified	\$11,353	<u>2014-009</u> <u>2014-017</u> <u>2014-041</u>

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Known Questioned Costs	Audit Finding Number(s)
93.558	TANF Cluster	Adverse	(\$5,203,156)	2014-001 2014-002 2014-003 2014-004 2014-006 2014-010 2014-011 2014-012 2014-018 2014-021 2014-042 2014-043 2014-044 2014-045 2014-046 2014-047 2014-048 2014-049 2014-050 2014-051 2014-052
93.575 and 93.596	CCDF Cluster	Qualified	\$237,886	2014-001 2014-002 2014-004 2014-010 2014-053 2014-054 2014-055 2014-056
93.775, 93.777, and 93.778	Medicaid Cluster, including ARRA	Qualified	\$1,477,954	2014-001 2014-002 2014-003 2014-004 2014-005 2014-007 2014-008 2014-010 2014-011 2014-012 2014-014 2014-016 2014-018 2014-019 2014-022 2014-023 2014-057 2014-058 2014-059 2014-060 2014-061 2014-062 2014-063 2014-064 2014-065 2014-066 2014-067 2014-068 2014-069 2014-070 2014-071 2014-072 2014-073
93.268	Immunization Cooperative Agreements	Unmodified	\$0	2014-004
93.563	Child Support Enforcement	Unmodified	\$0	2014-004 2014-021 2014-074
93.566	Refugee and Entrant Assistance - State Administered Programs <i>(continued on next page)</i>	Unmodified	\$18,213	2014-001 2014-002 2014-004 2014-005 2014-007

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Known Questioned Costs	Audit Finding Number(s)
93.566	Refugee and Entrant Assistance - State Administered Programs (continued)			2014-008 2014-010 2014-011 2014-075 2014-076
93.568	Low-Income Home Energy Assistance	Qualified	\$218,083	2014-001 2014-002 2014-004 2014-010 2014-021 2014-077 2014-078
93.658	Foster Care - Title IV-E, including ARRA	Qualified	\$6,242,649	2014-004 2014-006 2014-010 2014-011 2014-012 2014-013 2014-021 2014-079 2014-080 2014-081
93.659	Adoption Assistance	Qualified	(\$75,874)	2014-004 2014-006 2014-010 2014-011 2014-012 2014-082
93.667	Social Services Block Grant	Unmodified	(\$2,350,520)	2014-004 2014-006 2014-010 2014-011 2014-012 2014-013 2014-021
93.674	Chafee Foster Care Independence Program	Unmodified	\$90,280	2014-004 2014-006 2014-021 2014-083 2014-084
93.958	Block Grants for Community Mental Health Services	Qualified	\$1,294,697	2014-004 2014-019 2014-021 2014-085
93.994	Maternal and Child Health Services Block Grant to the States	Unmodified	\$10	2014-004 2014-005 2014-007 2014-008 2014-014 2014-016 2014-022 2014-023 2014-086 2014-087
96.001	Disability Insurance/SSI Cluster	Unmodified	\$72,765	2014-010 2014-088 2014-089 2014-090

Major Programs Audited by Others

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Known Questioned Costs	Audit Finding Number(s)
14.182 and 14.856	Section 8 Project-Based Cluster	Unmodified	\$0	2014-091
14.239	Home Investment Partnerships Program	Unmodified	\$0	2014-092
17.225	Unemployment Insurance, including ARRA	Unmodified	\$0	2014-093

Total known questioned costs (net)

\$5,469,683



OAG

Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

June 22, 2015

Mr. John S. Roberts, State Budget Director
State Budget Office
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, 2014.

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 recommendations and submit it within 60 days of the date above 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,

Doug Ringler
Auditor General

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SUPPLEMENTAL FINANCIAL SCHEDULE

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
<u>Financial Assistance</u>		
<u>U.S. Department of Agriculture</u>		
SNAP Cluster:		
Direct Programs:		
Supplemental Nutrition Assistance Program (Note 7)	10.551	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	
Pass-Through Program:		
Michigan Fitness Foundation		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	20130971
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		
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	
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	
Voluntary Public Access and Habitat Incentive Program	10.093	
Market Protection and Promotion	10.163	
Specialty Crop Block Grant Program - Farm Bill	10.170	
Organic Certification Cost Share Programs	10.171	
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	
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	
Conservation Stewardship Program	10.924	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 2,594,100,286	\$	\$	\$ 2,594,100,286
129,724,387	20,646,009		150,370,396
	7,500		7,500
<u>\$ 129,724,387</u>	<u>\$ 20,653,509</u>	<u>\$ 0</u>	<u>\$ 150,377,896</u>
<u>\$ 2,723,824,673</u>	<u>\$ 20,653,509</u>	<u>\$ 0</u>	<u>\$ 2,744,478,182</u>
\$ 173,755	\$ 100,288,035	\$	\$ 100,461,790
288,843	293,646,060		293,934,903
	328,197		328,197
714,292	11,215,921		11,930,213
<u>\$ 1,176,890</u>	<u>\$ 405,478,213</u>	<u>\$ 0</u>	<u>\$ 406,655,103</u>
\$ 151,232	\$ 5,396,066	\$	\$ 5,547,298
46,401	2,522,437		2,568,838
<u>\$ 197,633</u>	<u>\$ 7,918,503</u>	<u>\$ 0</u>	<u>\$ 8,116,136</u>
\$	\$ 3,644,992	\$	\$ 3,644,992
<u>\$ 0</u>	<u>\$ 3,644,992</u>	<u>\$ 0</u>	<u>\$ 3,644,992</u>
\$ 1,022,077	\$ 11,811	\$	\$ 1,033,888
268,321			268,321
1,209,729			1,209,729
161,451	1,140,093		1,301,544
155,781			155,781
125,000			125,000
139,842,609	44,240,399		184,083,008
992,050	63,000,727		63,992,777
7,155,597			7,155,597
350,986	20,159		371,145
289,920			289,920
227,200			227,200
947,433	(4,149)		943,284
2,417			2,417
134,306	3,374,708		3,509,014
36,413			36,413
1,484,284	454,260		1,938,544
81,311			81,311
22,162			22,162
113,104			113,104
91,489			91,489
	179,457		179,457
	206,210		206,210
	127		127

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
Agricultural Conservation Easement Program	10.931	
Cost Share Agreement	10.**	
Forest Service Drug Team	10.09-LE-11091000-030	
Total Direct Programs		
The Gypsy Moth Slow the Spread Foundation, Inc.		
Forest Health Protection	10.680	307114
Total Pass-Through Programs		
Total U.S. Department of Agriculture		
<u>U.S. Department of Commerce</u>		
Direct Programs:		
Interjurisdictional Fisheries Act of 1986	11.407	
Coastal Zone Management Administration Awards	11.419	
State and Local Implementation Grant Program	11.549	
Measurement and Engineering Research and Standards	11.609	
Total U.S. Department of Commerce		
<u>U.S. Department of Defense</u>		
Direct Programs:		
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	
Electronic Absentee Systems for Elections	12.217	
Military Construction, National Guard	12.400	
National Guard Military Operations and Maintenance (O&M) Projects	12.401	
National Guard ChalleNGe Program	12.404	
Defense Activity for Non-Traditional Education Support	12.N3569710MDTSTOP**	
Defense Activity for Non-Traditional Education Support	12.N3569713MDTSTOP**	
Estuary Habitat Restoration Program	12.W912P4-11-2-0001**	
Total U.S. Department of Defense		
<u>U.S. Department of Housing and Urban Development</u>		
Section 8 Project-Based Cluster:		
Direct Programs:		
Section 8 Contract Administration	14.182	
Section 8 New Construction/Substantial Rehabilitation	14.182	
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	
Total Section 8 Project-Based Cluster		
CDBG - State-Administered CDBG Cluster:		
Direct Program:		
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 Programs:		
Section 8 Housing Choice Vouchers	14.871	
Mainstream Vouchers	14.879	
Total Housing Voucher Cluster		
Direct Programs:		
Housing Counseling Assistance Program	14.169	
Emergency Solutions Grant Program	14.231	
Supportive Housing Program	14.235	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$	\$ 18,322	\$	\$ 18,322
175,935			175,935
5,290			5,290
<u>\$ 154,894,865</u>	<u>\$ 112,642,124</u>	<u>\$ 0</u>	<u>\$ 267,536,989</u>
\$ 8,200	\$	\$	\$ 8,200
<u>\$ 8,200</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,200</u>
\$ 2,880,102,261	\$ 550,337,341	\$ 0	\$ 3,430,439,602
\$ 11,206	\$	\$	\$ 11,206
1,905,719	1,130,141		3,035,860
472,989			472,989
749,401			749,401
<u>\$ 3,139,315</u>	<u>\$ 1,130,141</u>	<u>\$ 0</u>	<u>\$ 4,269,456</u>
\$ 750,522	\$	\$	\$ 750,522
38,554			38,554
1,084,211			1,084,211
55,727,876		5,806,740	61,534,616
2,350,171	2,133,398		4,483,569
27			27
162,045			162,045
17,644			17,644
<u>\$ 60,131,050</u>	<u>\$ 2,133,398</u>	<u>\$ 5,806,740</u>	<u>\$ 68,071,188</u>
\$ 6,699,304	\$ 211,230,600	\$	\$ 217,929,904
	103,222,253		103,222,253
	1,196,816		1,196,816
<u>\$ 6,699,304</u>	<u>\$ 315,649,669</u>	<u>\$ 0</u>	<u>\$ 322,348,973</u>
\$ 1,371,204	\$ 24,213,392	\$	\$ 25,584,596
<u>\$ 1,371,204</u>	<u>\$ 24,213,392</u>	<u>\$ 0</u>	<u>\$ 25,584,596</u>
\$ 13,486,913	\$ 153,180,958	\$	\$ 166,667,871
	241,539		241,539
<u>\$ 13,486,913</u>	<u>\$ 153,422,497</u>	<u>\$ 0</u>	<u>\$ 166,909,410</u>
\$ 400,191	\$	\$	\$ 400,191
	3,982,642		3,982,642
399,353	4,685,399		5,084,752

STATE OF MICHIGAN
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended September 30, 2014
 Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
Shelter Plus Care	14.238	
Home Investment Partnerships Program	14.239	
Home Investment Partnerships Program - Technical Assistance	14.239	
Housing Opportunities for Persons with AIDS	14.241	
ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	14.256	
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		
Total U.S. Department of Housing and Urban Development		
<u>U.S. Department of the Interior</u>		
Fish and Wildlife Cluster:		
Direct Programs:		
Sport Fish Restoration Program	15.605	
Wildlife Restoration and Basic Hunter Education	15.611	
Total Fish and Wildlife Cluster		
Direct Programs:		
Keweenaw National Historical Park (NHP) and Keweenaw NHP Advisory Commission Partner Enhancement Grants	15.407	
Fish and Wildlife Management Assistance	15.608	
Cooperative Endangered Species Conservation Fund	15.615	
Clean Vessel Act Program	15.616	
Sportfishing and Boating Safety Act	15.622	
Enhanced Hunter Education and Safety Program	15.626	
State Wildlife Grants	15.634	
Endangered Species Conservation Recovery Implementation Funds	15.657	
Great Lakes Restoration	15.662	
Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	15.666	
Historic Preservation Fund Grants-In-Aid	15.904	
Outdoor Recreation - Acquisition, Development and Planning	15.916	
Cost Share Agreement	15.**	
Total Direct Programs		
Pass-Through Program:		
Huron Pines		
Great Lakes Restoration	15.662	F13AP00599
Total U.S. Department of the Interior		
<u>U.S. Department of Justice</u>		
JAG Program Cluster:		
Direct Programs:		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	
Total JAG Program Cluster		
Direct Programs:		
Sexual Assault Services Formula Program	16.017	
Juvenile Accountability Block Grants	16.523	
Supervised Visitation, Safe Havens for Children	16.527	
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$	\$ 4,970,919	\$	\$ 4,970,919
177,517	26,057,104		26,234,621
	66,404		66,404
29,882	1,196,954		1,226,836
2,470,220	1,769,561		4,239,781
1,072,000			1,072,000
567,060	189,158		756,218
146,957	20,843		167,800
<u>\$ 5,263,180</u>	<u>\$ 42,938,984</u>	<u>\$ 0</u>	<u>\$ 48,202,164</u>
\$ 26,820,601	\$ 536,224,542	\$ 0	\$ 563,045,143

\$ 13,773,185	\$	\$	\$ 13,773,185
18,920,661	4,200		18,924,861
<u>\$ 32,693,846</u>	<u>\$ 4,200</u>	<u>\$ 0</u>	<u>\$ 32,698,046</u>

\$ 11,132	\$	\$	\$ 11,132
495,124	21,991		517,115
71,135			71,135
20,837	22,974		43,811
745,547			745,547
231,136			231,136
1,727,209	5,543		1,732,752
47,616			47,616
1,252,664	85,208		1,337,872
22,000			22,000
1,197,417	95,183		1,292,600
118,183	312,563		430,746
6,740			6,740
<u>\$ 5,946,740</u>	<u>\$ 543,462</u>	<u>\$ 0</u>	<u>\$ 6,490,202</u>

\$ 110,982	\$	\$	\$ 110,982
\$ 38,751,568	\$ 547,662	\$ 0	\$ 39,299,230

\$ 4,431,002	\$ 2,239,789	\$	\$ 6,670,791
357,339			357,339
<u>\$ 4,788,341</u>	<u>\$ 2,239,789</u>	<u>\$ 0</u>	<u>\$ 7,028,130</u>

\$ 7,831	\$ 291,763	\$	\$ 299,594
124,902	412,644		537,546
	154,006		154,006
6,540	88,411		94,951
410,966	92,098		503,064

STATE OF MICHIGAN
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended September 30, 2014
 Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
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	
Crime Victim Compensation	16.576	
Violence Against Women Formula Grants	16.588	
ARRA - Violence Against Women Formula Grants	16.588	
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	
PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	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 Initiative	16.746	
Support for Adam Walsh Act Implementation Grant Program	16.750	
Edward Byrne Memorial Competitive Grant Program	16.751	
Second Chance Act Reentry Initiative	16.812	
John R. Justice Prosecutors and Defenders Incentive Act	16.816	
ATF	16.**	
ATF OT 8th District	16.**	
DEA - Tactical Diversion Task Force	16.**	
Detroit Area Corruption Task Force (DACTF)	16.**	
Detroit Major Crimes Task Force (DMCTF)	16.**	
District Fugitive Task Force	16.**	
Equitable Sharing of Federally Forfeited Property	16.**	
Firearms Investigative Team	16.**	
Joint Terrorism Task Force	16.**	
Oakland County Violent Gang Task Force	16.**	
Saginaw County Safe Streets Task Force	16.**	
Straits Area Safe Trails Task Force (SASTT)	16.**	
US Marshal - Sex Offender Sweeps	16.**	
US Marshal Fugitive Task Force	16.**	
US Marshal Western District	16.**	
Violent Crimes Task Force	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 (SEMCAAC)	16.31E-DE-C100515**	
FANG OCDEF	16.GL-MIE-0472**	
FANG OCDEF	16.GL-MIE-0479**	
JNET OCDEF	16.GL-MIE-0498**	
Tri County Metro OCDEF	16.GL-MIW-125**	
UPSET OCDEF	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

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 420,713	\$	\$	\$ 420,713
153,355	100,000		253,355
164,437			164,437
374,870	12,398,948		12,773,818
2,548,965			2,548,965
	3,021,938		3,021,938
26,096			26,096
274,520	36,578		311,098
392,996	6,615		399,611
520,621			520,621
36,895			36,895
672,255			672,255
83,707			83,707
21,490			21,490
60,901			60,901
32,356			32,356
3,851,645			3,851,645
527,831			527,831
16,129			16,129
98,835			98,835
130,739			130,739
54,317			54,317
67,759			67,759
26,993			26,993
8,993			8,993
4,468			4,468
218			218
8,981			8,981
87,876			87,876
44,744			44,744
9,470			9,470
26,016			26,016
7,521			7,521
18,043			18,043
5,698			5,698
31,960			31,960
74,233			74,233
39,081			39,081
25,887			25,887
55,117			55,117
108,105	23,447		131,552
329,144	60,064		389,208
41,172			41,172
32,272			32,272
10,041			10,041
11,967			11,967
5,600			5,600
6,815			6,815
7,838			7,838
<u>\$ 12,109,924</u>	<u>\$ 16,686,512</u>	<u>\$ 0</u>	<u>\$ 28,796,436</u>
\$ 4,356	\$	\$	\$ 4,356

STATE OF MICHIGAN
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended September 30, 2014
 Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
Childrens Aid Society Project Safe Neighborhood	16.**	2012-GPBX-0011
Total Pass-Through Programs		
Total U.S. Department of Justice		
<u>U.S. Department of Labor</u>		
Employment Service Cluster:		
Direct Programs:		
Employment Service/Wagner-Peyser Funded Activities	17.207	
Disabled Veterans' Outreach Program (DVOP)	17.801	
Local Veterans' Employment Representative 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	
Workforce Investment Act (WIA) National Emergency Grants	17.277	
Occupational Safety and Health - State Program	17.503	
Consultation Agreements	17.504	
Total Direct Programs		
Total U.S. Department of Labor		
<u>U.S. Department of State</u>		
Pass-Through Program:		
University of Wisconsin-Milwaukee Environmental and Scientific Partnerships and Programs	19.017	133405533; MIL
Total U.S. Department of State		
<u>U.S. Department of Transportation</u>		
Highway Planning and Construction Cluster:		
Direct Programs:		
Highway Planning and Construction	20.205	
ARRA - Highway Planning and Construction	20.205	
Recreational Trails Program	20.219	
Total Highway Planning and Construction Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 26,295	\$	\$	\$ 26,295
\$ 30,651	\$ 0	\$ 0	\$ 30,651
\$ 16,928,916	\$ 18,926,301	\$ 0	\$ 35,855,217
\$ 10,038,179	\$ 14,509,169	\$	\$ 24,547,348
4,111,145			4,111,145
1,025,508			1,025,508
\$ 15,174,832	\$ 14,509,169	\$ 0	\$ 29,684,001
\$ 1,305,732	\$ 33,012,685	\$	\$ 34,318,417
1,464,144	32,815,154		34,279,298
2,674,783	32,097,325		34,772,108
\$ 5,444,659	\$ 97,925,164	\$ 0	\$ 103,369,823
\$ 1,986,000	\$	\$	\$ 1,986,000
240,395			240,395
1,334,037,653	1,430,393		1,335,468,046
66,360,900			66,360,900
36,270	2,770,187		2,806,457
3,242,714	12,400,547		15,643,261
479,214			479,214
(429,548)			(429,548)
93,822	2,383,431		2,477,253
9,933,700			9,933,700
1,641,400			1,641,400
\$ 1,417,622,520	\$ 18,984,558	\$ 0	\$ 1,436,607,078
\$ 1,438,242,011	\$ 131,418,891	\$ 0	\$ 1,569,660,902
\$ 13,575	\$	\$	\$ 13,575
\$ 13,575	\$ 0	\$ 0	\$ 13,575
\$ 1,175,836,394	\$ 43,650,307	\$	\$ 1,219,486,701
641,346			641,346
2,978,720			2,978,720
\$ 1,179,456,460	\$ 43,650,307	\$ 0	\$ 1,223,106,767

STATE OF MICHIGAN
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended September 30, 2014
 Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
Federal Transit Cluster:		
Direct Program:		
Federal Transit - Capital Investment Grants	20.500	
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		
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 Improvement 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	
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 and State and Non-Metropolitan Planning and Research	20.505	
Formula Grants for Rural Areas	20.509	
Public Transportation Research	20.514	
Paul S. Sarbanes Transit in the Parks	20.520	
ARRA - Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523	
National Priority Safety Programs	20.616	
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		
Total U.S. Department of Transportation		
<u>U.S. Department of Treasury</u>		
Direct Program:		
Exchange of Federal Tax Information With State Tax Agencies	21.**	
Total Direct Program		
Pass-Through Program:		
Neighborhood Works		
National Foreclosure Mitigation Counseling	21.**	PL113-6X1350
Total Pass-Through Program		
Total U.S. Department of Treasury		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 8,907,402	\$	\$	\$ 8,907,402
<u>\$ 8,907,402</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,907,402</u>
\$	\$ 3,729,844	\$	\$ 3,729,844
	1,155,179		1,155,179
	1,102,408		1,102,408
<u>\$ 0</u>	<u>\$ 5,987,431</u>	<u>\$ 0</u>	<u>\$ 5,987,431</u>
\$ 4,528,249	\$ 3,075,852	\$	\$ 7,604,101
472,051	177,722		649,773
366,686			366,686
192,031			192,031
23,560	18,389		41,949
338,170	(424)		337,746
<u>\$ 5,920,747</u>	<u>\$ 3,271,539</u>	<u>\$ 0</u>	<u>\$ 9,192,286</u>
\$ 14,407,689	\$	\$	\$ 14,407,689
6,509,915	160,069		6,669,984
298,252			298,252
117,009			117,009
82,203,928	9,137,806		91,341,734
	5,778,937		5,778,937
6,400	1,284,432		1,290,832
972,100	20,005,153		20,977,253
	518,737		518,737
	164,444		164,444
	951,432		951,432
3,818,566	1,239,067		5,057,633
889,661			889,661
533,772			533,772
	71,920		71,920
	18,060		18,060
<u>\$ 109,757,292</u>	<u>\$ 39,330,057</u>	<u>\$ 0</u>	<u>\$ 149,087,349</u>
\$ 1,304,041,901	\$ 92,239,334	\$ 0	\$ 1,396,281,235
\$ 218,277	\$	\$	\$ 218,277
<u>\$ 218,277</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 218,277</u>
\$ 39,396	\$ 419,814	\$	\$ 459,210
<u>\$ 39,396</u>	<u>\$ 419,814</u>	<u>\$ 0</u>	<u>\$ 459,210</u>
\$ 257,673	\$ 419,814	\$ 0	\$ 677,487

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
<u>Equal Employment Opportunity Commission</u>		
Direct Program:		
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	
Total Equal Employment Opportunity Commission		
<u>National Endowment for the Arts</u>		
Direct Programs:		
Promotion of the Arts - Partnership Agreements	45.025	
Grants to States	45.310	
Total National Endowment for the Arts		
<u>U.S. Department of Veterans Affairs</u>		
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	
Total U.S. Department of Veterans Affairs		
<u>U.S. Environmental Protection Agency</u>		
Clean Water State Revolving Fund Cluster:		
Direct Program:		
Capitalization Grants for Clean Water State Revolving Funds	66.458	
Total Clean Water State Revolving Fund Cluster		
Drinking Water State Revolving Fund Cluster:		
Direct Program:		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	
Total Drinking Water State Revolving Fund Cluster		
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	
Nonpoint Source Implementation Grants	66.460	
Regional Wetland Program Development Grants	66.461	
Great Lakes Program	66.469	
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	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 788,000	\$	\$	\$ 788,000
\$ 788,000	\$ 0	\$ 0	\$ 788,000
\$ 5,022,673	\$ 713,105	\$	\$ 5,022,673
\$ 5,022,673	\$ 713,105	\$ 0	\$ 5,735,778
\$ 158,871	\$	\$	\$ 158,871
957,155			957,155
25,796,107			25,796,107
379,873			379,873
\$ 27,292,006	\$ 0	\$ 0	\$ 27,292,006
\$ 2,418,812	\$ 45,105,681	\$	\$ 47,524,493
\$ 2,418,812	\$ 45,105,681	\$ 0	\$ 47,524,493
\$ 5,478,720	\$ 35,961,346	\$	\$ 41,440,066
\$ 5,478,720	\$ 35,961,346	\$ 0	\$ 41,440,066
\$ 4,450,328	\$ 41,862	\$	\$ 4,492,190
256,608			256,608
341,336	53,961		395,297
7,996	167,370		175,366
385,792			385,792
4,213,000			4,213,000
409,064	503,436		912,500
13,509	2,620,385		2,633,894
543,464	98,013		641,477
3,021,792	2,875,674		5,897,466
142,303	108,652		250,955
92,651			92,651
11,639,456			11,639,456
118,116	74,927		193,043
370,940	56,304		427,244
50,718	63,244		113,962
35,288			35,288
3,460,720			3,460,720
1,105,951	48,544		1,154,495
739,000			739,000

STATE OF MICHIGAN
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended September 30, 2014
 Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	
State and Tribal Response Program Grants	66.817	
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	
Total Direct Programs		
Pass-Through Program:		
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
Total U.S. Environmental Protection Agency		
<u>U.S. Department of Energy</u>		
Direct Programs:		
State Energy Program	81.041	
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	
Total U.S. Department of Energy		
<u>U.S. Department of Education</u>		
Student Financial Assistance Cluster:		
Direct Programs:		
Federal Supplemental Educational Opportunity Grants	84.007	
Federal Pell Grant Program	84.063	
Total Student Financial Assistance Cluster		
Special Education Cluster (IDEA):		
Direct Programs:		
Special Education - Grants to States	84.027	
Special Education - Preschool Grants	84.173	
Total Special Education Cluster (IDEA)		
Statewide Data Systems Cluster:		
Direct Program:		
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	
Title I Grants to Local Educational Agencies	84.010	
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	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 1,285,634	\$	\$	\$ 1,285,634
112,950			112,950
993,509			993,509
45,642			45,642
\$ 33,835,767	\$ 6,712,372	\$ 0	\$ 40,548,139
\$ 5,565	\$	\$	\$ 5,565
\$ 41,738,864	\$ 87,779,399	\$ 0	\$ 129,518,263
\$ 1,013,908	\$ 128,707	\$	\$ 1,142,615
495,797	10,712,407		11,208,204
120,626	988,919		1,109,545
51,389	763,613		815,002
116,656	364,567		481,223
\$ 1,798,376	\$ 12,958,213	\$ 0	\$ 14,756,589
\$ 36,247	\$	\$	\$ 36,247
449,316			449,316
\$ 485,563	\$ 0	\$ 0	\$ 485,563
\$ 20,296,044	\$ 363,281,918	\$	\$ 383,577,962
749,068	10,738,857		11,487,925
\$ 21,045,112	\$ 374,020,775	\$ 0	\$ 395,065,887
\$ 1,305,637	\$ 406,062	\$	\$ 1,711,699
\$ 1,305,637	\$ 406,062	\$ 0	\$ 1,711,699
\$ 641,188	\$ 12,407,031	\$	\$ 13,048,219
1,144,458	23,636,027		24,780,485
\$ 1,785,646	\$ 36,043,058	\$ 0	\$ 37,828,704
\$ 190,281	\$	\$	\$ 190,281
1,851,121	9,931,538		11,782,659
6,012,302	532,359,335		538,371,637
736,048	7,964,991		8,701,039
877,699			877,699
156,317,181			156,317,181

STATE OF MICHIGAN
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended September 30, 2014
 Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
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	
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	
Special Education - Grants for Infants and Families	84.181	
Safe and Drug-Free Schools and Communities - National Programs	84.184	
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	
Education for Homeless Children and Youth	84.196	
Assistive Technology	84.224	
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	
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	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	
ARRA - Special Education Grants to States, Recovery Act	84.391	
Race to the Top Early Learning Challenge	84.412	
Total Direct Programs		
Total U.S. Department of Education		
<u>National Archives and Records Administration</u>		
Direct Program:		
National Historical Publications and Records Grants	89.003	
Total National Archives and Records Administration		
<u>U.S. Election Assistance Commission</u>		
Direct Program:		
Help America Vote Act Requirements Payments	90.401	
Total U.S. Election Assistance Commission		
<u>U.S. Department of Health and Human Services</u>		
Aging Cluster:		
Direct Programs:		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	
Nutrition Services Incentive Program	93.053	
Total Aging Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ (12,669,519)	\$	\$	\$ (12,669,519)
3,453,254	32,375,035		35,828,289
95,601,840	3,085,398		98,687,238
29,727			29,727
290,989	306,560		597,549
835,174	245,873		1,081,047
829,715	11,267,589		12,097,304
1,259,298	4,677,882		5,937,180
594,670			594,670
389,419	1,751,907		2,141,326
7,789	686,965		694,754
221,085			221,085
462,030	6,238,979		6,701,009
1,078,553	34,183,282		35,261,835
	1,724,698		1,724,698
7,175			7,175
650,589	3,351,878		4,002,467
6,722,501			6,722,501
123,906	2,705,185		2,829,091
423,939	10,971,749		11,395,688
620,985	4,942,160		5,563,145
1,502,270	91,089,279		92,591,549
8,843,943			8,843,943
	(1,543)		(1,543)
	(1,200,553)		(1,200,553)
	(724)		(724)
123,022			123,022
<u>\$ 277,386,986</u>	<u>\$ 758,657,463</u>	<u>\$ 0</u>	<u>\$ 1,036,044,449</u>
\$ 302,008,944	\$ 1,169,127,358	\$ 0	\$ 1,471,136,302
<u>\$ 1,426</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,426</u>
\$ 1,426	\$ 0	\$ 0	\$ 1,426
<u>\$ 1,094,878</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,094,878</u>
\$ 1,094,878	\$ 0	\$ 0	\$ 1,094,878
\$ 636,462	\$ 10,679,791	\$	\$ 11,316,253
968,149	19,169,639		20,137,788
	7,434,636		7,434,636
<u>\$ 1,604,611</u>	<u>\$ 37,284,066</u>	<u>\$ 0</u>	<u>\$ 38,888,677</u>

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
TANF Cluster:		
Direct Program:		
Temporary Assistance for Needy Families (Note 14)	93.558	
Total TANF Cluster		
CCDF Cluster:		
Direct Programs:		
Child Care and Development Block Grant (Note 14)	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	
Environmental Public Health and Emergency Response	93.070	
Medicare Enrollment Assistance Program	93.071	
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077	
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	
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	
Family Planning - Services	93.217	
Traumatic Brain Injury State Demonstration Grant Program	93.234	
Affordable Care Act (ACA) Abstinence Education Program	93.235	
Grants to States to Support Oral Health Workforce Activities	93.236	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 627,914,021	\$ 60,321,004	\$	\$ 688,235,025
<u>\$ 627,914,021</u>	<u>\$ 60,321,004</u>	<u>\$ 0</u>	<u>\$ 688,235,025</u>
\$ 48,960,844	\$	\$	\$ 48,960,844
71,460,988	1,611,247		73,072,235
<u>\$ 120,421,832</u>	<u>\$ 1,611,247</u>	<u>\$ 0</u>	<u>\$ 122,033,079</u>
\$ 4,044,807	\$	\$	\$ 4,044,807
13,120,220			13,120,220
9,637,995,561	49,277,820		9,687,273,381
48,724,912	4,374,256		53,099,168
<u>\$ 9,703,885,500</u>	<u>\$ 53,652,076</u>	<u>\$ 0</u>	<u>\$ 9,757,537,576</u>
\$	\$ 160,862	\$	\$ 160,862
330,172	174,468		504,640
	642,816		642,816
126,518	385,457		511,975
38,337	96,368		134,705
218,571	4,444,828		4,663,399
479,331	145,494		624,825
8,378,131	8,308,025		16,686,156
256,631	381,174		637,805
11,762	703,427		715,189
40,538			40,538
247,030	35,770		282,800
25,812			25,812
2,425,608			2,425,608
261,423	1,386,844		1,648,267
385,407	794,118		1,179,525
805,030	47,332		852,362
401,693	396,139		797,832
972,467			972,467
106,962			106,962
109,023	181,950		290,973
316,752	926,002		1,242,754
92,020	1,574,218		1,666,238
53,972	1,166,956		1,220,928
232,001	117,543		349,544
744,050			744,050
122,252	200,621		322,873
1,583,072	5,682,238		7,265,310
75,523			75,523
467,399	1,023,102		1,490,501
29,636	240,965		270,601

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Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014
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Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
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	
Rural Access to Emergency Devices Grant and Public Access to Defibrillation Demonstration Grant	93.259	
Immunization Cooperative Agreements	93.268	
Adult Viral Hepatitis Prevention and Control	93.270	
Drug-Free Communities Support Program Grants	93.276	
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	
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	
State Health Insurance Assistance Program	93.324	
Nurse Education, Practice Quality and Retention Grants	93.359	
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	
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	93.506	
PPHF 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 (ACA) Consumer Assistance Program Grants	93.519	
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	
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 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	
PPHF: State Nutrition, Physical Activity, and Obesity Programs - financed in part by 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	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	
Adoption Incentive Payments	93.603	
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	

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 434,194	\$	\$	\$ 434,194
28,211	534,086		562,297
534,424	2,301,905		2,836,329
190,189	58,765		248,954
	200,000		200,000
4,106,177	4,937,944		9,044,121
801,335	2,500		803,835
1,590			1,590
4,738,929	1,931,565		6,670,494
2,741	151,923		154,664
6,774	413,609		420,383
35,026			35,026
6,884	695,000		701,884
112,471	529,114		641,585
226,651			226,651
220,785			220,785
164,381	788,051		952,432
1,695,099	4,260,711		5,955,810
4,966	336,186		341,152
283,531	156,709		440,240
1,613,367			1,613,367
(214)	(329)		(543)
146,058			146,058
2,309,435	24,000		2,333,435
224,067			224,067
130,775	52,463		183,238
(7,068)	(3,999)		(11,067)
7,399,883	3,162,174		10,562,057
57,124,552	93,005,220		150,129,772
35,032	46,753		81,785
13,764,607	6,015,833		19,780,440
119,724,546	48,817,856		168,542,402
	24,259,307		24,259,307
872,023	244,827		1,116,850
301	1,618,766		1,619,067
839,819			839,819
	772,158		772,158
237,579			237,579
	1,435,901		1,435,901
85,134			85,134
(499)			(499)
101,747	632,870		734,617
100,772	161,534		262,306
153,257	535,058		688,315
1,463,303	1,024,113		2,487,416
468,321			468,321
9,019,652			9,019,652
	463,744		463,744
152,231,219	25,522		152,256,741
(1,762)			(1,762)

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 Schedule of Expenditures of Federal Awards
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Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
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/Domestic Violence Shelter and Supportive Services	93.671	
Chafee Foster Care Independence Program	93.674	
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)	93.733	
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs financed by Prevention and Public Health Funds (PPHF)	93.734	
State Public Health Approaches for Ensuring Qitline Capacity/Funded in part by Prevention and Public Health Funds (PPHF)	93.735	
PPHF: Health Care Surveillance/Health Statistics Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	93.745	
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	93.752	
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity and Associated Risk Factors and Promote School Health financed in part by Prevention and Public Health Funding (PPHF)	93.757	
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	
Children's Health Insurance Program	93.767	
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	
Grants to States for Operation of Offices of Rural Health	93.913	
HIV Care Formula Grants	93.917	
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	
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	
Preventive Health and Health Services Block Grant	93.991	
Maternal and Child Health Services Block Grant to the States	93.994	
ARRA - SEARCH Contract	93.HSH25020090033C	
Behavioral Health Services Information System (Synectics)	93.**	
Genotyping TB	93.**	
Michigan ART Linkage Project	93.**	
National Death Index	93.**	
PFC Analysis of Fish Samples	93.**	
Social Security Administration - Birth Record Contract	93.**	
Social Security Administration - Death Records	93.**	
State Data Collection Contract (Synectics)	93.**	

This schedule continued on next page.

	Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$	117,012,473	\$	\$	\$ 117,012,473
	124,822,804	2,266,666		127,089,470
	314,164	788,420		1,102,584
		2,286,875		2,286,875
	2,829,591	585,400		3,414,991
		1,058,293		1,058,293
	1,247,697	133,040		1,380,737
	64,540	314,389		378,929
	596,349			596,349
	4,127	238,560		242,687
	393,426	458,518		851,944
	89,220	22,135		111,355
	49,792	21,287		71,079
	102,700,004	(41,464)		102,658,540
	3,122	601,034		604,156
	9,951,738	51,396		10,003,134
	7,360,174			7,360,174
	3,756,441	5,272,787		9,029,228
	227,592	39,749		267,341
	14,152,110	5,018,861		19,170,971
	3,671,880	2,633,321		6,305,201
	200			200
	665,898	5,633,790		6,299,688
	1,707,887	40,000		1,747,887
	1,249,619	1,067,281		2,316,900
	75,020	60,000		135,020
	2,242,232	8,077,136		10,319,368
	1,172,343	50,357,944		51,530,287
	229,857	2,292,317		2,522,174
	352	63,003		63,355
	340,206	513,483		853,689
	9,371,500	8,955,219		18,326,719
		(1,683)		(1,683)
	33,726			33,726
	784,593			784,593
	38,548	38,184		76,732
	61,074			61,074
	17,000			17,000
	277,142			277,142
	132,364			132,364
	109,424			109,424

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
State Demo Dual Eligible	93.**	
Vital Statistics - CDC NCHS Contract	93.**	
Total Direct Programs		
Pass-Through Programs:		
National Association of County & City Health Officials Medical Reserve Corps Small Grant Program	93.008	2011-041213
Association of Public Health Laboratories, Inc. Laboratory Leadership, Workforce Training and Management Development, Improving Public Health Laboratory Infrastructure	93.065	56400-200-621-14-26
Regents of the University of Michigan Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	3002169610
Research on Healthcare Costs, Quality and Outcomes	93.226	3002290116
Michigan State University Occupational Safety and Health Program	93.262	61-0406MDCH
Council of State & Territorial Epidemiologists Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	20133804
National Association of Chronic Disease Directors Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	1542013
Regents of the University of Michigan Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	3002589193
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
American College of Obstetricians and Gynecologists HIV Demonstration, Research, Public and Professional Education Projects	93.941	20132049
Northeastern University Consultant Professional Services	93.**	20142083
John Snow, Inc. Evaluation Associated with HIV Testing	93.**	13283-1051
National Association of State Mental Health Program Directors NASMHPD Employment Development Initiative - EDI	93.**	SC-1042-MI-01
NASMHPD Transformation Transfer Initiative (TTI)	93.**	SC-1026-MI-01
University of Utah Novel Technologies in Newborn Screening	93.**	10019195-02
National Association of State Mental Health Program Directors Technical Assistance Coalition (TAC) - Transformation Transfer Initiative (TTI)	93.**	SC-1060-MI-01
Total Pass-Through Programs		

Total U.S. Department of Health and Human Services

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 26,580	\$ 161,072	\$	\$ 187,652
678,168			678,168
<u>\$ 809,428,364</u>	<u>\$ 327,815,569</u>	<u>\$ 0</u>	<u>\$ 1,137,243,933</u>
\$ 10,000	\$ 5,000	\$	\$ 15,000
18,000			18,000
81,348			81,348
20,540	123,218		143,758
145,480	12,000		157,480
12,500			12,500
107,751	48,745		156,496
50,000			50,000
53,023			53,023
6,050			6,050
	(500)		(500)
5,000			5,000
(1)			(1)
1,302			1,302
83,674	(103,539)		(19,865)
(9,467)			(9,467)
70,306			70,306
<u>\$ 655,506</u>	<u>\$ 84,924</u>	<u>\$ 0</u>	<u>\$ 740,430</u>
<u>\$ 11,263,909,834</u>	<u>\$ 480,768,886</u>	<u>\$ 0</u>	<u>\$ 11,744,678,720</u>

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
<u>U.S. Corporation for National and Community Service</u>		
Direct Programs:		
State Commissions	94.003	
AmeriCorps	94.006	
Program Development and Innovation Grants	94.007	
Volunteer Generation Fund	94.021	
Total U.S. Corporation for National and Community Service		
<u>Executive Office of the President</u>		
Direct Program:		
High Intensity Drug Trafficking Areas Program	95.001	
Total Executive Office of the President		
<u>Social Security Administration</u>		
Disability Insurance/SSI Cluster:		
Direct Program:		
Social Security - Disability Insurance	96.001	
Total Social Security Administration		
<u>U.S. Department of Homeland Security</u>		
Direct Programs:		
Interoperable Emergency Communications Grant Program	97.001	
Non-Profit Security Program	97.008	
Boating Safety Financial Assistance	97.012	
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	
Flood Mitigation Assistance	97.029	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	
Hazard Mitigation Grant	97.039	
National Dam Safety Program	97.041	
Emergency Management Performance Grants	97.042	
State Fire Training Systems Grants	97.043	
Cooperating Technical Partners	97.045	
Pre-Disaster Mitigation	97.047	
Port Security Grant Program	97.056	
Homeland Security Grant Program	97.067	
Driver's License Security Grant Program	97.089	
Homeland Security Biowatch Program	97.091	
Repetitive Flood Claims	97.092	
Border Interoperability Demonstration Project	97.120	
BIOWATCH Laboratory Support	97.**	
Total U.S. Department of Homeland Security		
TOTAL FINANCIAL ASSISTANCE		
<u>Nonfinancial Assistance (Note 6):</u>		
<u>U.S. Department of Agriculture</u>		
Child Nutrition Cluster:		
Direct Programs:		
National School Lunch Program	10.555	
Summer Food Service Program for Children	10.559	
Total Child Nutrition Cluster		

This schedule continued on next page.

Directly Expended	Distributed to Subrecipients	In-Kind Assistance (Note 15)	Total Expended, Distributed, and In-Kind Assistance
\$ 442,473	\$ 105,273	\$	\$ 547,746
(126,349)	5,887,097		5,760,748
16,556			16,556
	457,331		457,331
\$ 332,680	\$ 6,449,701	\$ 0	\$ 6,782,381
\$ 494,528	\$	\$	\$ 494,528
\$ 494,528	\$ 0	\$ 0	\$ 494,528
\$ 82,592,709	\$	\$	\$ 82,592,709
\$ 82,592,709	\$ 0	\$ 0	\$ 82,592,709
\$	\$ 2,220,000	\$	\$ 2,220,000
	731,797		731,797
4,547,940	563,196		5,111,136
243,091			243,091
	(214,858)		(214,858)
40,933	3,973,035		4,013,968
4,461	(25,178)		(20,717)
95,731			95,731
6,698,891	2,741,359		9,440,250
17,426			17,426
120,521			120,521
	(35,832)		(35,832)
25,000			25,000
3,514,146	22,277,946		25,792,092
31,961			31,961
1,784,806			1,784,806
	(44,800)		(44,800)
1	1,970,255		1,970,256
49,859			49,859
\$ 17,174,767	\$ 34,156,920	\$ 0	\$ 51,331,687
\$ 17,512,678,556	\$ 3,125,331,006	\$ 5,806,740	\$ 20,643,816,302
\$ 5,671	\$ 42,070,674	\$	\$ 42,076,345
	66,861		66,861
\$ 5,671	\$ 42,137,535	\$ 0	\$ 42,143,206

STATE OF MICHIGAN
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number
Food Distribution Cluster:		
Direct Programs:		
Commodity Supplemental Food Program	10.565	
Emergency Food Assistance Program (Food Commodities)	10.569	
Total Food Distribution Cluster		
Total U.S. Department of Agriculture		
<u>General Services Administration</u>		
Direct Program:		
Donation of Federal Surplus Personal Property (Note 10)	39.003	
Total General Services Administration		
<u>U.S. Environmental Protection Agency</u>		
Direct Programs:		
Air Pollution Control Program Support	66.001	
Performance Partnership Grants	66.605	
Hazardous Waste Management State Program Support	66.801	
Total U.S. Environmental Protection Agency		
<u>U.S. Department of Health and Human Services</u>		
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	
Total U.S. Department of Health and Human Services		
TOTAL NONFINANCIAL ASSISTANCE		
TOTAL EXPENDITURES OF FEDERAL AWARDS		

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

** CFDA number not available. Number derived from federal agency number or contract number, 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
\$	\$ 19,231,201	\$	\$ 19,231,201
	18,484,067		18,484,067
<u>\$ 0</u>	<u>\$ 37,715,268</u>	<u>\$ 0</u>	<u>\$ 37,715,268</u>
\$ 5,671	\$ 79,852,803	\$ 0	\$ 79,858,474
\$	\$ 1,048,000	\$	\$ 1,048,000
<u>\$ 0</u>	<u>\$ 1,048,000</u>	<u>\$ 0</u>	<u>\$ 1,048,000</u>
\$ 121,878	\$	\$	\$ 121,878
79,292			79,292
<u>239,749</u>			<u>239,749</u>
\$ 440,919	\$ 0	\$ 0	\$ 440,919
\$ 11,160	\$	\$	\$ 11,160
86,293,219			86,293,219
2,110			2,110
<u>101,424</u>			<u>101,424</u>
\$ 86,407,913	\$ 0	\$ 0	\$ 86,407,913
\$ 86,854,503	\$ 80,900,803	\$ 0	\$ 167,755,306
\$ 17,599,533,059	\$ 3,206,231,809	\$ 5,806,740	\$ 20,811,571,608

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. Executive Order No. 2015-4, effective April 10, 2015, created the Michigan Department of Health and Human Services and abolished the Department of Human Services and the Department of Community Health.

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 Western Michigan University, Central 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 2014. 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 2014 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, 2014. In addition, some of the programs noted below also include the Michigan Department of Health and 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, 2014.

<u>CFDA</u>	<u>Program</u>	<u>MSHDA Expenditures as of June 30, 2014</u>	<u>Other State Agencies' Expenditures as of September 30, 2014</u>	<u>Total (as Reported on the SEFA)</u>
14.169	Housing Counseling Assistance Program	\$ 400,191	\$ 0	\$ 400,191
14.182	Section 8 Contract Administration	\$ 217,929,904	\$ 0	\$ 217,929,904
14.182	Section 8 New Construction/ Substantial Rehabilitation	\$ 103,222,253	\$ 0	\$ 103,222,253

<u>CFDA</u>	<u>Program</u>	<u>MSHDA Expenditures as of June 30, 2014</u>	<u>Other State Agencies' Expenditures as of September 30, 2014</u>	<u>Total (as Reported on the SEFA)</u>
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	\$ 8,687,108	\$ 16,897,488	\$ 25,584,596
14.231	Emergency Solutions Grant Program	\$ 3,982,642	\$ 0	\$ 3,982,642
14.235	Supportive Housing Program	\$ 652,700	\$ 4,432,052	\$ 5,084,752
14.239	Home Investment Partnerships Program	\$ 26,234,621	\$ 0	\$ 26,234,621
14.239	Home Investment Partnerships Program - Technical Assistance	\$ 66,404	\$ 0	\$ 66,404
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	\$ 4,189,554	\$ 50,227	\$ 4,239,781
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	\$ 1,196,816	\$ 0	\$ 1,196,816
14.871	Section 8 Housing Choice Vouchers	\$ 166,667,871	\$ 0	\$ 166,667,871
14.879	Section 8 Mainstream Vouchers	\$ 241,539	\$ 0	\$ 241,539
15.904	Historic Preservation Fund Grants-In-Aid	\$ 1,292,600	\$ 0	\$ 1,292,600
20.205	Highway Planning and Construction	\$ 23,139	\$ 1,219,463,562	\$1,219,486,701
21.**	National Foreclosure Mitigation Counseling	\$ 459,210	\$ 0	\$ 459,210

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, the USDA has computed a weighted-average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof of 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 0.64% of the USDA's total expenditures for SNAP benefits in the federal fiscal year ended September 30, 2014.
- 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 1998 through 2005, 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 2014, the total amount of federal and State contributions and interest earnings was \$23,297,013.
- MDOT disbursed five SIB loans in fiscal year 2014, totaling \$3,514,227.
- Note 9 Airport Improvement Program
Federal expenditures of \$59,584,875 for the Airport Improvement Program (CFDA 20.106) channeled to primary airports for fiscal year 2014 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 2014 were \$411,944.

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, 2014, 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 \$2,250,437,270. In addition, as of September 30, 2013, \$859,043,767 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 2014.

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:

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

The FFEL Program - Guaranty Agency activity for fiscal year 2014 was:

Federal Program Title	CFDA Number	Federal Expenditures
Federal Family Education Loans - Guaranty Agency	84.032G	
Loan loss reinsured by USDOE		\$134,876,300
Account maintenance fees		1,535,881
Loan recoveries - Net of amounts returned to USDOE		3,277,045
Loans repurchased and rehabilitated		16,627,955
Total Federal Family Education Loans - Guaranty Agency		\$156,317,181

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 2014 was:

Federal Program Title	CFDA Number	Federal Expenditures
Federal Family Education Loans - Lender	84.032L	
Interest subsidy payments		\$ 4,364,991
Special allowance payments		<u>(17,034,510)</u>
Total Federal Family Education Loans - Lender		<u>\$ (12,669,519)</u>

Note 14 Michigan Department of Health and Human Services (MDHHS) 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 (CFDA 93.568)	\$ 8,375,361
Stephanie Tubbs Jones Child Welfare Services Program (CFDA 93.645)	\$41,223,717
Social Services Block Grant (CFDA 93.667)	\$39,694,930

- b. MDHHS moved \$77,535,000 of the TANF Cluster (CFDA 93.558) grant award to the Social Services Block Grant (CFDA 93.667) and \$11,256,695 of the TANF Cluster grant award to the CCDF Cluster (CFDA 93.575) 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 \$1,379,756 and federal Medicaid revenue totaling \$6,323 in fiscal year 2014. 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



OAG

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Doug A. Ringler, CPA, CIA

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, 2014. 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 Western Michigan University, Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University, which expended \$1.4 billion in federal awards that are not included in the schedule of expenditures of federal awards for the fiscal year ended September 30, 2014. 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
14.182 and 14.856	Section 8 Project-Based Cluster	100%	\$ 322,348,973
14.228	CDBG - State-Administered CDBG Cluster	34%	\$ 25,584,596
14.239	Home Investment Partnerships Program	100%	\$ 26,301,025
17.225	Unemployment Insurance, including ARRA	100%	\$ 1,401,828,946
93.575 and 93.596	CCDF Cluster	9%	\$ 122,033,079

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

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; Reporting; and Special Tests and Provisions - Income Eligibility and Verification System	2014-003
				2014-010
				2014-011
				2014-012
				2014-042
				2014-043
				2014-044
				2014-045
				2014-046
				2014-047
				2014-048
				2014-050

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

Adverse Opinion on the TANF Cluster

In our opinion, because of the significance of the matters 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 for the fiscal year ended September 30, 2014.

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, 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 Agriculture	10.551 and 10.561	SNAP Cluster, including ARRA	Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - ADP System for SNAP	<u>2014-003</u> <u>2014-010</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	<u>2014-010</u> <u>2014-053</u>
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; Procurement and Suspension and Debarment; and Special Tests and Provisions - Provider Eligibility and Utilization Control and Program Integrity	<u>2014-003</u> <u>2014-010</u> <u>2014-011</u> <u>2014-012</u> <u>2014-019</u> <u>2014-022</u> <u>2014-057</u> <u>2014-058</u> <u>2014-060</u> <u>2014-061</u> <u>2014-062</u> <u>2014-064</u> <u>2014-065</u> <u>2014-066</u> <u>2014-067</u> <u>2014-068</u> <u>2014-069</u>
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	<u>2014-010</u> <u>2014-077</u> <u>2014-078</u>
U.S. Department of Health and Human Services	93.658	Foster Care - Title IV-E, including ARRA	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Payment Rate Setting and Application	<u>2014-010</u> <u>2014-011</u> <u>2014-012</u> <u>2014-013</u> <u>2014-079</u> <u>2014-081</u>

Federal Awarding Agency	CFDA Number(s)	Program or Cluster	Compliance Requirement(s)	Finding Number(s)
U.S. Department of Health and Human Services	93.659	Adoption Assistance	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	<u>2014-010</u> <u>2014-011</u> <u>2014-012</u> <u>2014-082</u>
U.S. Department of Health and Human Services	93.958	Block Grants for Community Mental Health Services	Procurement and Suspension and Debarment; and Matching, Level of Effort, and Earmarking	<u>2014-019</u> <u>2014-085</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.

Qualified Opinion on Certain Major Federal Programs

In our opinion, based on our audit and the reports of other auditors, except for the noncompliance identified in the 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, 2014.

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, 2014.

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 2014-010; 2014-011; 2014-012; 2014-013; 2014-020; 2014-022; 2014-024; 2014-025; 2014-031; 2014-035; 2014-038; 2014-041; 2014-075; 2014-076; 2014-083; 2014-084; 2014-086; and 2014-089. 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 in Findings 2014-001; 2014-002; 2014-003; 2014-010; 2014-012; 2014-013; 2014-019; 2014-020; 2014-027; 2014-031; 2014-032; 2014-035; 2014-042; 2014-043; 2014-050; 2014-053; 2014-057; 2014-058; 2014-075; 2014-083; 2014-085; and 2014-089 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 2014-004; 2014-005; 2014-006; 2014-007; 2014-008; 2014-009; 2014-010; 2014-011; 2014-012; 2014-013; 2014-014; 2014-015; 2014-016; 2014-017; 2014-018; 2014-019; 2014-020; 2014-021; 2014-022; 2014-023; 2014-024; 2014-025; 2014-026; 2014-028; 2014-029; 2014-030; 2014-033; 2014-034; 2014-036; 2014-037; 2014-038; 2014-039; 2014-040; 2014-041; 2014-044; 2014-045; 2014-046; 2014-047; 2014-048; 2014-049; 2014-051; 2014-052; 2014-054; 2014-055; 2014-056; 2014-059; 2014-060; 2014-061; 2014-062; 2014-063; 2014-064; 2014-065; 2014-066; 2014-067; 2014-068; 2014-069; 2014-070; 2014-071; 2014-072; 2014-073; 2014-074; 2014-076; 2014-077; 2014-078; 2014-079; 2014-080; 2014-081; 2014-084; 2014-086; 2014-087; 2014-088; and 2014-090 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.

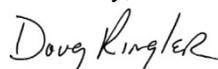
Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2014 and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated December 29, 2014, 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,



Doug Ringler
Auditor General
June 15, 2015

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 Opinion Issued on Compliance, Known Questioned Costs*, and Audit Finding Numbers:

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Known Questioned Costs	Audit Finding Number(s)
10.551 and 10.561	SNAP Cluster, including ARRA	Qualified*	\$1,498,832	<u>2014-001</u> <u>2014-002</u> <u>2014-003</u> <u>2014-004</u> <u>2014-010</u>
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster	Unmodified	\$0	<u>2014-009</u> <u>2014-015</u> <u>2014-020</u>
10.565, 10.568, and 10.569	Food Distribution Cluster	Unmodified	\$0	<u>2014-009</u> <u>2014-020</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Unmodified	\$0	<u>2014-004</u> <u>2014-005</u> <u>2014-018</u>
10.558	Child and Adult Care Food Program	Unmodified	\$1,265,549	<u>2014-009</u> <u>2014-015</u> <u>2014-020</u> <u>2014-024</u> <u>2014-025</u> <u>2014-026</u>
14.228	CDBG - State-Administered CDBG Cluster	Unmodified	\$0	Not Applicable
17.258, 17.259, and 17.278	WIA Cluster	Unmodified	\$0	<u>2014-027</u>
20.205 and 20.219	Highway Planning and Construction Cluster, including ARRA	Unmodified	\$0	<u>2014-028</u> <u>2014-029</u>

* See glossary at end of report for definition.

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Known Questioned Costs	Audit Finding Number(s)
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants, including ARRA	Unmodified	\$0	<u>2014-030</u> <u>2014-031</u> <u>2014-032</u>
66.458	Clean Water State Revolving Fund Cluster	Unmodified	\$0	Not Applicable
66.468	Drinking Water State Revolving Fund Cluster	Unmodified	\$0	Not Applicable
84.027 and 84.173	Special Education Cluster (IDEA)	Unmodified	\$0	<u>2014-009</u> <u>2014-033</u> <u>2014-034</u>
84.377 and 84.388	School Improvement Grants Cluster, including ARRA	Unmodified	\$0	<u>2014-009</u> <u>2014-035</u>
84.010	Title I Grants to Local Educational Agencies	Unmodified	\$0	<u>2014-009</u> <u>2014-017</u> <u>2014-020</u>
84.048	Career and Technical Education - Basic Grants to States	Unmodified	\$0	<u>2014-009</u> <u>2014-020</u> <u>2014-036</u> <u>2014-037</u>
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	Unmodified	\$670,962	<u>2014-010</u> <u>2014-038</u>
84.287	Twenty-First Century Community Learning Centers	Unmodified	\$0	<u>2014-009</u> <u>2014-017</u> <u>2014-020</u> <u>2014-039</u> <u>2014-040</u>
84.367	Improving Teacher Quality State Grants	Unmodified	\$11,353	<u>2014-009</u> <u>2014-017</u> <u>2014-041</u>
93.558	TANF Cluster	Adverse*	(\$5,203,156)	<u>2014-001</u> <u>2014-002</u> <u>2014-003</u> <u>2014-004</u> <u>2014-006</u> <u>2014-010</u> <u>2014-011</u> <u>2014-012</u> <u>2014-018</u> <u>2014-021</u> <u>2014-042</u> <u>2014-043</u> <u>2014-044</u> <u>2014-045</u> <u>2014-046</u> <u>2014-047</u> <u>2014-048</u> <u>2014-049</u> <u>2014-050</u> <u>2014-051</u> <u>2014-052</u>

* See glossary at end of report for definition.

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Known Questioned Costs	Audit Finding Number(s)
93.575 and 93.596	CCDF Cluster	Qualified	\$237,886	<u>2014-001</u> <u>2014-002</u> <u>2014-004</u> <u>2014-010</u> <u>2014-053</u> <u>2014-054</u> <u>2014-055</u> <u>2014-056</u>
93.775, 93.777, and 93.778	Medicaid Cluster, including ARRA	Qualified	\$1,477,954	<u>2014-001</u> <u>2014-002</u> <u>2014-003</u> <u>2014-004</u> <u>2014-005</u> <u>2014-007</u> <u>2014-008</u> <u>2014-010</u> <u>2014-011</u> <u>2014-012</u> <u>2014-014</u> <u>2014-016</u> <u>2014-018</u> <u>2014-019</u> <u>2014-022</u> <u>2014-023</u> <u>2014-057</u> <u>2014-058</u> <u>2014-059</u> <u>2014-060</u> <u>2014-061</u> <u>2014-062</u> <u>2014-063</u> <u>2014-064</u> <u>2014-065</u> <u>2014-066</u> <u>2014-067</u> <u>2014-068</u> <u>2014-069</u> <u>2014-070</u> <u>2014-071</u> <u>2014-072</u> <u>2014-073</u>
93.268	Immunization Cooperative Agreements	Unmodified	\$0	<u>2014-004</u>
93.563	Child Support Enforcement	Unmodified	\$0	<u>2014-004</u> <u>2014-021</u> <u>2014-074</u>
93.566	Refugee and Entrant Assistance - State Administered Programs	Unmodified	\$18,213	<u>2014-001</u> <u>2014-002</u> <u>2014-004</u> <u>2014-005</u> <u>2014-007</u> <u>2014-008</u> <u>2014-010</u> <u>2014-011</u> <u>2014-075</u> <u>2014-076</u>

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Known Questioned Costs	Audit Finding Number(s)
93.568	Low-Income Home Energy Assistance	Qualified	\$218,083	<u>2014-001</u> <u>2014-002</u> <u>2014-004</u> <u>2014-010</u> <u>2014-021</u> <u>2014-077</u> <u>2014-078</u>
93.658	Foster Care - Title IV-E, including ARRA	Qualified	\$6,242,649	<u>2014-004</u> <u>2014-006</u> <u>2014-010</u> <u>2014-011</u> <u>2014-012</u> <u>2014-013</u> <u>2014-021</u> <u>2014-079</u> <u>2014-080</u> <u>2014-081</u>
93.659	Adoption Assistance	Qualified	(\$75,874)	<u>2014-004</u> <u>2014-006</u> <u>2014-010</u> <u>2014-011</u> <u>2014-012</u> <u>2014-082</u>
93.667	Social Services Block Grant	Unmodified	(\$2,350,520)	<u>2014-004</u> <u>2014-006</u> <u>2014-010</u> <u>2014-011</u> <u>2014-012</u> <u>2014-013</u> <u>2014-021</u>
93.674	Chafee Foster Care Independence Program	Unmodified	\$90,280	<u>2014-004</u> <u>2014-006</u> <u>2014-021</u> <u>2014-083</u> <u>2014-084</u>
93.958	Block Grants for Community Mental Health Services	Qualified	\$1,294,697	<u>2014-004</u> <u>2014-019</u> <u>2014-021</u> <u>2014-085</u>
93.994	Maternal and Child Health Services Block Grant to the States	Unmodified	\$10	<u>2014-004</u> <u>2014-005</u> <u>2014-007</u> <u>2014-008</u> <u>2014-014</u> <u>2014-016</u> <u>2014-022</u> <u>2014-023</u> <u>2014-086</u> <u>2014-087</u>
96.001	Disability Insurance/SSI Cluster	Unmodified	\$72,765	<u>2014-010</u> <u>2014-088</u> <u>2014-089</u> <u>2014-090</u>

Major Programs Audited by Others

CFDA Number(s)	Name of Federal Program or Cluster	Opinion	Known Questioned Costs	Audit Finding Number(s)
14.182 and 14.856	Section 8 Project-Based Cluster	Unmodified	\$0	<u>2014-091</u>
14.239	Home Investment Partnerships Program	Unmodified	\$0	<u>2014-092</u>
17.225	Unemployment Insurance, including ARRA	Unmodified	\$0	<u>2014-093</u>

Dollar threshold used to distinguish between type A and type B programs: \$35,098,432

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

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

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

The findings related to the financial statements are reported in the Report on Internal Control, Compliance, and Other Matters for the *State of Michigan Comprehensive Annual Financial Report* (071-0010-15M), located at:
http://audgen.michigan.gov/finalpdfs/14_15/r071001015M.pdf.

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

* See glossary at end of report for definition.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING 2014-001

Bridges Interface and Change Controls

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Michigan Fitness Foundation
Program Title and CFDA Number	SNAP Cluster, including ARRA: CFDA 10.551 and 10.561
Award Identification Number and Year	EBT- 2014 10/01/2013 - 09/30/2014 SNAP-Benefits (ARRA) 2014 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$2,744,478,182
Total ARRA Expenditures	\$38,386,210
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles; Eligibility, and Special Tests and Provisions - ADP System for SNAP
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	2013-001
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Special Tests and Provisions - Child Support Noncooperation, Income Eligibility and Verification System, and Penalty for Refusal to Work
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	2013-001
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Award Identification Number and Year	G 13 03 MI CCDF 10/01/2012 - 09/30/2013 G 14 03 MI CCDF 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$122,033,079
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness
Known Questioned Costs	\$0

Repeat Finding	2013-001
State Agencies	Michigan Department of Education; Michigan Department of Health and Human Services; and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5ADM 10/01/2013 - 09/30/2014 05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	2013-001
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: <i>CFDA</i> 93.566
Award Identification Number and Year	1401MIRCMA 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	2013-001
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: <i>CFDA</i> 93.568
Award Identification Number and Year	G 13 B1 MI LIEA 10/01/2012 - 09/30/2014 G 14 B1 MI LIEA 10/01/2013 - 09/30/2015 G 14 01 MI LIE4 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$168,542,402
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	2013-001

State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget
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Background

The Michigan Department of Health and Human Services* (MDHHS) 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>. Our IT performance audit disclosed control weaknesses related to interface processing controls and change controls*.

Condition

MDHHS 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 5, Data-Sharing Agreements; Finding 6, Bridges Change Controls (part c.); Finding 7, ClearCase and ClearQuest Access (parts a., b.(1) and c.); and Finding 8, Segregation of Duties (part b.), 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.

Federal regulations 7 *CFR* 272.8(a)(4), 45 *CFR* 205.58, and 42 *CFR* 435.945(i) require MDHHS to execute data-sharing agreements with agencies from which MDHHS requests and obtains income and eligibility information.

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.

* See glossary at end of report for definition.

Effect

MDHHS 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.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS 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:

MDHHS and DTMB agree that internal control could be improved.

Planned Corrective Action:

Finding 1

- a.(1) DTMB has created a work request to address the issue.
 - (2) DTMB retains an e-mail to document when a job has not run as scheduled. DTMB will create a work request to identify any unscheduled jobs that are run and include follow-up documentation.
- b. DTMB will implement corrective action as part of the Bridges modernization project.
- c.(1) DTMB will implement corrective action as part of the Bridges modernization project.
 - (2) MDHHS has partially implemented corrective action and assigned responsibility for monitoring the exception reports.

Finding 5

MDHHS will continue working with the other State agency to execute a data-share agreement.

Finding 6 c.

Corrective action has been completed. DTMB follows a work request scheduling procedure with security measures in place. DTMB monitors the work request procedures during and after each release.

Finding 7

- a. Bridges will be migrating to a future suite of IBM Rational Tools. Users will change from existing groups to members with process roles appropriate for their job.
- b.(1) DTMB has biweekly change meetings to address the finding. DTMB has created a work request to develop a report to monitor roles.

Award Identification Number and Year	13 02 MI TANF 14 02 MI TANF	10/01/2012 - Until Expended 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Special Tests and Provisions - Child Support Noncooperation, Income Eligibility and Verification System, and Penalty for Refusal to Work	
Type of Finding	Material Weakness	
Known Questioned Costs	\$0	
Repeat Finding	2013-002	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596	
Award Identification Number and Year	G 13 03 MI CCDF G 14 03 MI CCDF	10/01/2012 - 09/30/2013 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$122,033,079	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	
Type of Finding	Material Weakness	
Known Questioned Costs	\$0	
Repeat Finding	2013-002	
State Agencies	Michigan Department of Education; Michigan Department of Health and Human Services; and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
Award Identification Number and Year	05-1405MI5ADM 05-1405MI5MAP	10/01/2013 - 09/30/2014 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576	
Total ARRA Expenditures	\$53,099,168	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking	
Type of Finding	Material Weakness	
Known Questioned Costs	\$0	
Repeat Finding	2013-002	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566	

Award Identification Number and Year	1401MIRCMA	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility	
Type of Finding	Material Weakness	
Known Questioned Costs	\$0	
Repeat Finding	2013-002	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568	
Award Identification Number and Year	G 13 B1 MI LIEA	10/01/2012 - 09/30/2014
	G 14 B1 MI LIEA	10/01/2013 - 09/30/2015
	G 14 01 MI LIE4	10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$168,542,402	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility	
Type of Finding	Material Weakness	
Known Questioned Costs	\$0	
Repeat Finding	2013-002	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Condition

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

- a. MDHHS did not consistently monitor incompatible Bridges user roles granted to county/district office users by local office security coordinators to ensure that the county/district offices had implemented appropriate compensating controls. In addition, MDHHS did not periodically monitor other high-risk activity of county/district office users.
- b. DTMB did not fully establish and implement effective security configurations* for the Bridges database. The Bridges 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 DTMB management.
- c. MDHHS did not consistently follow its established controls over the granting of access to Bridges. We judgmentally selected a sample of 7 new users who were granted access to Bridges in September 2014 and requested a copy of each user's Bridges application security agreement (DHS-173). MDHHS was unable to locate a DHS-173 that had been completed and approved at the time access was granted for 1 (14%) of the 7 new users.

* See glossary at end of report for definition.

- d. MDHHS did not fully establish a process to monitor central office Technology, Coordination, and Support (TCS) users with privileged access* to Bridges production data, such as client case information. MDHHS monitored Bridges program changes; however, it did not have a process in place to monitor changes made directly to production data to ensure that TCS users made only authorized changes to client case information.
- e. DTMB did not fully establish and implement 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 management.

Criteria

DTMB Administrative Guide policy 1335 requires the establishment of a process for controlling and documenting the allocation of user access rights based on current job responsibilities for State IT resources, including networks, operating systems, data, databases, and applications. The policy also requires that processes be established to ensure that segregation of duties* is enforced and that access is managed, controlled, and periodically reviewed to ensure that user access is based on the principle of least privilege. In addition, the U.S. Government Accountability Office's (GAO's) Federal Information System Controls Audit Manual* (FISCAM) recommends that compensating controls, such as additional monitoring and supervision, should be in place where segregation of duties' conflicts exist.

Cause

For part a., MDHHS local office security coordinators had not followed MDHHS policies and procedures for monitoring incompatible roles granted to county/district office users. Also, MDHHS had not fully implemented policies and procedures for monitoring high-risk activities or clearly assigned responsibility for monitoring county/district offices' security management controls over Bridges. MDHHS implemented countywide reviews of users and their assigned roles; however, the majority of these reviews were not completed until after the audit period.

For part b., DTMB informed us that database-specific configuration standards had not been fully implemented at the time of our review.

For part c., MDHHS's security officers did not always follow MDHHS's process for granting access to Bridges or MDHHS misplaced the security forms.

For part d., MDHHS informed us that, because management had authorized the TCS users' access, it did not believe that additional monitoring of changes to client case information was necessary.

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

* See glossary at end of report for definition.

Effect

Without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to Bridges. As a result, an increased risk exists that MDHHS and DTMB cannot ensure the confidentiality*, integrity*, and security of the Bridges application and data used to help determine eligibility and benefit levels for the SNAP Cluster, TANF Cluster, CCDF Cluster, Medicaid Cluster, Refugee and Entrant Assistance - State Administered Programs, and LIHEAP.

Known Questioned Costs

None.

Recommendation

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

Management Views and Corrective Action Plan

Management Views:

MDHHS and DTMB agree in part with the finding.

- a. MDHHS agrees with part a. MDHHS's Bureau of Technology and Project Services initiated a monitoring process with MDHHS Business Service Centers in August 2014.
- b. DTMB agrees with part b and implemented corrective action in January 2015. To maintain system integrity, the specific actions are not included as part of the response.
- c. MDHHS partially agrees with part c. MDHHS agrees that it could not locate a security agreement for the one user cited for the audit period. However, the monitoring process established in August 2014 was effective because the local office identified that the security application was missing and had a new security agreement executed. This occurred prior to audit sampling and review. MDHHS notes that this user had full inquiry access, which was appropriate for the individual's job title. This read only access does not allow a user to make any changes to case data or other system changes.
- d. MDHHS disagrees with part d. TCS staff were granted roles appropriate to their job duties. Work completed by TCS staff was initiated at the request of local office staff when there were problems processing a case. TCS staff do not have access to perform end-to-end production database transactions. If action were to occur outside of work initiated by a caseworker, existing Bridges system controls are in place to notify caseworkers if others take action on their case. Clients are also notified via correspondence of negative action that occurs on their case.
- e. DTMB agrees with part e. and implemented corrective action in January 2015. Continuous monitoring will be performed on a monthly basis using automated compliance tools to ensure effective security and access controls over the operating system for Bridges servers.

* See glossary at end of report for definition.

Planned Corrective Action:

MDHHS and DTMB have implemented corrective action for parts a., b., c., and e. as stated above. MDHHS disagrees with part d. of the finding. MDHHS believes controls are in place and does not intend to take further action.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Teresa Spalding, Michigan Department of Health and Human Services
 Kathryn Tober, Michigan Department of Health and Human Services
 Darlene Dawley, Department of Technology, Management, and Budget
 Tim Morrissey, Department of Technology, Management, and Budget
 Brad Settles, Department of Technology, Management, and Budget

FINDING 2014-003

Income Eligibility and Verification System

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Michigan Fitness Foundation
Program Title and CFDA Number	SNAP Cluster, including ARRA: CFDA 10.551 and 10.561
Award Identification Number and Year	EBT-2014 10/01/2013 - 09/30/2014 SNAP-Benefits (ARRA) 2014 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$2,744,478,182
Total ARRA Expenditures	\$38,386,210
Compliance Requirement(s)	Special Tests and Provisions - ADP System for SNAP
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-003
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Special Tests and Provisions - Income Eligibility and Verification System
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-003
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

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

Program Title and CFDA Number	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5ADM 10/01/2013 - 09/30/2014 05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-003
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Background

MDHHS'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 approximately 14 data exchanges through interfaces with various governmental agencies. Bridges disseminates the IEVS information obtained from the majority of these interfaces through electronic notifications in Bridges to the recipients' MDHHS county/district office caseworkers to manually consider and take action to determine the recipients' eligibility and benefit levels of the SNAP, TANF, and Medicaid Clusters. Some interfaces automatically update Bridges with the IEVS information and determine the recipients' eligibility and benefit levels.

Condition

MDHHS and DTMB did not request and obtain IEVS information for all recipients. In addition, MDHHS did not ensure that county/district office caseworkers considered and used IEVS information when making eligibility and benefit level determinations for these programs. We noted:

- a. MDHHS and DTMB had not fully established effective processing controls over Bridges interfaces to ensure that the data exchanged between Bridges and IEVS data sources was processed accurately, completely, and timely (see Finding 2014-001, Bridges Interface and Change Controls).
- b. For 3 (27%) of 11 IEVS interfaces requiring manual caseworker consideration and action, MDHHS did not maintain sufficient documentation to support that county/district office caseworkers considered and utilized the IEVS information to determine eligibility and benefit level for each recipient in 7 (50%) of 14 cases reviewed.
- c. For 2 (14%) of 14 IEVS interfaces, MDHHS did not take timely action on IEVS information in 2 (7%) of 28 cases reviewed. These 2 cases required county/district office caseworker action.
- d. MDHHS had not established a process to review and monitor the electronic notifications provided to county/district office caseworkers to ensure that the county/district office caseworkers utilized the IEVS information to determine the recipients' eligibility. For 8 of

the 10 IEVS interfaces with electronic notifications, county/district office caseworkers could manually mark electronic notifications as complete without utilizing the IEVS information to determine the recipients' eligibility.

- e. For the TANF Cluster, MDHHS did not include all recipients funded by the TANF Cluster adoption subsidies in the IEVS interfaces 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 regulations 7 CFR 272.8(c) and 7 CFR 272.8(e) require that the state agency must timely 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, 42 CFR 435.948, and 42 CFR 435.952 require states to timely use the IEVS information to determine an individual's eligibility and the amount of assistance available.

Cause

For part a., MDHHS and DTMB informed us that there were various reasons why they had not established effective controls over Bridges interfaces (see Finding 2014-001, Bridges Interface and Change Controls).

For parts b., c., and d., MDHHS did not have information available to identify if the IEVS interface information was appropriately utilized in determining recipients' eligibility when county/district office caseworkers marked electronic notifications as complete.

For part e., MDHHS informed us that it met with DTMB to discuss system requirements but had not established a process to include these recipients in the IEVS interfaces.

Effect

MDHHS may have provided SNAP, TANF, and Medicaid Cluster benefits to ineligible recipients. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

* See glossary at end of report for definition.

Recommendations

We recommend that MDHHS and DTMB request and obtain IEVS information for all recipients.

We also recommend that MDHHS ensure that county/district 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:

MDHHS and DTMB agree with the finding. For part b., it should be noted that for one case, the worker took the required action on the case which prompted an electronic notification. The worker did not respond to the electronic notification and document that no action was required because action had already been done. Benefits were not affected.

Planned Corrective Action:

For part a., see the corrective action plan for Finding 2014-001, Bridges Interface and Change Controls - Finding 1.

For parts b. and c., MDHHS will issue a communication to provide staff with guidance regarding the requirements to utilize IEVS information to determine program eligibility and benefits for each recipient, take timely action with IEVS information, and document in the case record the actions taken or not taken based on the IEVS information.

For part d., MDHHS will discuss with DTMB technical improvements to electronic notifications to ensure that caseworkers utilize the IEVS information to determine the recipients' eligibility. A planned completion date will be determined when the project requirements are identified and the work request is prioritized through the information technology governance process.

For part e., MDHHS needs to identify the data elements that need to be shared between MiSACWIS and Bridges for the IEVS match process. A planned completion date cannot be determined until the project requirements are identified and the work request is prioritized through the information technology governance process.

Anticipated Completion Date:

For part a., the departments anticipate implementation of corrective actions by April 1, 2016, with the exception of the Bridges modernization project, which is expected to begin during fiscal year 2016. System requirements will be identified as part of the project and planned implementation dates will be identified as part of the project governance.

For parts b. and c., the communication will be issued by October 1, 2015.

For part d., MDHHS will begin discussions with DTMB by October 1, 2015.

For part e., MDHHS plans to identify the data elements by October 1, 2015.

Responsible Individual(s):

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Steve Yager, Michigan Department of Health and Human Services
Laurie Johnson, Michigan Department of Health and Human Services

Dawn Ritter, Michigan Department of Health and Human Services
 Teresa Spalding, Michigan Department of Health and Human Services
 Veronica Maxson, Michigan Department of Health and Human Services
 Linda Pung, Department of Technology, Management, and Budget
 Local Office Directors, Michigan Department of Health and Human Services

FINDING 2014-004

ADP Security Program

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Michigan Fitness Foundation
Program Title and CFDA Number	SNAP Cluster, including ARRA: <i>CFDA</i> 10.551 and 10.561
Award Identification Number and Year	EBT- 2014 10/01/2013 - 09/30/2014 SNAP-Benefits (ARRA) 2014 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$2,744,478,182
Total ARRA Expenditures	\$38,386,210
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions - ADP System for SNAP
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Special Supplemental Nutrition Program for Women, Infants, and Children: <i>CFDA</i> 10.557
Award Identification Number and Year	2MI700003 10/01/2013 - 09/30/2014 2MI700013 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$184,083,008
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: <i>CFDA</i> 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Special Tests and Provisions - Child Support

	Noncooperation, Income Eligibility and Verification System, and Penalty for Refusal to Work
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Award Identification Number and Year	G 13 03 MI CCDF 10/01/2012 - 09/30/2013 G 14 03 MI CCDF 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$122,033,079
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Education; Michigan Department of Health and Human Services; and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5ADM 10/01/2013 - 09/30/2014 05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Special Tests and Provisions - ADP Risk Analysis and System Security Review
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Immunization Cooperative Agreements: CFDA 93.268
Award Identification Number and Year	3H23IP000711-01S1 09/30/2012 - 09/29/2014 1H23IP000752-01 01/01/2013 - 12/31/2013 1H23IP000783-01 01/01/2013 - 12/31/2013 5H23IP000752-02 01/01/2014 - 12/31/2014 5H23IP000783-02 01/01/2014 - 12/31/2014
Total Expenditures of Federal Awards	\$95,337,340
Total ARRA Expenditures	Not Applicable

Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, and Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Support Enforcement: CFDA 93.563
Award Identification Number and Year	1404MI4005 10/1/2013 - 9/30/2014
Total Expenditures of Federal Awards	\$150,129,772
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles, Procurement and Suspension and Debarment, Subrecipient Monitoring, and Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	1401MIRCMA 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Award Identification Number and Year	G 13 BI MI LIEA 10/01/2012 - 09/30/2014 G 14 BI MI LIEA 10/01/2013 - 09/30/2015 G 14 01 MI LIE4 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$168,542,402
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency

Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Adoption Assistance: CFDA 93.659
Award Identification Number and Year	1401MI1407 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$117,012,473
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: CFDA 93.667
Award Identification Number and Year	1401MISOSR 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$127,089,470
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: <i>CFDA</i> 93.674
Award Identification Number and Year	G 12 01 MI 1420 10/01/2011 - 09/30/2013 G 13 01 MI 1420 10/01/2012 - 09/30/2014
Total Expenditures of Federal Awards	\$3,414,991
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-006
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Block Grants for Community Mental Health Services: <i>CFDA</i> 93.958
Award Identification Number and Year	14B1MICMHS 10/01/2013 - 09/30/2015 13B1MICMHS 10/01/2012 - 09/30/2014
Total Expenditures of Federal Awards	\$10,319,368
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability of Federal Funds, and Procurement and Suspension and Debarment
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: <i>CFDA</i> 93.994
Award Identification Number and Year	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 B04MC26674-01-00 10/01/2013 - 09/30/2015 6 B04MC26674-01-01 10/01/2013 - 09/30/2015 6 B04MC26674-01-02 10/01/2013 - 09/30/2015 6 B04MC26674-01-03 10/01/2013 - 09/30/2015 6 B04MC26674-01-04 10/01/2013 - 09/30/2015

	6 B04MC26674-01-05	10/01/2013 - 09/30/2015
	6 B04MC26674-01-06	10/01/2013 - 09/30/2015
	6 B04MC26674-01-07	10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Special Tests and Provisions	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-006	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Condition

MDHHS and DTMB did not ensure that a comprehensive ADP security program was established for information systems used to administer their federal programs.

For 16 significant systems reviewed, MDHHS and DTMB did not have a fully implemented security plan for 2 (13%) systems, did not have an approved security plan for 2 (13%) systems, and did not have a disaster recovery plan for 5 (31%) 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. MDHHS 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. MDHHS and DTMB indicated that limited resources have caused delays in the completion of a comprehensive ADP security program.

Effect

MDHHS cannot demonstrate that it has implemented effective controls to ensure the integrity, availability*, and confidentiality of its information systems and, as a result, cannot ensure that it complies with applicable direct and material federal compliance requirements, such as the Medicaid Cluster special tests and provisions - ADP risk analysis and system security review requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

* See glossary at end of report for definition.

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5ADM 10/01/2013 - 09/30/2014 05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - ADP Risk Analysis and System Security Review
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-007
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: <i>CFDA</i> 93.566
Award Identification Number and Year	1401MIRCMA 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency for activities allowed or unallowed as it relates to benefit level testing and Significant Deficiency for allowable costs/cost principles.
Known Questioned Costs	\$0
Repeat Finding	2013-007
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: <i>CFDA</i> 93.994
Award Identification Number and Year	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 B04MC26674-01-00 10/01/2013 - 09/30/2015 6 B04MC26674-01-01 10/01/2013 - 09/30/2015 6 B04MC26674-01-02 10/01/2013 - 09/30/2015 6 B04MC26674-01-03 10/01/2013 - 09/30/2015

	6 B04MC26674-01-04	10/01/2013 - 09/30/2015
	6 B04MC26674-01-05	10/01/2013 - 09/30/2015
	6 B04MC26674-01-06	10/01/2013 - 09/30/2015
	6 B04MC26674-01-07	10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-007	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Condition

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

- a. DTMB did not fully establish and implement effective security configurations for the Community Health Automated Medicaid Processing System (CHAMPS) database. The CHAMPS 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 DTMB management.
- b. MDHHS and DTMB did not appropriately restrict developers' high-risk application access to 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 two developers with inappropriate access to high-risk functionality within the MI-WIC application.
- c. MDHHS did not maintain authorization forms or other documentation for all users with Children's Special Health Care Services (CSHCS) system access to support authorization and level of access required for their job responsibilities. The CSHCS system is used to administer the CSHCS program, which is funded, in part, by the Maternal and Child Health Services Block Grant to the States.
- d. MDHHS 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 used to track service requests, such as Medicaid fraud referrals and complaints.

Criteria

Federal regulation 45 *CFR* 95.621 provides that state agencies are responsible for the security of the information systems used to administer U.S. Department of Health and Human Services (HHS) 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. 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

For part a., DTMB informed us that database-specific configuration standards had not been fully implemented at the time of our review.

For parts b., c., and d., MDHHS informed us it 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

Without effective security management and access controls, individuals may obtain unauthorized or inappropriate access to data. Also, the absence of these controls increases the risk that a user could initiate an unauthorized payment and the payment would go undetected.

Known Questioned Costs

None.

Recommendation

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

Management Views and Corrective Action Plan

Management Views:

MDHHS and DTMB partially agree with the finding.

Planned Corrective Action:

- a. For part a., all identified findings have been remediated with the exception of two identified policy related findings. These two issues require implementation of DTMB policy changes. Policy change requests have been submitted and the departments anticipate compliance by September 2015.
- b. For part b., the two developers need this access so they may perform their job duties. MDHHS will continue to explore any possible resolutions; however, remediation is unlikely as they would no longer be able to perform the essential functions of their job for the WIC Program.
- c. For part c., MDHHS has been working with the MDHHS security office to develop the appropriate access documentation utilizing the database security application (DSA); however, implementation has been delayed due to the implementation of Michigan Identity, Credential and Access Management (MiCAM). In the interim, CSHCS will look at alternative monitoring procedures. Compliance for alternative monitoring is expected by September 2015.
- d. For part d., MDHHS has been working with the MDHHS security office to develop the appropriate access documentation utilizing the DSA; however, implementation has been delayed due to the implementation of MiCAM. MDHHS and its vendor are working on prioritizing DSA form development as a result of applications identified in this finding.

Meetings with business areas are currently being set up to gather requirements for each new DSA form. Meetings are expected to be completed by September 2015.

Anticipated Completion Date:
September 2015

Responsible Individual(s):

- Part a. Karen Bearman, Department of Technology, Management, and Budget
- Part b. Kobra Eghtedary, Michigan Department of Health and Human Services
- Part c. Sandra Lane, Michigan Department of Health and Human Services
Jim Beaver, Michigan Department of Health and Human Services
Jim Bowen, Michigan Department of Health and Human Services
- Part d. Dan Ridge, Michigan Department of Health and Human Services
Jim Bowen, Michigan Department of Health and Human Services

FINDING 2014-006

MiSACWIS Security Management and Access Controls

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: <i>CFDA</i> 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: <i>CFDA</i> 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Adoption Assistance: <i>CFDA</i> 93.659
Award Identification Number and Year	1401MI1407 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$117,012,473
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: <i>CFDA</i> 93.667
Award Identification Number and Year	1401MISOSR 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$127,089,470
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: <i>CFDA</i> 93.674
Award Identification Number and Year	G 13 01 MI 1420 10/01/2012 - 09/30/2014 G 14 01 MI 1420 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$3,414,991
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Background

On April 30, 2014, MDHHS began using the Michigan Statewide Automated Child Welfare Information System (MiSACWIS). This system replaced the Adoption Subsidy System and Services Worker Support System (SWSS).

Condition

MDHHS and DTMB had not established effective security management and access controls over MiSACWIS. We noted:

- a. For 4 (10%) of 40 sampled security agreements, MDHHS did not establish effective controls over granting access to MiSACWIS. We noted:
 - (1) For 3 users, MDHHS granted access in excess of the access authorized on the security agreement.
 - (2) For 1 user, MDHHS did not ensure that the authorized requestor signed the security agreements.
- b. MDHHS did not properly authorize and monitor users with incompatible roles. Our review disclosed that 34 (94%) of 36 sampled users did not have an approved incompatible role exception request (DHS-1029) form and no compensating controls, such as monitoring, were in place.
- c. DTMB did not fully establish and implement effective security configurations for the MiSACWIS database. The MiSACWIS database management system 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 DTMB management.
- d. DTMB had not fully established and implemented effective security management and access controls over the operating system for MiSACWIS servers. Our review of one judgmentally sampled server that contained MiSACWIS 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 management.

Criteria

DTMB Administrative Guide policy 1335 requires the establishment of a process for controlling and documenting the allocation of user access rights based on current job responsibilities for State IT resources, including networks, operating systems, data, databases, and applications. The policy also requires that processes be established to ensure that segregation of duties is enforced and that access be managed, controlled, and periodically reviewed to ensure that user access is based on the principle of least privilege. In addition, the GAO's FISCAM recommends that compensating controls, such as additional monitoring and supervision, should be in place where segregation of duties' conflicts exist.

Cause

For part a., MDHHS informed us that local office security coordinators and security administrators did not follow established policies and procedures regarding granting MiSACWIS access.

For part b., when MDHHS converted current SWSS users into MiSACWIS, it had not yet defined incompatible roles in MiSACWIS. Once incompatible roles were established, MDHHS did not review the access granted to MiSACWIS users to determine if any users were given incompatible roles and make changes or implement compensating controls as appropriate.

For part c., DTMB informed us that it had not fully implemented database configuration standards.

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

Effect

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

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS and DTMB establish effective security management and access controls over MiSACWIS.

Management Views and Corrective Action Plan

Management Views:

MDHHS and DTMB agree with the finding.

Planned Corrective Action:

For parts a. and b., the following actions will be taken:

- MDHHS application security and MiSACWIS project staff are making changes to the MiSACWIS security forms.
- A Children's Services Agency communication will be released with the revised forms, which will cover the significant change to the forms and incompatible user groups.
- MiSACWIS project staff are performing user group security cleanup to ensure that users have the appropriate system access.
- Apply MiSACWIS system change controls to prevent the assignment of certain conflicting user groups' and limit the assignment of certain user groups to a defined population (e.g., central office, local office MDHHS staff, and non-MDHHS staff implementation).

For part c., corrective actions have been implemented for eight of the nine deficiencies. The details are not included as part of the response to protect the system integrity.

For part d., corrective actions have been implemented. The details are not included as part of the response to protect the system integrity.

Anticipated Completion Date:

The departments anticipate completion of corrective action for parts a., b., and c. by January 1, 2016. Corrective actions for part d. have been implemented.

Responsible Individual(s):

Steve Yager, Michigan Department of Health and Human Services
 Laurie Johnson, Michigan Department of Health and Human Services
 Linda Pung, Department of Technology, Management, and Budget

FINDING 2014-007

CHAMPS Security and Access Controls

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5ADM 10/01/2013 - 09/30/2014 05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - ADP Risk Analysis and System Security Review
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-008
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	1401MIRCMA 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency for activities allowed or unallowed as it relates to benefit level testing and Significant Deficiency for allowable costs/cost principles.
Known Questioned Costs	\$0
Repeat Finding	2013-008
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

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

Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
Award Identification Number and Year	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 B04MC26674-01-00	10/01/2013 - 09/30/2015
	6 B04MC26674-01-01	10/01/2013 - 09/30/2015
	6 B04MC26674-01-02	10/01/2013 - 09/30/2015
	6 B04MC26674-01-03	10/01/2013 - 09/30/2015
	6 B04MC26674-01-04	10/01/2013 - 09/30/2015
	6 B04MC26674-01-05	10/01/2013 - 09/30/2015
	6 B04MC26674-01-06	10/01/2013 - 09/30/2015
	6 B04MC26674-01-07	10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-008	
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget	

Background

CHAMPS is an automated information system that was implemented by MDHHS and DTMB in October 2009 for the processing of medical claims and payments.

Condition

DTMB did not fully establish and implement effective security and access controls over the operating system for CHAMPS servers. Our review of 5 judgmentally sampled servers that contained CHAMPS data and application files 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 management.

Criteria

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

DTMB Technical Standard 1340.00.03 requires the secure establishment, maintenance, and administration of servers, including the 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.

Cause

DTMB did not always follow policies and procedures designed to ensure effective security and access controls for the CHAMPS servers.

Effect

DTMB cannot ensure that CHAMPS data and application files are protected from unauthorized modification, loss, or disclosure.

Known Questioned Costs

None.

Recommendation

We recommend that DTMB fully establish and implement effective security and access controls over the operating system for CHAMPS servers.

Management Views and Corrective Action Plan

Management Views:

DTMB agrees with the finding.

Planned Corrective Action:

DTMB is using the BladeLogic automated compliance tools on a monthly basis to run compliance reports and vulnerability scans to find and remediate potential problems.

Anticipated Completion Date:

DTMB expects to have remediation completed on all CHAMPS servers by May 2016.

Responsible Individual(s):

Darlene Dawley, Department of Technology, Management, and Budget
 Tim Scott, Department of Technology, Management, and Budget
 Tim Morrissey, Department of Technology, Management, and Budget
 Brad Settles, Department of Technology, Management, and Budget
 Server Team 6 – Server Administrators, Department of Technology, Management, and Budget

FINDING 2014-008

CHAMPS Claims Edits

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
Award Identification Number and Year	05-1405MI5ADM	10/01/2013 - 09/30/2014
	05-1405MI5MAP	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576	
Total ARRA Expenditures	\$53,099,168	

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	1401MIRCMA 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency for activities allowed or unallowed as it relates to benefit level testing and Significant Deficiency for allowable costs/cost principles.
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: CFDA 93.994
Award Identification Number and Year	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 B04MC26674-01-00 10/01/2013 - 09/30/2015 6 B04MC26674-01-01 10/01/2013 - 09/30/2015 6 B04MC26674-01-02 10/01/2013 - 09/30/2015 6 B04MC26674-01-03 10/01/2013 - 09/30/2015 6 B04MC26674-01-04 10/01/2013 - 09/30/2015 6 B04MC26674-01-05 10/01/2013 - 09/30/2015 6 B04MC26674-01-06 10/01/2013 - 09/30/2015 6 B04MC26674-01-07 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles

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

Background

CHAMPS is an automated information system that was implemented by MDHHS and DTMB in October 2009 for the processing of medical claims and payments.

Medical claims are subjected to numerous CHAMPS internal edit checks, such as provider and beneficiary eligibility, procedure validity, claim duplication, frequency limitations for services, and validity of service.

Condition

As reported in our performance audit of Community Health Automated Medicaid Processing System (CHAMPS) Claims Edits, Department of Community Health and Department of Technology, Management, and Budget (391-0525-14), MDHHS and DTMB had not fully established effective logical access and change management controls over CHAMPS claims edits. Our assessment disclosed four reportable conditions that impacted single audit conclusions. The reportable conditions related to monitoring the contractor's logical access controls over the CHAMPS claims edit rules application, restricting user access to modify CHAMPS claims edit dispositions consistent with users' assigned job responsibilities, developing a comprehensive process to help ensure that program changes to CHAMPS claims edits are managed consistently and properly implemented for medical claims payment processing, and implementing adequate internal control over the creation of CHAMPS claims edit dispositions.

Criteria

Federal regulation 45 *CFR* 95.621 provides that state agencies are responsible for the security of the information systems used to administer HHS 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) Claims Edits, Department of Community Health and Department of Technology, Management, and Budget.

Effect

The identified logical access and change management control deficiencies could result in unauthorized access, modification, loss, or disclosure of CHAMPS edit rules. In addition, MDHHS'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

None.

Recommendations

We recommend that MDHHS and DTMB fully establish effective logical access and change management controls over the CHAMPS claims edit rules application.

We also recommend that MDHHS and DTMB restrict user access to modify CHAMPS claims edit dispositions consistent with users' assigned job responsibilities.

Management Views and Corrective Action Plan

Management Views:

MDHHS and DTMB agree with the finding.

Planned Corrective Action:

Finding 1 - Logical access controls over the CHAMPS claims edit rules application have been updated to include:

- A formal access request and approval process.
- Enforcement of strong password rules.
- Limit on the number of consecutive invalid login-in attempts.
- Locking the application after inactivity.
- Administrative logging and reporting of user activity, with quarterly reports provided to MDHHS and DTMB management.

The contractor has tested the changes to ensure that they meet security requirements. All testing is complete and the changes were placed into production.

Finding 2 - MDHHS has modified security profiles in CHAMPS to remove the edit dispositions from profiles where it is not required. MDHHS now performs a monthly ad-hoc reconciliation of user accounts between the DSA and CHAMPS to ensure that all users have the appropriate access.

Finding 3 - A comprehensive change management process has been developed and all components have been implemented, including:

- A tracking template to allow for tracking and approvals to document each step of the change control process.
- Documentation of the rationale for selecting and approving change requests for design and development.
- Documentation of the "go-live" approval for each CHAMPS release.
- Post-"go-live" reconciliation of approved change requests to requests deployed into the CHAMPS production environment.
- Modifications to tracking tools to enable consistent documentation of impacts and risks of system changes.

- Fully documented user acceptance test procedures have been implemented.
- Fully documented approvals to fix system defects are now tracked through meeting minutes.

Finding 4 - Internal control over the creation of CHAMPS claims edit alternate dispositions are in the process of implementation and will include:

- Written procedures for employees to follow carrying out the alternate disposition creation, modification, and approval process have been implemented.
- A reporting mechanism that allows for management review and verification of alternate dispositions.
- A request form for requesting changes or creation of alternate dispositions has been implemented.
- Utilization of "Decision Documents" for tracking the approval process has been implemented.

Anticipated Completion Date:
December 2015

Responsible Individual(s):
John Spitzley, Michigan Department of Health and Human Services
Susan A. Klein, Michigan Department of Health and Human Services
James Bowen, Michigan Department of Health and Human Services

FINDING 2014-009
MDE IT Security and Controls

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Nutrition Cluster: CFDA 10.553, 10.555, 10.556, and 10.559
Award Identification Number and Year	2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012 2MI300060 10/01/2012 - 09/30/2013 2MI300060 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$448,798,309
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-009
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Food Distribution Cluster: <i>CFDA</i> 10.565, 10.568, and 10.569
Award Identification Number and Year	2MI810053 10/01/2013 - 09/30/2014 2MI400053 10/01/2013 - 09/30/2014 2MI810053 10/01/2012 - 09/30/2013 2MI400053 10/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$45,831,404
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-009
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child and Adult Care Food Program: <i>CFDA</i> 10.558
Award Identification Number and Year	2MI300069 10/01/2014 - 09/30/2016 2MI310266 06/06/2014 - 12/15/2015 2MI300069 10/01/2013 - 09/30/2015 2MI300060 10/01/2013 - 09/30/2014 2MI300069 10/01/2012 - 09/30/2014 2MI300060 10/01/2012 - 09/30/2013 2MI300060 10/01/2011 - 09/30/2012 2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2009 - 09/30/2010 2MI300060 10/01/2004 - 09/30/2005
Total Expenditures of Federal Awards	\$63,992,777
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-009
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Special Education Cluster (IDEA): <i>CFDA</i> 84.027 and 84.173
Award Identification Number and Year	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
	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
	H027A130144-13A	07/01/2013 - 09/30/2014
	H173A130117	07/01/2013 - 09/30/2014
	H027A140110	07/01/2014 - 09/30/2015
	H173A140117	07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$395,065,887	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	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	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-009	
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	School Improvement Grants Cluster: CFDA 84.377 and 84.388 (ARRA)	
Award Identification Number and Year	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
	S377A120023	07/01/2012 - 09/30/2016
	S377A120023-12A	07/01/2012 - 09/30/2016
	S388A090023A	02/17/2009 - 09/30/2014
Total Expenditures of Federal Awards	\$37,828,704	
Total ARRA Expenditures	\$24,780,485	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-009	
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget	

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Title I Grants to Local Educational Agencies: <i>CFDA</i> 84.010
Award Identification Number and Year	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 S010A130022 07/01/2013 - 09/30/2014 S010A130022-13A 07/01/2013 - 09/30/2014 S010A140022 07/01/2014 - 09/30/2014 S010A140022-14A 07/01/2014 - 09/30/2014
Total Expenditures of Federal Awards	\$538,371,637
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	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
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-009
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Career and Technical Education - Basic Grants to States: <i>CFDA</i> 84.048
Award Identification Number and Year	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 V048A140022 07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$35,828,289
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; and Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-009

State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget
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Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Twenty-First Century Community Learning Centers: CFDA 84.287
Award Identification Number and Year	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 S287C130022-13A 07/01/2013 - 09/30/2014 S287C140022 07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$35,261,835
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	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
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-009
State Agencies	Michigan Department of Education and Department of Technology, Management, and Budget

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Improving Teacher Quality State Grants: CFDA 84.367
Award Identification Number and Year	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 S367A130021 07/01/2013 - 09/30/2014 S367A130021-13A 07/01/2013 - 09/30/2014 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 S367B130019 07/01/2013 - 09/30/2014 S367B130019-13A 07/01/2013 - 09/30/2014

Total Expenditures of Federal Awards	\$92,591,549
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	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
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-009
State Agencies	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>. Our IT performance audit follow-up disclosed 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 in MEGS+, CMS, and FNS-FRS.

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.

* See glossary at end of report for definition.

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, an increased risk exists that MDE and DTMB cannot ensure the confidentiality, integrity, and security of MEGS+, CMS, and FNS-FRS and their data.

Known Questioned Costs

None.

Recommendation

We recommend that MDE and DTMB establish effective security and access controls for privileged and high-risk users in MEGS+, CMS, and FNS-FRS.

Management Views and Corrective Action Plan

Management Views:

MDE and DTMB agree with the finding. The departments implemented additional corrective action after the IT performance audit and will continue working to ensure that MDE and DTMB establish effective security and access controls for privileged and high-risk users.

Planned Corrective Action:

Finding 1 - For CMS, access was terminated effective April 15, 2015 for three non-MDE staff. A new user role will be created for DTMB staff, removing the ability to grant user access in the CMS system. CMS access will be documented in accordance with current policies. For MEGS+, the enhanced access by a contractor will be controlled by a quarterly review of identified high-risk transactions. MDE reviewed each case for users with multiple user IDs. From the original citations, two exceptions remained in the audit period. For one employee, MDE suspended the additional user ID effective April 14, 2015. For the second employee, access under two separate accounts is required in order to perform his job functions. A report will be developed and monitored quarterly to track his activities in MEGS+. All user accounts that were identified in the previous audit as exceptions have been reviewed and corrected in accordance with current MDE policies and procedures. MDE will continue to monitor user access on an annual basis.

Finding 2 - DTMB database administrator resources will log the daily events that are completed as part of the Daily Operations procedures. DTMB will identify a process in which self-monitoring is not occurring. A resource, such as a manager who has different permissions, will review the work of the resources doing the monitoring on a regular basis.

Finding 4 - DTMB will work with the MDE Office of School Support Services, Child Nutrition Program to review and update the change management policies and procedures for FNS-FRS. All change requests will be approved by designated MDE staff with authority to do so. DTMB will reject any work items without the proper approval.

Program Title and CFDA Number	TANF Cluster: <i>CFDA</i> 93.558	
Award Identification Number and Year	13 02 MI TANF	10/01/2012 - Until Expended
	14 02 MI TANF	10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Allowable Costs/Cost Principles	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$1,391,589	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	CCDF Cluster: <i>CFDA</i> 93.575 and 93.596	
Award Identification Number and Year	G 13 03 MI CCDF	10/01/2012 - 09/30/2013
	G 14 03 MI CCDF	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$122,033,079	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Allowable Costs/Cost Principles	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$236,104	
Repeat Finding	Not Applicable	
State Agencies	Michigan Department of Education and Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)	
Award Identification Number and Year	05-1405MI5ADM	10/01/2013 - 09/30/2014
	05-1405MI5MAP	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576	
Total ARRA Expenditures	\$53,099,168	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$1,682,927	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: <i>CFDA</i> 93.566	
Award Identification Number and Year	1401MIRCMA	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Allowable Costs/Cost Principles	
Type of Finding	Significant Deficiency and Noncompliance	

Known Questioned Costs	\$16,848
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Award Identification Number and Year	G 13 B1 MI LIEA 10/01/2012 - 09/30/2014 G 14 B1 MI LIEA 10/01/2013 - 09/30/2015 G 14 01 MI LIE4 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$168,542,402
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$216,150
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$243,810
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Adoption Assistance: CFDA 93.659
Award Identification Number and Year	1401M1407 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$117,012,473
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$16,238
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: CFDA 93.667
Award Identification Number and Year	1401MISOSR 10/01/2013 - 09/30/2015

Total Expenditures of Federal Awards	\$127,089,470
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$431,021
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	Social Security Administration
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Disability Insurance/SSI Cluster: CFDA 96.001
Award Identification Number and Year	1404MIDI00 10/01/2013 - 09/30/2014 1304MIDI00 10/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$82,592,709
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$72,765
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that it had a complete and accurate narrative in its new and amended Public Assistance Cost Allocation Plan (PACAP). In a sample of 12 cost pools, we noted:

- For 2 (17%) of the 12 cost pools, MDHHS did not include the description and cost allocation methods for the expenditures associated with the cost pools in its new and amended PACAP.
- For 2 (17%) of the 12 cost pools, MDHHS had not accurately indicated in the new and amended PACAP the appropriate cost pool coding used.

Criteria

Federal regulation 45 *CFR* 95.507 requires MDHHS's PACAP to describe the procedures used to identify, measure, and allocate all costs to each of its programs and to contain sufficient information in such detail to permit the director of HHS's Division of Cost Allocation (DCA) to make an informed judgment on the correctness and fairness of MDHHS's procedures for identifying, measuring, and allocating all costs to each of MDHHS's programs. Appendix D of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires MDHHS to promptly submit PACAP amendments to DCA. Federal regulation 45 *CFR* 95.517 requires MDHHS to claim federal financial participation for costs associated with a program only in accordance with its approved or amended (at its discretion) PACAP.

Federal regulation 45 *CFR* 1356.60(c) requires the State's PACAP to identify which administrative expenditures for Foster Care - Title IV-E assistance will be allocated and claimed.

Federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs to the federal award.

Cause

For part a., a series of miscommunication and conflicting information occurred between MDHHS and DCA that resulted in MDHHS inadvertently removing one cost pool concerning Foster Care - Title IV-E administrative expenditures from the PACAP. MDHHS inadvertently omitted the second cost pool.

For part b., MDHHS informed us that it inadvertently typed in the wrong cost pool code.

Effect

By not including the 2 cost pools, MDHHS did not fully describe in its new and amended PACAP the procedures used to identify, measure, and allocate all costs to each of its programs to permit the director of DCA to make an informed judgment on the correctness and fairness of the amendments. Therefore, MDHHS likely made claims for federal financial participation that were not in accordance with an approved or amended PACAP. To help mitigate the potential of questioned costs and unallowable claims in future years, MDHHS should work with DCA to resolve any existing misunderstandings. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$5,833,838 - federally funded.
- \$2,690,339 - State-funded costs that MDHHS inappropriately used as matching.

Recommendation

We recommend that MDHHS ensure that its PACAP includes a complete and accurate narrative.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees in part with the finding.

For part a., a cost pool for the Consolidated Print Center was inadvertently omitted from the rewritten PACAP for fiscal year 2014; however, the allocation methodology for this cost pool is accurate and had been approved by DCA in prior years' cost allocation plans. Therefore, MDHHS disagrees with the questioned costs associated with allocations to cost pool 2. For cost pool 38, MDHHS initially included a description of the Private Child Placing Agency contract for supervision of the placement of children in foster homes and the related funding sources as an appendix to the PACAP. However, MDHHS believed they were following the direct guidance of the federal reviewer for the U.S. Department of Health and Human Services, Cost Allocation Services (CAS), who clearly communicated to MDHHS that the list of MDHHS contract types and funding sources should be excluded from the PACAP.

For part b, MDHHS agrees that a cost pool code was mistyped in the PACAP.

Planned Corrective Action:

For part a., MDHHS corrected the omission of cost pool 02 with the PACAP amendment effective January 1, 2015. Following an extensive analysis, MDHHS implemented a new random moment time study for child placing agencies which includes complete activity descriptions, training materials, a procedure manual, and a funding matrix in the PACAP

amendment effective October 1, 2014. MDHHS will continue to work with CAS to resolve any perceived misunderstandings and to ensure the PACAP narrative is complete and accurate.

For part b., in March of 2015, MDHHS hired a staff person dedicated to the accuracy of the department's coding, including ensuring that the coding in the State's accounting system matches the coding in AlloCAP (proprietary cost allocation software implemented October 1, 2014). In addition, with the implementation of AlloCAP, much of the claims calculation process was automated which strengthens the quality controls.

Anticipated Completion Date:

For part a., corrective actions were implemented on October 1, 2014 and January 1, 2015. MDHHS will contact CAS by August 1, 2015 to ensure that their existing PACAP narrative is complete and adequately documented.

For part b., completed.

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services
 Marilyn Carey, Michigan Department of Health and Human Services

FINDING 2014-011

MDHHS, PACAP - Allowable Costs/Cost Principles - Inappropriate PACAP Allocation

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	TANF Cluster: CFDA 93.558	
Award Identification Number and Year	13 02 MI TANF	10/01/2012 - Until Expended
	14 02 MI TANF	10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Allowable Costs/Cost Principles	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	(\$7,395,734)	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
Award Identification Number and Year	05-1405MI5ADM	10/01/2013 - 09/30/2014
	05-1405MI5MAP	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576	
Total ARRA Expenditures	\$53,099,168	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	(\$972,901)	

Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	1401MIRCMA 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	(\$17,133)
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$5,995,743
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Adoption Assistance: CFDA 93.659
Award Identification Number and Year	1401M1407 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$117,012,473
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	(\$92,112)
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: CFDA 93.667
Award Identification Number and Year	1401MISOSR 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$127,089,470
Total ARRA Expenditures	Not Applicable

Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	(\$2,782,170)
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that it correctly calculated and used the appropriate PACAP percentages to allocate expenditures to its federal programs for 8 (15%) of 54 quarterly allocations sampled. We noted:

- a. For 6 (11%) of 54 quarterly allocations, MDHHS used incorrect data to calculate the PACAP percentages used to allocate expenditures to various federal programs.
- b. For 1 (2%) of 54 quarterly allocations, MDHHS did not use the PACAP percentages that it calculated for the fourth quarter. Instead, MDHHS used the third quarter PACAP percentages to allocate fourth quarter expenditures to various federal programs.
- c. For 1 (2%) of 54 quarterly allocations, MDHHS did not correctly calculate the federal programs' share of the expenditures for 1 cost pool.

Criteria

Federal regulation 45 *CFR* 95.507 and Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) state that costs are allocable to a particular cost objective if the services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Federal regulation 45 *CFR* 95.517 requires MDHHS to claim federal financial participation for costs associated with a program only in accordance with its approved or amended (at its discretion) PACAP.

Federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs to the federal award.

Cause

MDHHS informed us that it did a high-level review of cost allocation results; however, it did not have a detailed monitoring process in place to review the accuracy of the PACAP quarterly cost allocation documentation.

Effect

MDHHS incorrectly allocated expenditures to various federal programs.

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

Known Questioned Costs

- \$6,803,405 - federally funded.
- (\$12,067,711) - federally funded negative questioned costs.
- \$5,256,092 - State-funded costs that MDHHS inappropriately used as matching.

The known questioned costs boxes reflect each federal program's net federal share of the inappropriate allocations. We did not identify questions costs exceeding \$10,000 for all the federal programs affected by the inappropriate allocations.

Recommendation

We recommend that MDHHS ensure that it correctly calculates and uses the appropriate PACAP percentages to allocate expenditures to its federal programs.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

Prior to October 1, 2014, MDHHS utilized spreadsheets to calculate and complete the departmentwide cost allocation. Effective October 1, 2014, MDHHS implemented the use of new software which allows automation of the cost allocation process which will facilitate the future review of the departmentwide cost allocation.

Anticipated Completion Date:

August 15, 2015

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services
 Marilyn Carey, Michigan Department of Health and Human Services
 Deb Christopherson, Michigan Department of Health and Human Services

FINDING 2014-012

MDHHS, Unreasonable Allocation Base for Private Child Placing Agency Administrative Expenditures

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	TANF Cluster: CFDA 93.558	
Award Identification Number and Year	13 02 MI TANF	10/01/2012 - Until Expended
	14 02 MI TANF	10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Allowable Costs/Cost Principles	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	Undeterminable	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
Award Identification Number and Year	05-1405MI5ADM	10/01/2013 - 09/30/2014
	05-1405MI5MAP	10/01/2013 - 09/30/2014

Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Adoption Assistance: CFDA 93.659
Award Identification Number and Year	1401M1407 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$117,012,473
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: CFDA 93.667
Award Identification Number and Year	1401MISOSR 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$127,089,470
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not use a reasonable cost allocation base for private child placing agency administrative expenditures to accurately reflect the relative benefits received by the TANF Cluster, Medicaid Cluster, Foster Care - Title IV-E, Adoption Assistance, and Social Services Block Grant (SSBG).

MDHHS allocated \$17 million and \$3 million of placing agency administrative expenditures to Foster Care - Title IV-E and SSBG, respectively. MDHHS based the allocation solely on a one-week time study of placing agency activities performed in fiscal year 2014. The time study for only one week did not accurately reflect the actual activities performed by the placing agencies throughout the fiscal year.

MDHHS implemented a new cost allocation base of quarterly random moment time studies in fiscal year 2015 to more accurately allocate placing agencies' activities among federal programs receiving benefits from those activities. The difference between the allocation rates used in fiscal year 2014 and fiscal year 2015 was as follows:

<u>Major Federal Program</u>	<u>Allocation Rate Used in Fiscal year 2014</u>	<u>Allocation Rate for First Quarter of Fiscal year 2015</u>	<u>Difference From Allocation Rate Used in Fiscal year 2014</u>
Foster Care - Title IV-E	91.68%	39.05%	52.63%
SSBG	8.32%	47.65%	39.33%
Adoption Assistance	0.00%	5.60%	5.60%
TANF Cluster	0.00%	2.62%	2.62%
Medicaid Cluster	0.00%	0.07%	0.07%

Criteria

Federal regulation 45 *CFR* 95.507 and Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) state that costs must be necessary and reasonable for proper and efficient performance and administration of the federal award. Also, federal regulation 45 *CFR* 95.507 and Appendix A state that indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs to the federal award.

Cause

MDHHS allocated the private child placing agency administrative costs through an indirect cost pool, although it did not include the cost pool and allocation method in its new and amended PACAP (see Finding 2014-010). MDHHS used an old cost allocation base related to the private child placing agencies' expenditures, and it did not reevaluate the appropriateness of the allocation base until after it implemented a new and amended PACAP effective October 1, 2013.

Effect

The private child placing agency activities incurred during fiscal year 2014 would closely resemble those incurred during fiscal year 2015. Therefore, MDHHS may have overallocated the private child placing agencies' expenditures to Foster Care - Title IV-E and underallocated the expenditures to the TANF Cluster, Medicaid Cluster, Adoption Assistance, and SSBG. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs
Undeterminable.

Recommendation

We recommend that MDHHS use a reasonable cost allocation base for private child placing agency administrative expenditures to accurately reflect the relative benefits received by major federal programs.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding in part.

During fiscal year 2013, MDHHS initiated an extensive analysis that resulted in the development of a new random moment time study for child placing agencies. In the interim, MDHHS continued to use its existing methodology. Since this methodology had been previously approved by the federal cost allocation services reviewers, MDHHS believed that since the reviewers made no comments about the child placing agency cost allocation methodology, sufficient information had been provided.

Planned Corrective Action:

The new cost allocation methodology was implemented October 1, 2014. This new methodology contains extensive activity reporting, complete activity descriptions, training materials, a procedure manual, and a new funding matrix.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services
Marilyn Carey, Michigan Department of Health and Human Services

FINDING 2014-013

MDHHS, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Foster Care Payments on Behalf of Ineligible Children

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$2,559

Repeat Finding	Part a. repeats 2013-084
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: CFDA 93.667
Award Identification Number and Year	1401MISOSR 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$127,089,470
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$629
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS made 3 (8%) of 39 foster care maintenance or treatment payments on behalf of ineligible children when the children were no longer in the foster family home or in a child care institution (CCI).

We reviewed a sample of 39 Title IV-E foster care maintenance payments, of which 15 also related to SSBG payments to CCIs for treatment. We noted:

- a. In one instance, MDHHS made a child care payment after the adoption of the foster child.
- b. In one instance, MDHHS made a foster care maintenance payment after the child was placed with a legal guardian.
- c. In one instance, MDHHS made a foster care payment for treatment to a CCI when the child had been returned to the parent's home.

Criteria

Title 42, section 672(b) of the *United States Code (USC)* indicates that Foster Care - Title IV-E maintenance payments are allowable if made on behalf of a child who is in the foster family home or in a CCI.

Also, federal regulation 45 *CFR* 1356.60(a) allows states to claim federal financial participation for allowable expenditures in the approved Title IV-E State Plan, including expenditures related to foster care maintenance payments. In addition, federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs to the federal award.

Further, federal law 42 *USC* 1397a(a)(2)(A) indicates that states are entitled to payment for services that meet the goals of SSBG, which include services for children in foster care. The SSBG State Plan states that SSBG will fund foster care services for children who have been abused and/or neglected or who cannot remain in their family homes because they would be at risk of further harm. Federal regulation 45 *CFR* 96.30 requires that MDHHS have fiscal controls and accounting procedures that permit the tracing of SSBG funds to document that MDHHS did

not use SSBG funds in violation of the restrictions and prohibitions of SSBG laws and federal regulations.

Cause

For part a., MDHHS 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).

For part b., MDHHS informed us that the foster care child's service authorization inappropriately changed from closed to active during the conversion of child welfare case information from the Services Worker Support System (SWSS) to the Michigan Statewide Automated Child Welfare Information System (MiSACWIS). Michigan implemented MiSACWIS in April 2014.

For part c., MDHHS informed us that the county/district office caseworker did not ensure that the child's placement was updated timely in MiSACWIS.

Effect

MDHHS made payments on behalf of children who did not qualify for Foster Care - Title IV-E and SSBG federal reimbursement. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

OMB Circular A-133 requires the reporting of questioned costs that would likely exceed \$10,000.

- \$2,559 - Foster Care - Title IV-E federally funded.
- \$629 - SSBG federally funded.
- \$1,299 - State-funded costs that MDHHS inappropriately used as matching expenditures for Foster Care - Title IV-E funds.

Recommendation

We recommend that MDHHS limit eligibility for Foster Care - Title IV-E and SSBG maintenance or treatment assistance to only children in a foster family home or in a CCI.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS has completed the recoupment or reconciliation activities for the cited foster care cases. MDHHS met with the Children's Services Foster Care and Child Welfare Field Operations Divisions and the Business Service Centers to consider possible policy updates that could include timeliness for processing recoupment and reconciliations once an issue is discovered. MDHHS included the cited foster care cases as examples to be used during Child Welfare Funding Specialist (CWFS) training to emphasize the need for data to be timely entered into the system.

Anticipated Completion Date:
Completed

Responsible Individual(s):
Steve Yager, Michigan Department of Health and Human Services
Jenifer Pettibone, Michigan Department of Health and Human Services

FINDING 2014-014

MDHHS, Allowable Costs/Cost Principles - Pharmacy Pricing Validations

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: CFDA 93.994
Award Identification Number and Year	1 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 B04MC26674-01-00 10/01/2013 - 09/30/2015 6 B04MC26674-01-01 10/01/2013 - 09/30/2015 6 B04MC26674-01-02 10/01/2013 - 09/30/2015 6 B04MC26674-01-03 10/01/2013 - 09/30/2015 6 B04MC26674-01-04 10/01/2013 - 09/30/2015 6 B04MC26674-01-05 10/01/2013 - 09/30/2015 6 B04MC26674-01-06 10/01/2013 - 09/30/2015 6 B04MC26674-01-07 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0

Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not adequately validate pharmacy pricing to ensure that the pharmacy benefits manager (PBM) utilized the lowest cost pricing.

Criteria

Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal programs be reasonable. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Cause

MDHHS performs quarterly pharmacy validation procedures to ensure that its PBM is accurately paying pharmacies for covered drugs. However, MDHHS stated that it did not provide the pricing validations completed during fiscal year 2014 because the validations did not meet its review standards. Therefore, we could not ensure that the quarterly pricing validations were completed. MDHHS is currently reperforming the pricing validations.

Effect

MDHHS could not ensure that the PBM paid pharmacies at rates allowed by the State plan.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS adequately validate pharmacy pricing.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

Expected review standards for quarterly validation of pharmacy pricing will be reviewed with the responsible pharmacy staff. Subsequent validations will be reviewed and approved for adequacy.

Anticipated Completion Date:

July 2015

Responsible Individual(s):

Helen Walley, Michigan Department of Health and Human Services

FINDING 2014-015**MDE, Allowable Costs/Cost Principles and Subrecipient Monitoring - FNS-FRS Claim System Reimbursement Rate Approval**

Federal Agency	U.S. Department of Agriculture	
Pass Through Entity	Not Applicable	
Program Title and CFDA	Child Nutrition Cluster: <i>CFDA</i> 10.553, 10.555, 10.556, and 10.559	
Award Identification Number and Year	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2011 - 09/30/2012
	2MI300060	10/01/2012 - 09/30/2013
	2MI300060	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$448,798,309	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Agriculture	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Child and Adult Care Food Program: <i>CFDA</i> 10.558	
Award Identification Number and Year	2MI300069	10/01/2014 - 09/30/2016
	2MI310266	06/06/2014 - 12/15/2015
	2MI300069	10/01/2013 - 09/30/2015
	2MI300060	10/01/2013 - 09/30/2014
	2MI300069	10/01/2012 - 09/30/2014
	2MI300060	10/01/2012 - 09/30/2013
	2MI300060	10/01/2011 - 09/30/2012
	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2009 - 09/30/2010
	2MI300060	10/01/2004 - 09/30/2005
Total Expenditures of Federal Awards	\$63,992,777	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Education	

Condition

MDE could not document that it reviewed the accuracy of reimbursement rates for the Child and Adult Care Food Program (CACFP) and the Child Nutrition Cluster prior to submission into the FNS-FRS claim systems. We determined that reimbursement rates claimed were accurate; however, the lack of a documented review results in an increased risk that a review may not be performed or an improper rate could be used in the future.

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 its process was for one employee to input the reimbursement rates and for another to review for accuracy.

Cause

MDE informed us that it had not developed and implemented a documented review process for reimbursement rate changes because it determined that its informal review was sufficient to ensure the accuracy of the rates.

Effect

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

Known Questioned Costs

None.

Recommendation

We recommend that MDE document that it reviews the accuracy of reimbursement rates prior to submission into the FNS-FRS claim systems.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

When new reimbursement rates are issued by the U.S. Department of Agriculture (USDA), copies of applicable rates are printed, reviewed, and entered into the claim system by a Fiscal and Administrative Services Team (FAST) staff person. As of February 23, 2015, an additional FAST staff person will verify that the rates were entered into the claim system correctly and will sign and date the rate printout to demonstrate that verification was performed.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Ann Mazurek, Michigan Department of Education
Wendy Crowley, Michigan Department of Education

FINDING 2014-016

MDHHS, Allowable Costs/Cost Principles and Special Tests and Provisions - Entity Disclosures

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

Program Title and CFDA Number	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Allowable Costs/Cost Principles and Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-019
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: <i>CFDA</i> 93.994
Award Identification Number and Year	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 B04MC26674-01-00 10/01/2013 - 09/30/2015 6 B04MC26674-01-01 10/01/2013 - 09/30/2015 6 B04MC26674-01-02 10/01/2013 - 09/30/2015 6 B04MC26674-01-03 10/01/2013 - 09/30/2015 6 B04MC26674-01-04 10/01/2013 - 09/30/2015 6 B04MC26674-01-05 10/01/2013 - 09/30/2015 6 B04MC26674-01-06 10/01/2013 - 09/30/2015 6 B04MC26674-01-07 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles and Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-019
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not obtain all required disclosures from Prepaid Inpatient Health Plan (PIHP) entities, Medicaid Health Plan (MHP) entities, MI Choice Waiver Program (MI Choice) entities, and its PBM during the audit period.

Criteria

Federal regulations 42 *CFR* 455.104 through 42 *CFR* 455.106 require MDHHS to obtain certain identifying information from Medicaid providers, including PIHP entities, MHP entities, MI Choice

entities, and its PBM. These regulations also require MDHHS 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, MDHHS 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 MDHHS's fiscal year 2014 Maternal and Child Health Services Block Grant State Narrative, MDHHS stated that the Maternal and Child Health Services Block Grant to the States (MCHSBG) will follow the same provider reimbursement policies as Medicaid.

Cause

MDHHS stated that it developed a process to collect MHP entity disclosures in February 2013 and PIHP entity disclosures in December 2013; however, the process was not updated to include submission of all required disclosure elements because of limited resources and multiple priorities. MDHHS also stated that it did not have a mechanism to ensure that all MI Choice entities' disclosures were collected. In addition, MDHHS stated that it had not developed a single mechanism that ensured collection of all required disclosures from its PBM.

Effect

MDHHS could potentially reimburse ineligible Medicaid providers for medical services. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS collect all required disclosures from PIHP entities, MHP entities, MI Choice entities, and its PBM.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS will update the disclosure collection tool used for obtaining screening and disclosure information from all PIHP entities, MI Choice entities, MHP entities, and the PBM. The new form will meet all disclosure requirements of federal regulations 42 *CFR* 455.104 through 42 *CFR* 455.106. All organizations will then have enrollment information updated in the CHAMPS system indicating ownership and their interest within the company.

Anticipated Completion Date:

September 2015

Responsible Individual(s):

Managed Care Systems Operation Section, Michigan Department of Health and Human Services

FINDING 2014-017

MDE, Level of Effort - MOE

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Title I Grants to Local Educational Agencies: <i>CFDA</i> 84.010
Award Identification Number and Year	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 S010A130022 07/01/2013 - 09/30/2014 S010A130022-13A 07/01/2013 - 09/30/2014 S010A140022 07/01/2014 - 09/30/2014 S010A140022-14A 07/01/2014 - 09/30/2014
Total Expenditures of Federal Awards	\$538,371,637
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort - Maintenance of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-12
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Twenty-First Century Community Learning Centers: <i>CFDA</i> 84.287
Award Identification Number and Year	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 S287C130022-13A 07/01/2013 - 09/30/2014 S287C140022 07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$35,261,835
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort - Maintenance of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-12
State Agency	Michigan Department of Education

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

Program Title and CFDA Number	Improving Teacher Quality State Grants: <i>CFDA</i> 84.367	
Award Identification Number and Year	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
	S367A130021	07/01/2013 - 09/30/2014
	S367A130021-13A	07/01/2013 - 09/30/2014
	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
	S367B130019	07/01/2013 - 09/30/2014
	S367B130019-13A	07/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$92,591,549	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Matching, Level of Effort - Maintenance of Effort, and Earmarking	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-12	
State Agency	Michigan Department of Education	

Condition

MDE did not exclude capital outlay and unrestricted federal expenditures in its fiscal year 2012 maintenance of effort (MOE) calculation for 203 (24%) of the 858 local educational agencies (LEAs).

Criteria

Federal regulation 34 *CFR* 299.5 requires that state educational agencies (SEAs) not consider LEA expenditures related to capital outlay or expenditures made from funds provided by the federal government in the calculation of MOE. Also, federal law 20 *USC* 7901 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 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

None.

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 notes that no misallocation of federal funds took place.

Planned Corrective Action:

MDE revised the program used to calculate MOE to ensure the appropriate capital outlay and unrestricted federal expenditures are excluded. MDE also updated its MOE specifications to be consistent with actual programming.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Philip Boone, Michigan Department of Education

FINDING 2014-018

DTMB, Procurement and Suspension and Debarment - Completion of Contract File Review Checklists

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Special Supplemental Nutrition Program for Women, Infants, and Children: CFDA 10.557
Award Identification Number and Year	2MI700003 10/01/2013 - 09/30/2014 2MI700013 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$184,083,008
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Procurement and Suspension and Debarment
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Technology, Management, and Budget and Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended

Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Procurement and Suspension and Debarment
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Department of Technology, Management, and Budget and Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
Award Identification Number and Year	05-1405MI5MAP	10/01/2013 - 09/30/2014
	05-1405MI5ADM	10/01/2013 - 09/30/2014
	05-1405MIINCT	10/01/2013 - 09/30/2014
	05-1405MIIMPL	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576	
Total ARRA Expenditures	\$53,099,168	
Compliance Requirement(s)	Procurement and Suspension and Debarment	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agencies	Department of Technology, Management, and Budget and Michigan Department of Health and Human Services	

Condition

DTMB did not complete 3 of 6 contract file review checklists during the procurement process. The checklist provides a mechanism to verify that all the supporting records for a given solicitation are accounted for in either a paper or an electronic format. The contract values for contracts without completed checklists were \$12,498,800, \$5,630,000, and \$60,324,447 for services of the WIC Program, TANF Cluster, and Medicaid Cluster, respectively. Our testing did not disclose noncompliance with procurement procedures for the 3 contracts with missing checklists.

Criteria

Federal regulations 45 *CFR* 92.36 and 7 *CFR* 3016.36 require DTMB to use the same State policies and procedures used for procurements from nonfederal funds when procuring property and services using federal funds. DTMB procurement requires completion of the checklist.

Cause

DTMB informed us that not completing these checklists was an oversight.

Effect

DMTB could not ensure that it followed all required procurement policies and procedures. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that DTMB complete contract file review checklists during the procurement process.

Management Views and Corrective Action Plan

Management Views:

DTMB agrees with the finding and has taken steps to prevent this oversight in the future. Although all the records ultimately existed for the three files cited, DTMB currently believes the contract file check sheet is an important record for documenting this verification and should be completed.

Planned Corrective Action:

DTMB has taken steps through the division directors to provide refresher training to staff on the role and importance of completing the contract file check sheet. DTMB is also considering another layer of review to strengthen the process.

Anticipated Completion Date:

Immediate completion is anticipated for training reminders. DTMB's evaluation of adding additional review steps to the procurement process will be finalized by September 30, 2015.

Responsible Individual(s):

Sharon Maynard, Department of Technology, Management, and Budget
Procurement Division Directors, Department of Technology, Management, and Budget

FINDING 2014-019

MDHHS, Procurement and Suspension and Debarment - Procurement Procedures

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5ADM 10/01/2013 - 09/30/2014 05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Procurement and Suspension and Debarment
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$23,391
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Block Grants for Community Mental Health Services: CFDA 93.958
Award Identification Number and Year	14B1MICMHS 10/01/2013 - 09/30/2015 13B1MICMHS 10/01/2012 - 09/30/2014
Total Expenditures of Federal Awards	\$10,319,368

Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Procurement and Suspension and Debarment
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$1,294,697
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS procured services for amounts in excess of its delegated authority without DTMB approval for 4 of 4 procurements reviewed for the Block Grants for Community Mental Health Services (BGCMS) program. Also, we noted 1 procurement for the Medicaid Cluster that was in excess of MDHHS's delegated authority and not approved by DTMB. MDHHS did not use a competitive bidding process when it procured the services for all 5 procurements.

Criteria

Regarding BGCMS, federal regulation 45 *CFR* 96.30 states that, except where otherwise required by federal law or regulation, a state shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds.

Regarding the Medicaid Cluster, federal regulation 45 *CFR* 92.36 requires MDHHS to use the same State policies and procedures used for procurements from nonfederal funds when procuring property and services using federal funds.

DTMB Administrative Guide procedure 0510.01 states that DTMB Procurement delegates purchasing authority to State departments for procurements up to \$25,000 and also requires approval from the DTMB Procurement director to use a procurement method other than competitive bidding to establish fair and reasonable pricing. In addition, State agencies can request special delegated authority on a project basis, which DTMB authorizes in writing. DTMB Administrative Guide procedure 0510.30 establishes procedures for procurements of purchases above the departmental delegated authority.

Cause

The contracts, which provided legal services for the Medicaid program and training and consulting services for the BGCMS program, ranged from \$100,000 to \$1,650,540. MDHHS informed us that it considered these procurements grant contracts because they were for services necessary to administer a grant program and, therefore, not subject to DTMB procurement requirements. MDHHS informed us that its program offices, with the assistance of the MDHHS Grants and Purchasing Division, would be responsible for the procurement of these services. In addition, for 2 of the 4 BGCMS contracts totaling \$247,460, MDHHS informed us that it was not necessary to competitively bid the contracts because they were considered single source. However, MDHHS did not have DTMB approval for the single source designation for the 2 BGCMS contracts.

Effect

MDHHS made payments to vendors for services that were not procured in accordance with State policies and procedures. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$23,391 - Medicaid Cluster federally funded.
- \$1,294,697 - BGCMS federally funded.

Recommendation

We recommend that MDHHS procure services for amounts within its delegated authority.

Management Views and Corrective Action Plan

Management Views:

MDHHS disagrees in part with the finding.

In regards to the BGCMS program, MDHHS believes that the partial citation of 45 *CFR* 96.30 has been taken out of context and that the rest of the text from that regulation provides the context of the requirements. The full text of 45 *CFR* 96.30(a) states "Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant." MDHHS believes that the full text of the regulation shows that the emphasis is on ensuring that the reports can be properly prepared and the records are sufficient to demonstrate that the expenditures met the program purposes and were in accordance with the State plan. MDHHS's fiscal control and accounting procedures were sufficient to permit the preparation of the required reports and permit the tracing of expenditures to the level necessary to identify that the activities funded were allowed by the grant and were consistent with what is approved in the State plan. Further, the U.S. Department of Health and Human Services has specifically exempted the Community Mental Health Block Grant from the requirements detailed in 45 *CFR* 92 which would require MDHHS to use the same State policies and procedures used for procurements from nonfederal funds when procuring property and services using federal funds. The finding interprets the language in 45 *CFR* 96.30 to have the same requirement as 45 *CFR* 92, from which the federal government specifically exempted the program. MDHHS disagrees with this interpretation. MDHHS obligated these funds for specific services from very unique entities. These entities are specifically reported to the federal granting agency and the federal granting agency has approved the expenditures to the entities noted. MDHHS disagrees with this finding and the questioned costs for these activities.

In regards to the \$23,391 questioned for the Medicaid cluster, although MDHHS disagrees, MDHHS agrees to review its procurement processes and existing controls over the administration of this procurement.

Planned Corrective Action:

MDHHS will review existing controls over the administration of these procurements, including discussions with DTMB Procurement where necessary.

Anticipated Completion Date:
January 2016

Responsible Individual(s):
Kristi Broessel, Michigan Department of Health and Human Services
Tom Renwick, Michigan Department of Health and Human Services

FINDING 2014-020
MDE, Reporting - FFATA Reporting

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Nutrition Cluster: <i>CFDA</i> 10.553, 10.555, 10.556, and 10.559
Award Identification Number and Year	2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2011 - 09/30/2012 2MI300060 10/01/2012 - 09/30/2013 2MI300060 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$448,798,309
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-013
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Food Distribution Cluster: <i>CFDA</i> 10.565, 10.568, and 10.569
Award Identification Number and Year	2MI810053 10/01/2013 - 09/30/2014 2MI400053 10/01/2013 - 09/30/2014 2MI810053 10/01/2012 - 09/30/2013 2MI400053 10/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$45,831,404
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2013-013
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child and Adult Care Food Program: <i>CFDA</i> 10.558
Award Identification Number and Year	2MI300069 10/01/2014 - 09/30/2016 2MI310266 06/06/2014 - 12/15/2015 2MI300069 10/01/2013 - 09/30/2015 2MI300060 10/01/2013 - 09/30/2014 2MI300069 10/01/2012 - 09/30/2014

	2MI300060	10/01/2012 - 09/30/2013
	2MI300060	10/01/2011 - 09/30/2012
	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2009 - 09/30/2010
	2MI300060	10/01/2004 - 09/30/2005
Total Expenditures of Federal Awards	\$63,992,777	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-013	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Title I Grants to Local Educational Agencies: CFDA 84.010	
Award Identification Number and Year	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
	S010A130022	07/01/2013 - 09/30/2014
	S010A130022-13A	07/01/2013 - 09/30/2014
	S010A140022	07/01/2014 - 09/30/2014
	S010A140022-14A	07/01/2014 - 09/30/2014
Total Expenditures of Federal Awards	\$538,371,637	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-013	
State Agency	Michigan Department of Education	

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Career and Technical Education - Basic Grants to States: CFDA 84.048	
Award Identification Number and Year	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
	V048A140022	07/01/2014 - 09/30/2015

Total Expenditures of Federal Awards	\$35,828,289
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-013
State Agency	Michigan Department of Education

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Twenty-First Century Community Learning Centers: CFDA 84.287	
Award Identification Number and Year	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
	S287C130022-13A	07/01/2013 - 09/30/2014
	S287C140022	07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$35,261,835	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-013	
State Agency	Michigan Department of Education	

Condition

MDE did not ensure that it accurately and timely reported all subaward information as required by the Federal Funding Accountability and Transparency Act of 2006 (FFATA). Our review of 101 sampled subawards disclosed:

- a. MDE did not report subaward information for 6 (6%) Child Nutrition Cluster, Food Distribution Cluster, and Child and Adult Care Food Program subawards.
- b. MDE did not report accurate subaward information for 18 (18%) Child Nutrition Cluster, Food Distribution Cluster, and Title I Grants to Local Educational Agencies subawards.
- c. MDE did not timely report subaward information for 13 (13%) Food Distribution Cluster, Title I Grants to Local Educational Agencies, Career and Technical Education - Basic Grants to States, and Twenty-First Century Community Learning Centers subawards. MDE submitted FFATA reports from 1 to 5 months late.

Criteria

Federal regulation 2 *CFR* 170 implemented the FFATA requirements for reporting subaward information and requires that MDE 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 the inaccurate and untimely reporting resulted from staff turnover.

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

None.

Recommendation

We recommend that MDE ensure that it accurately and timely reports all subaward information as required by FFATA.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

All accuracy issues noted in the finding have been corrected. MDE will continue to improve its reporting procedures. The identification of grant approvals and the review and approval by the program offices of all awards are working as expected. The upload of the approvals in the FFATA Subaward Reporting System will be improved to ensure that all awards are reported accurately and timely as required.

Anticipated Completion Date:

August 31, 2015

Responsible Individual(s):

Louis Burgess, Michigan Department of Education

FINDING 2014-021

MDHHS, Reporting - FFATA Reporting - Timeliness and Accuracy

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	TANF Cluster: CFDA 93.558	
Award Identification Number and Year	13 02 MI TANF	10/01/2012 - Until Expended
	14 02 MI TANF	10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-015	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Support Enforcement: CFDA 93.563
Award Identification Number and Year	1404MI4005 10/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$150,129,772
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-015
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Award Identification Number and Year	G 13 B1 MI LIEA 10/01/2012 - 09/30/2014 G 14 B1 MI LIEA 10/01/2013 - 09/30/2015 G 14 01 MI LIE4 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$168,542,402
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-015
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-015
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Social Services Block Grant: CFDA 93.667
Award Identification Number and Year	1401MISOSR 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$127,089,470
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0

Repeat Finding	2013-015
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Chafee Foster Care Independence Program: <i>CFDA</i> 93.674	
Award Identification Number and Year	G 13 01 MI 1420	10/01/2012 - 09/30/2014
	G 12 01 MI 1420	10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$3,414,991	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-015	
State Agency	Michigan Department of Health and Human Services	

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Block Grants for Community Mental Health Services: <i>CFDA</i> 93.958	
Award Identification Number and Year	14B1MICMHS	10/01/2013 -09/30/2015
	13B1MICMHS	10/01/2012 - 09/30/2014
Total Expenditures of Federal Awards	\$10,319,368	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Reporting	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Health and Human Services	

Condition

MDHHS did not ensure that it timely and accurately reported all subaward information as required by FFATA. Our review of 97 sampled subawards disclosed:

- a. MDHHS did not report subaward information for 12 TANF Cluster, Child Support Enforcement, Low-Income Home Energy Assistance, Foster Care - Title IV-E, and SSBG subawards.
- b. MDHHS did not report accurate subaward information for 6 Foster Care - Title IV-E and SSBG subawards and 2 BGCMHS subawards.
- c. MDHHS did not timely report subaward information for 66 TANF Cluster, Child Support Enforcement, Low-Income Home Energy Assistance, Foster Care - Title IV-E, SSBG, and Chafee Foster Care Independence Program (CFCIP) subawards. MDHHS submitted FFATA reports from 1 to 9 months late.
- d. MDHHS improperly reported three vendor contracts as subawards for the BGCMHS program.

Criteria

Federal regulation 2 *CFR* 170 implemented the FFATA requirements for reporting subaward information and requires that MDHHS 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

MDHHS's control to ensure that all identified contracts and actions to obligate were reported and reported timely and accurately was not working as intended. Also, MDHHS did not timely obtain the subaward information from other State agencies for TANF Cluster and CFCIP funds distributed to subrecipients.

In addition, for the BGCMS program, MDHHS informed us that it reported incorrect Data Universal Numbering System (DUNS) numbers because of input errors that occurred when utilizing a DUNS number search function. MDHHS also informed us that the reporting of vendors as subawards occurred because these vendors were considered subrecipients in the prior fiscal year and the prior year information was used as a starting point for fiscal year 2014 FFATA reporting.

Effect

MDHHS reported inaccurate grant information and grant information was not available for public access through the Web site established to improve transparency of governmental spending. The federal grant agency could issue sanctions or disallowance related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS ensure that it timely and accurately reports all subaward information as required by FFATA.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS Federal Reporting will continue to work with program areas to confirm that all subaward information has been properly reported. This will be an ongoing process for monthly FFATA reporting. Federal Reporting will also seek out training opportunities to identify more efficient and effective ways to ensure that subaward information is reported accurately and timely. MDHHS will complete additional validation checks for the DUNS number and relationship type during preparation of FFATA reports to avoid future errors.

Anticipated Completion Date:

July 2015

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services
Marilyn Carey, Michigan Department of Health and Human Services
Kristi Broessel, Michigan Department of Health and Human Services

FINDING 2014-022

MDHHS, Special Tests and Provisions - Pharmacy Provider State License Monitoring

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Special Tests and Provisions - Provider Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-020
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: <i>CFDA</i> 93.994
Award Identification Number and Year	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 B04MC26674-01-00 10/01/2013 - 09/30/2015 6 B04MC26674-01-01 10/01/2013 - 09/30/2015 6 B04MC26674-01-02 10/01/2013 - 09/30/2015 6 B04MC26674-01-03 10/01/2013 - 09/30/2015 6 B04MC26674-01-04 10/01/2013 - 09/30/2015 6 B04MC26674-01-05 10/01/2013 - 09/30/2015 6 B04MC26674-01-06 10/01/2013 - 09/30/2015 6 B04MC26674-01-07 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Special Tests and Provisions
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-020
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not monitor the status of all pharmacy providers' State licenses.

Starting in July 2013, MDHHS required all pharmacies to enroll directly into MDHHS's Community Health Automated Medicaid Processing System (CHAMPS), which would allow

MDHHS to obtain and monitor pharmacy providers' State license information directly. However, MDHHS noted that 728 (26%) of 2,777 pharmacies had still not provided State licensing information in CHAMPS as of September 30, 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. MDHHS'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 MDHHS's fiscal year 2014 Maternal and Child Health Services Block Grant State Narrative, MDHHS stated that MCHSBG will follow the same provider reimbursement policies as Medicaid.

Cause

MDHHS 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, MDHHS cannot monitor changes in pharmacy providers' State license status. MDHHS could potentially reimburse ineligible Medicaid providers for medical services. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendation

We recommend that MDHHS monitor the status of all pharmacy providers' State licenses.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

Effective April 16, 2015, only pharmacies that have completed enrollment in CHAMPS with a pharmacy specialty are eligible to process claims for MDHHS. State license status is validated during the routine automated screening process.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Helen Walley, Michigan Department of Health and Human Services

FINDING 2014-023

MDHHS, Special Tests and Provisions - PIHP, MHP, and PBM Network Monitoring

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Special Tests and Provisions - Provider Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-021
State Agency	Michigan Department of Health and Human Services

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: <i>CFDA</i> 93.994
Award Identification Number and Year	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 B04MC26674-01-00 10/01/2013 - 09/30/2015 6 B04MC26674-01-01 10/01/2013 - 09/30/2015 6 B04MC26674-01-02 10/01/2013 - 09/30/2015 6 B04MC26674-01-03 10/01/2013 - 09/30/2015 6 B04MC26674-01-04 10/01/2013 - 09/30/2015 6 B04MC26674-01-05 10/01/2013 - 09/30/2015 6 B04MC26674-01-06 10/01/2013 - 09/30/2015 6 B04MC26674-01-07 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Special Tests and Provisions
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-021
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not monitor pharmacy providers, its PIHP entities' network of providers, or its MHP entities' network of providers to ensure that providers entered into provider agreements and made all required disclosures.

MDHHS 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. However, MDHHS noted that 728 (26%) of 2,777 pharmacies had still not entered into provider agreements or provided required disclosures in CHAMPS as of September 30, 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 MDHHS 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, MDHHS 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 MDHHS's fiscal year 2014 Maternal and Child Health Services Block Grant State Narrative, MDHHS stated that MCHSBG will follow the same provider reimbursement policies as Medicaid.

Cause

MDHHS stated that it:

- Trained its PBM on pharmacy provider agreement and disclosure policy and, therefore, relied on its PBM to correctly implement the policy.
- 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.
- Did not have a mechanism to monitor the PIHP entities' network of providers or the MHP entities' network of providers for provider agreements and disclosures.

Effect

MDHHS could potentially reimburse PIHPs, MHPs, or its PBM for Medicaid services provided by ineligible providers. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

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

Management Views and Corrective Action Plan

Management Views:

MDHHS partially agrees with the finding.

MDHHS began working with its providers to enroll their pharmacy network providers into CHAMPS as a result of a federal audit and the prior single audit. However, this process was not completed by the end of fiscal year 2014.

Planned Corrective Action:

MDHHS monitored its pharmacy providers and notified those failing to enroll directly in CHAMPS that failure to do so would result in their termination. In accordance with its corrective action plan, those terminations were completed April 16, 2015. In addition, MDHHS will develop a quarterly procedure to monitor on an ongoing basis to ensure pharmacy providers billing for payment had active CHAMPS enrollment with pharmacy specialty. MDHHS anticipates completion by June 30, 2015.

MDHHS will instruct its External Quality Review Organization to include an assessment of the PIHP's compliance with obtaining required disclosures from their provider networks as part of the External Quality Review Organization's monitoring of the PIHP for compliance to Balanced Budget Act requirements. The PIHP process will commence with the external quality review activities beginning in 2015.

MDHHS is currently working with the MHPs to ensure that 100% of network providers are enrolled in CHAMPS. MDHHS will conduct an internal audit to identify those MHP network providers not enrolled or registered in CHAMPS and require the MHPs to work with these providers to complete registration or enrollment. Once 100% of the network providers are enrolled in CHAMPS, MDHHS will conduct the required screens and verify all required disclosures. Internal activities will begin in June 2015 and MDHHS anticipates reaching 100% enrollment by December 31, 2015.

Anticipated Completion Date:

December 2015

Responsible Individual(s):

Helen Walley, Michigan Department of Health and Human Services
Jeff Wieferrich, Michigan Department of Health and Human Services
Samantha Rutledge-Wolf, Michigan Department of Health and Human Services

FINDING 2014-024

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

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child and Adult Care Food Program: <i>CFDA 10.558</i>
Award Identification Number and Year	2MI300069 10/01/2014 - 09/30/2016 2MI310266 06/06/2014 - 12/15/2015 2MI300069 10/01/2013 - 09/30/2015

	2MI300060	10/01/2013 - 09/30/2014
	2MI300069	10/01/2012 - 09/30/2014
	2MI300060	10/01/2012 - 09/30/2013
	2MI300060	10/01/2011 - 09/30/2012
	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2009 - 09/30/2010
	2MI300060	10/01/2004 - 09/30/2005
Total Expenditures of Federal Awards	\$63,992,777	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Subrecipient Monitoring	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$17,984	
Repeat Finding	2013-025	
State Agency	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).

Of the 560 total sponsors, we identified 485 with institutions licensed through MDHHS. The 485 sponsors had a total of 1,299 MDHHS licensed institutions under their sponsorship. We analyzed all fiscal year 2014 claims for the 1,299 institutions. Our analysis noted that 14 (3%) of the 485 sponsors submitted claims in excess of the authorized capacity for their 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 a sponsor 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 88.

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 5,662 unallowable meals served in fiscal year 2014.

Known Questioned Costs

- \$17,984 - federally funded.

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.

Planned Corrective Action:

Although the edit check of enrollment and days of meal service that was in place during fiscal years 2013 and 2014 was in compliance with federal regulation 7 *CFR* 226.7(k), it was discontinued as of September 30, 2014. On October 1, 2014, MDE instituted a new edit check for fiscal year 2015 to enforce a higher level of oversight to CACFP claims. The edit check was corrected as of March 13, 2015 to 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 per site in the CACFP application.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Kim Bilyk, Michigan Department of Education

FINDING 2014-025

Child and Adult Care Food Program, *CFDA* 10.558, Eligibility - Monitoring

Federal Agency	U.S. Department of Agriculture	
Pass-Through Entity	Not Applicable	
Program Title and <i>CFDA</i> Number	Child and Adult Care Food Program: <i>CFDA</i> 10.558	
Award Identification Number and Year	2MI300069	10/01/2014 - 09/30/2016
	2MI310266	06/06/2014 - 12/15/2015
	2MI300069	10/01/2013 - 09/30/2015
	2MI300060	10/01/2013 - 09/30/2014
	2MI300069	10/01/2012 - 09/30/2014
	2MI300060	10/01/2012 - 09/30/2013
	2MI300060	10/01/2011 - 09/30/2012
	2MI300060	10/01/2010 - 09/30/2011
	2MI300060	10/01/2009 - 09/30/2010
	2MI300060	10/01/2004 - 09/30/2005
Total Expenditures of Federal Awards	\$63,992,777	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Eligibility	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$1,247,565	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Education	

Condition

MDE reimbursed meal claims for CACFP sponsors that did not meet eligibility requirements.

We analyzed fiscal year 2014 management plans for the 7 center sponsors that sponsored 25 or more institutions at the start of the fiscal year and the 3 day care home sponsors that sponsored 50 or more institutions at the start of the fiscal year. Two of the 10 sponsors did not employ the necessary full-time staff to perform monitoring.

Criteria

Federal regulation 7 *CFR* 226.16 requires MDE to ensure that a sponsor's management plan documents that it will employ the equivalent of one full-time staff to perform monitoring for each 25 to 150 centers or 50 to 150 day care homes that it sponsors.

Cause

Formula errors in the fiscal year 2014 CACFP budget work sheet made it appear that the sponsors were in compliance with the monitoring requirement.

Effect

MDE reimbursed ineligible sponsors in fiscal year 2014. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$1,247,565 - federally funded meal reimbursements paid to sponsors whose management plan did not document that they employed the required number of monitoring staff.

Recommendation

We recommend that MDE reimburse meal claims only for CACFP sponsors that meet eligibility requirements.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding that the fiscal year 2014 Budget Spreadsheet tool used by two CACFP agencies did not properly collect full-time equivalent (FTE) monitoring staff information. However, MDE has verified that both institutions have performed program monitoring in fiscal year 2014.

Planned Corrective Action:

CACFP staff corrected the formula in the budget spreadsheet used by center sponsors for the fiscal year 2015 application. The old budget spreadsheet ceased to be available for use as of September 30, 2014.

In addition, there are other ways MDE collects information on how center sponsors plan to monitor or how they conduct monitoring of sites. The CACFP application requires institutions to describe as part of their management plan (Monitoring page) how they will ensure that all sites are properly monitored to comply with regulatory requirements per federal regulation 7 *CFR* 226.16. In addition, MDE completes administrative reviews every 2-3 years and reviews site monitoring conducted by center sponsors.

Anticipated Completion Date:
Completed

Responsible Individual(s):
Kim Bilyk, Michigan Department of Education
Connie Jones, Michigan Department of Education

FINDING 2014-026

Child and Adult Care Food Program, CFDA 10.558, Reporting - Internal Control

Federal Agency	U.S. Department of Agriculture
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child and Adult Care Food Program: CFDA 10.558
Award Identification Number and Year	2MI300069 10/01/2014 - 09/30/2016 2MI310266 06/06/2014 - 12/15/2015 2MI300069 10/01/2013 - 09/30/2015 2MI300060 10/01/2013 - 09/30/2014 2MI300069 10/01/2012 - 09/30/2014 2MI300060 10/01/2012 - 09/30/2013 2MI300060 10/01/2011 - 09/30/2012 2MI300060 10/01/2010 - 09/30/2011 2MI300060 10/01/2009 - 09/30/2010 2MI300060 10/01/2004 - 09/30/2005
Total Expenditures of Federal Awards	\$63,992,777
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

MDE did not ensure that all federal reports were appropriately reviewed and approved prior to submission to the federal agency. We reviewed 3 monthly CACFP reports (FNS-44 reports) and noted that 1 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 the federal programs.

Cause

MDE informed us that it did not appropriately review and approve the report because of a vacancy in the supervisor position.

Effect

MDE may submit inaccurate reports to the federal grantor agency. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDE ensure that federal reports are appropriately reviewed and approved prior to submission to the federal agency.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

When the Fiscal and Administrative Services Team (FAST) Supervisor was reassigned, effective July 7, 2014, security authorization forms were updated for two other FAST employees so that their security access included validation and certification authorization levels. It should be noted that the U.S. Department of Agriculture (USDA) allows the same MDE employee to validate and certify data. The USDA security clearance does not separate the two functions when a user's security access includes both levels; thus when a user validates a data file by saving it, it automatically becomes certified.

Beginning March 1, 2015, if there is not a FAST member with certify access, a second member of the FAST unit will manually verify the validity of the entry, and sign the supporting documentation. This documentation will be kept on file in the FAST unit.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Wendy Crowley, Michigan Department of Education
Ann Mazurek, Michigan Department of Education

FINDING 2014-027

WIA Cluster, CFDA 17.258, 17.259, and 17.278, Reporting - Internal Control

Federal Agency	U.S. Department of Labor
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	WIA Cluster, CFDA 17.258, 17.259, and 17.278
Award Identification Number and Year	AA-22110-11-55-A-26 04/01/2011 - 06/30/2014 AA-22942-12-55-A-26 04/01/2012 - 06/30/2015 AA-24099-13-55-A-26 04/01/2013 - 06/30/2016 AA-25360-14-55-A-26 04/01/2014 - 06/30/2017
Total Expenditures of Federal Awards	\$103,369,823
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Strategic Fund

Condition

The Michigan Strategic Fund (MSF) did not ensure that 9 (41%) of 22 sampled federal reports were appropriately reviewed and approved prior to submission to the federal agency.

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

MSF informed us that staff turnover and competing priorities contributed to the lack of reviews for these financial status 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

None.

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. The information provided by MSF was accurate; however, approval procedures need to be improved.

Planned Corrective Action:

The MSF Federal Finance Manager will review and electronically sign all federal financial reports. The Federal Finance Manager will utilize a tracking document, listing all reports to be submitted by quarter, to ensure that no reports are missed. This tracking document will ensure that all federal financial reports are reviewed, approved before submission, and submitted timely.

Anticipated Completion Date:

June 30, 2015

Responsible Individual(s):

Paul Onan, Michigan Strategic Fund

FINDING 2014-028

Highway Planning and Construction Cluster, CFDA 20.205, 20.205 (ARRA), and 20.219, Map Financial Obligation System and Project Accounting and Billing System - Access Controls

Federal Agency	U.S. Department of Transportation
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Highway Planning and Construction Cluster: CFDA 20.205, 20.205 (ARRA), and 20.219
Award Identification Number and Year	Various
Total Expenditures of Federal Awards	\$1,223,106,767
Total ARRA Expenditures	\$641,346
Compliance Requirement(s)	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
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-011
State Agencies	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 the database administrators (DBAs) had access to shared accounts with high level privileges 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 DTMB Administrative Guide policy 1335, access must be controlled with secure means of authentication, authorization, and accountability.

Cause

DBAs had access to shared accounts with high level privileges because DTMB determined that this would help the DBAs assist each other with their assigned functions governing accountability over user access. Also, DTMB indicated that a Statewide solution for monitoring privileged database activity had not yet been implemented for the MFOS and PAB databases.

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 the Michigan Department of Transportation (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 funded projects.

Known Questioned Costs

None.

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:

Since the prior audit, DTMB implemented individual accounts for all database users (developers, business users, and DBAs) to use when accessing the database. Developers and users must receive DTMB management approval to receive access. All accounts require the users to change their password regularly and accounts are actively monitored and removed from the database when they become inactive. Auditing based on Oracle best practices has also been implemented to monitor account activity.

DTMB will ensure sound controls and implement an audit vault to securely collect audit information and allow for audit information to be viewed or monitored outside the database team. This effort is dependent on a statewide initiative, which does not yet have a solution in place for implementation by DTMB and MDOT. In the interim, DTMB will investigate and test the possibility of finding another way to use this account which would allow for full accountability in the audit trail. All DBAs use an individual account for most administration duties; however, some activities required by the DBAs require the use of the shared account. This account access is available to all of the DBAs due to the need for DBAs to provide backup for each other, and DTMB believes the ability to track and audit this account to be sufficient in most situations. MDOT supports DTMB in its efforts to implement the corrective action plan.

Anticipated Completion Date:

September 30, 2015

Responsible Individual(s):

Kirt Berwald, Department of Technology, Management, and Budget
Karen Bearman, Department of Technology, Management, and Budget

FINDING 2014-029

Highway Planning and Construction Cluster, CFDA 20.205, 20.205 (ARRA), and 20.219, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Davis-Bacon Act; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Construction Pay Estimate Reports Not Properly Approved

Federal Agency	U.S. Department of Transportation
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Highway Planning and Construction Cluster: CFDA 20.205, 20.205 (ARRA), and 20.219
Award Identification Number and Year	Various

Total Expenditures of Federal Awards	\$1,223,106,767
Total ARRA Expenditures	\$641,346
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Davis-Bacon Act; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Quality Assurance Program
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Transportation

Condition

MDOT's project engineers did not sign and date construction pay estimate reports prior to paying construction contractors for 3 (4%) of 67 construction pay estimate reports reviewed. MDOT used 12,689 construction pay estimate reports to process payments to contractors during fiscal year 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. MDOT informed us that a project engineer's signature and date on a construction pay estimate report represents the project engineer's assurance that the construction contractor performed the proper work on the project, that the costs being charged to the project were allowable, that the construction contractor or subcontractor submitted weekly certified payrolls required by the Davis-Bacon Act, and that materials incorporated into the project are in conformance with approved plans and specifications.

Cause

Office technicians or project engineers throughout the State use MDOT's construction reporting software to generate and electronically submit construction pay estimate reports to MDOT's central office for payment to construction contractors. MDOT's construction reporting software does not have electronic approvals. As a result, the project engineers are to maintain signed construction pay estimate reports in project files at the project offices, such as local transportation service centers. MDOT's central office assumes that the project engineer has reviewed and approved the construction pay estimate reports prior to submitting the reports for payment.

Effect

Lack of proper approval on construction pay estimate reports may result in improper payments to contractors. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDOT improve its internal control to ensure that project engineers sign and date construction pay estimate reports prior to paying construction contractors.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees that there were instances where project engineers did not sign and date construction pay estimate reports prior to MDOT paying construction contractors. However, MDOT does not agree that it needs to improve its internal control in this instance, as this is one of many controls intended to help minimize the risk of temporarily making improper payments to contractors.

The project engineer's signature and date on a construction pay estimate does represent the project engineer's assurance that MDOT is managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements. MDOT also has many other controls that individually and collectively are more significant to help ensure that the compliance requirements are being met, including the inspection and testing of contractor work as defined in MDOT specifications, manuals, procedures, and guides approved by the Federal Highway Administration; a secure log-in system for the daily reporting of pay items; a check of daily reports by agency personnel before the reported work is paid on an interim pay estimate; and, most importantly, a determination of final pay item quantities and correction of over/under payment of all pay item quantities before final payment is made. The project engineer is required to sign all final pay estimates, and the MDOT Contract Services Division will not process final pay estimates until a signed final pay estimate from the project engineer is received. MDOT's ongoing efforts to strengthen its internal control include an initiative for Statewide implementation of a new Web-based software to manage construction reporting and contractor payments in 2017. One of the enhancements to the new software is direct electronic approval of all pay estimates by the project engineer, which will result in pay estimates being approved directly by the engineer before the estimate is processed for payment.

Planned Corrective Action:

Because MDOT has sufficient internal control in place to help ensure that contractors are not ultimately improperly paid, the risk of improper payments to contractors is extremely low. MDOT will continue its ongoing efforts to strengthen internal control.

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Brenda O'Brien, Michigan Department of Transportation
Dee Parker, Michigan Department of Transportation

FINDING 2014-030

High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants, CFDA 20.319 (ARRA), Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability of Federal Funds - Maintaining Documentation

Federal Agency	U.S. Department of Transportation
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants: CFDA 20.319 (ARRA)

Award Identification Number and Year	FR-HSR-0066-11-01-00	08/29/2011 - 03/30/2016
	FR-HSR-0084-11-01-00	10/01/2011 - 09/30/2015
	FR-HSR-0088-11-01-00	10/01/2011 - 09/30/2015
	FR-HSR-0115-12-01-00	11/18/2011 - 09/30/2015
	FR-HSR-0060-11-01-00	08/22/2011 - 12/31/2015
	FR-HSR-0061-11-01-00	08/22/2011 - 08/22/2015
Total Expenditures of Federal Awards	\$91,341,734	
Total ARRA Expenditures	\$91,341,734	
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability of Federal Funds	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Transportation	

Condition

MDOT did not maintain documentation to support whether it reviewed a vendor's monthly batch of invoices for 2 (40%) of 5 months randomly sampled for the Dearborn to Kalamazoo: Service Development Program federal award. The vendor's invoices related to the federal award for these two months totaled \$10,690,023.

Criteria

The Dearborn to Kalamazoo: Service Development Program federal award identifies the allowable activities for the award. Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) establishes the criteria that costs must meet to be allowable under federal awards. Federal regulation 49 *CFR* 18.23 allows MDOT to charge to the award only costs resulting from obligations incurred during the funding period. MDOT ensures that the vendor's costs charged to the Dearborn to Kalamazoo: Service Development Program federal award were for allowable activities, met OMB Circular A-87 cost criteria, and resulted from an obligation that MDOT incurred with the vendor by reviewing the vendor's monthly batch of invoices once received.

Cause

MDOT did not adequately monitor the vendor it hired to assist MDOT with completing monthly invoice reviews. MDOT informed us that the monthly reviews had been completed. However, the documentation that MDOT and the vendor subsequently provided supported that the reviews were not documented as completed until March 2015.

Effect

Lack of invoice reviews may result in improper payments. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDOT maintain documentation to support its reviews of monthly invoices for the Dearborn to Kalamazoo: Service Development Program federal award.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees with the finding.

Planned Corrective Action:

The contract in place between MDOT and its vendor requires advance payments by MDOT to the vendor. The parties subsequently follow a monthly reconciliation process to verify actual costs, which results in a reconciliation report from the vendor. MDOT no longer relies on consultants to review monthly reconciliation reports. MDOT currently conducts an extensive review of the vendor's reconciliation reports prior to making any resulting adjustment to future advance payments. MDOT will implement control procedures to help ensure that MDOT documents each review and that it retains related documentation in the applicable project file.

Anticipated Completion Date:

June 30, 2015

Responsible Individual(s):

Tim Hoeffner, Michigan Department of Transportation

FINDING 2014-031

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

Federal Agency	U.S. Department of Transportation
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants: CFDA 20.319 (ARRA)
Award Identification Number and Year	FR-HSR-0066-11-01-00 08/29/2011 - 03/30/2016 FR-HSR-0084-11-01-00 10/01/2011 - 09/30/2015 FR-HSR-0088-11-01-00 10/01/2011 - 09/30/2015 FR-HSR-0115-12-01-00 11/18/2011 - 09/30/2015 FR-HSR-0060-11-01-00 08/22/2011 - 12/31/2015 FR-HSR-0061-11-01-00 08/22/2011 - 08/22/2015
Total Expenditures of Federal Awards	\$91,341,734
Total ARRA Expenditures	\$91,341,734
Compliance Requirement(s)	Reporting
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2013-032
State Agency	Michigan Department of Transportation

Condition

MDOT did not submit accurate reports to the Federal Railroad Administration (FRA). Our review of the 6 fourth-quarter federal financial reports (FFRs) disclosed:

- a. MDOT overstated cash disbursements by \$6,704,006 and overstated federal expenditures by \$6,614,793 for the Dearborn to Kalamazoo: Service Development Program federal award.
- b. MDOT understated unliquidated obligations and overstated unobligated balances by \$8,832,157 for the Dearborn to Kalamazoo: Service Development Program federal award.

Criteria

Federal regulation 49 *CFR* 18.20 requires grantees to submit accurate and complete financial data in accordance with a grant program's reporting requirements. The High-Speed Rail Corridors and Intercity Passenger Rail Service (HSIPR) Program requires grantees to submit quarterly FFRs. The FFR instructions include specific details for reporting information such as cash disbursements, expenditures, and unliquidated obligations.

Cause

MDOT summarized transactions in the Michigan Administrative Information Network* (MAIN) by grant number to determine the cash disbursement and expenditure amounts to report. However, MDOT program staff were not familiar with the federal grant process and overlooked the need to record a grant number for each new project they established in MAIN. As a result, expenditure transactions totaling \$8,034,511 did not have a grant number recorded in MAIN. Also, MDOT did not adequately review adjusting transactions that were used to add grant numbers to previously recorded transactions in MAIN. As a result, expenditures summarized by grant number in MAIN were overstated by \$14,649,304. In addition, MDOT used the dollar amount of encumbrances outstanding in MAIN to calculate the dollar amount of unliquidated obligations to report. However, MDOT had one obligation related to an appropriation with carry-forward authority and these types of obligations are not encumbered in MAIN. Therefore, MDOT missed this obligation in its unliquidated obligations calculation.

Effect

MDOT may have diminished 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

None.

Recommendation

We recommend that MDOT improve its internal control and 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 has established control procedures to ensure that all project profiles include the appropriate grant number and that the program staff responsible for the given project/grant will have the grant profiles. This will help ensure that project expenditures are recorded to the proper grant and can be reported accurately.

- b. MDOT has established control procedures to ensure that the coordination of reporting information occurs regarding competitively bid construction projects. Because MDOT does not establish encumbrances in MAIN for any construction contract awards, it will be necessary for the Financial Operations Division to manually include the unexpended obligation balances from the construction contracts when preparing the SFR-425 reports. Program staff will provide to the Project Accounting Unit staff a list of all construction contract awards and their associated grants. Project Accounting Unit staff will then determine the correct unexpended obligation amount for each award and include that amount in each applicable quarterly report.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Tim Hoeffner, Michigan Department of Transportation
 Patrick McCarthy, Michigan Department of Transportation

FINDING 2014-032

High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants, CFDA 20.319 (ARRA), Subrecipient Monitoring - Monitoring of Subrecipient Single Audits

Federal Agency	U.S. Department of Transportation
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants: CFDA 20.319 (ARRA)
Award Identification Number and Year	FR-HSR-0066-11-01-00 08/29/2011 - 03/30/2016 FR-HSR-0084-11-01-00 10/01/2011 - 09/30/2015 FR-HSR-0088-11-01-00 10/01/2011 - 09/30/2015 FR-HSR-0115-12-01-00 11/18/2011 - 09/30/2015 FR-HSR-0060-11-01-00 08/22/2011 - 12/31/2015 FR-HSR-0061-11-01-00 08/22/2011 - 08/22/2015
Total Expenditures of Federal Awards	\$91,341,734
Total ARRA Expenditures	\$91,341,734
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Material Weakness
Known Questioned Costs	\$0
Repeat Finding	2013-018
State Agency	Michigan Department of Transportation

Condition

MDOT did not fully establish and implement a process to review subrecipient single audit reports.

Criteria

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

Cause

The responsibility for monitoring MDOT's subrecipient audit reports was transferred from MDE's Accounting Service Center to MDOT in February 2014. MDOT informed us that it began establishing a departmental process for monitoring subrecipient audit reports in April 2014 but that it had not yet fully established and implemented this process.

Effect

MDOT obtained but did not review the subrecipient single audit reports for all three HSIPR program subrecipients. We reviewed the subrecipient single audit reports and noted no audit findings. MDOT distributed \$12.0 million in fiscal year 2013 to these three subrecipients.

Known Questioned Costs

None.

Recommendation

We recommend that MDOT fully establish and implement a process to review subrecipient single audit reports.

Management Views and Corrective Action Plan

Management Views:

MDOT agrees with the finding.

Planned Corrective Action:

Subsequent to the audit, MDOT fully established and implemented its process and has completed reviews of all fiscal year 2013 subrecipient single audit reports.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Edward A. Timpf, Michigan Department of Transportation

FINDING 2014-033

Special Education Cluster (IDEA), CFDA 84.027 and 84.173, Subrecipient Monitoring - Final Expenditure Reports

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Special Education Cluster (IDEA): CFDA 84.027 and 84.173	
Award Identification Number and Year	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
	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
	H027A130144-13A	07/01/2013 - 09/30/2014
	H173A130117	07/01/2013 - 09/30/2014
	H027A140110	07/01/2014 - 09/30/2015
	H173A140117	07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$395,065,887	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Education	

Condition

MDE did not ensure that 5 of 9 sampled Special Education Cluster (IDEA) subrecipient final expenditure reports (FERs) were reviewed and approved.

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 staff review and approve FERs to ensure that subrecipient expenditures are consistent with the approved budgets.

Cause

MDE informed us that the lack of review and approval resulted from staff turnover.

Effect

MDE limited its assurance that subrecipients spent federal funds in accordance with their grant agreements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDE ensure that subrecipient FERs are reviewed and approved.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding. Changes in staffing contributed to the FERs not being reviewed and approved in a timely manner.

Planned Corrective Action:

MDE will develop a procedure that reduces the impact of staffing changes and ensures that FERs will be reviewed and approved in a timely manner.

Anticipated Completion Date:

June 30, 2015

Responsible Individual(s):

John Andrejack, Michigan Department of Education
Sean McLaughlin, Michigan Department of Education

FINDING 2014-034

Special Education Cluster (IDEA), CFDA 84.027 and 84.173, Subrecipient Monitoring - Program Fiscal Reviews

Federal Agency	U.S. Department of Education	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Special Education Cluster (IDEA): CFDA 84.027 and 84.173	
Award Identification Number and Year	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
	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
	H027A130144-13A	07/01/2013 - 09/30/2014
	H173A130117	07/01/2013 - 09/30/2014
	H027A140110	07/01/2014 - 09/30/2015
	H173A140117	07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$395,065,887	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Subrecipient Monitoring	

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

Condition

MDE did not ensure that 5 (8%) of 61 Special Education Cluster (IDEA) subrecipients were included in its program fiscal review (PFR) schedule.

Criteria

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

MDE uses PFRs to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes.

Cause

MDE did not design its PFR process to ensure that it included non-intermediate school district subrecipients.

Effect

MDE limited its assurance that subrecipients who are not intermediate school districts complied with the grant requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDE improve its internal control to ensure that all subrecipients are included in its PFR schedule.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

MDE will establish a PFR schedule ensuring that all subrecipients are included.

Anticipated Completion Date:

June 30, 2015

Responsible Individual(s):

John Andrejack, Michigan Department of Education
Nancy Jo Serna, Michigan Department of Education
Mike Wynn, Michigan Department of Education

FINDING 2014-035

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

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	School Improvement Grants Cluster: CFDA 84.377 and 84.388 (ARRA)
Award Identification Number and Year	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 S377A120023 07/01/2012 - 09/30/2016 S377A120023-12A 07/01/2012 - 09/30/2016 S388A090023A 02/17/2009 - 09/30/2014
Total Expenditures of Federal Awards	\$37,828,704
Total ARRA Expenditures	\$24,780,485
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

MDE did not ensure that its subrecipients receiving ARRA funding maintained current registrations in the System for Award Management (SAM). Three of the 8 sampled subrecipients receiving ARRA funding either were not registered in SAM or had registrations that expired prior to fiscal year 2014.

Criteria

Federal regulation 2 CFR 176.50(c) states that recipients and their first-tier recipients must maintain current registrations in SAM at all times during which they have active federal awards funded with ARRA funds.

Cause

MDE did not have a policy in place that required the review of SAM registration.

Effect

MDE awarded funds to subrecipients that were not registered to receive federal funds. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDE ensure that its subrecipients receiving ARRA funding maintain current registrations in SAM.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

While MDE acknowledges the finding, no corrective action is anticipated. All ARRA funding expired on September 30, 2014, and there are no longer subrecipients receiving ARRA funds subject to this requirement.

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

Bill Witt, Michigan Department of Education
Beatrice Barajas, Michigan Department of Education

FINDING 2014-036

Career and Technical Education - Basic Grants to States, CFDA 84.048, Eligibility and Reporting - MCCNet General Controls

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Career and Technical Education - Basic Grants to States: CFDA 84.048
Award Identification Number and Year	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 V048A140022 07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$35,828,289
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Eligibility and Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agencies	Michigan Department of Education and Michigan Strategic Fund

Condition

MSF did not obtain a third party review of the operating effectiveness of general controls for the vendor hosting the Michigan Community College Network (MCCNet).

MCCNet is the system used by community colleges to apply for and submit data related to Career and Technical Education Perkins grants. The system is hosted by a third party vendor, which is also responsible for system development and upgrades.

Criteria

According to the GAO's FISCAM, appropriate policies and procedures should be implemented to ensure that activities performed by third parties are appropriately monitored for compliance. This assurance typically is obtained from a specialized internal control audit referred to as a Service Organization Controls (SOC) 2, Type 2 report*.

Cause

A review of the operating effectiveness of general controls for the vendor was not included as a requirement in the contract between MSF and the vendor.

Effect

MSF cannot ensure that general controls of vendor-hosted systems are sufficient to ensure the confidentiality, integrity, and availability of MCCNet data.

Known Questioned Costs

None.

Recommendation

We recommend that MSF obtain a third party review of the operating effectiveness of general controls for the vendor hosting MCCNet.

Management Views and Corrective Action Plan

Management Views:

MSF agrees with the finding.

Planned Corrective Action:

The Workforce Development Agency (WDA) transferred to the Talent Investment Agency by Executive Order No. 2014-12 on December 18, 2014 and is no longer a part of MSF. WDA will implement a process for obtaining third party review of the operating effectiveness of general controls of the vendor that hosts MCCNET by revising the contract to require review of the operational effectiveness of general controls every year.

Anticipated Completion Date:

July 1, 2015

Responsible Individual(s):

Cliff Akujobi, Workforce Development Agency

FINDING 2014-037

Career and Technical Education - Basic Grants to States, CFDA 84.048, Eligibility, Reporting, and Subrecipient Monitoring - Data Validation

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

* See glossary at end of report for definition.

Award Identification Number and Year	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
	V048A140022	07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$35,828,289	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Eligibility, Reporting, and Subrecipient Monitoring	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	Not Applicable	
State Agencies	Michigan Department of Education and Michigan Strategic Fund	

Condition

MSF's on-site review process did not include validation of the accuracy of student data.

MSF uses student data to allocate funds to post-secondary subrecipients and in the Comprehensive Annual Report. Although MSF reviewed the post-secondary subrecipient data submission process during on-site reviews, MSF did not trace the reported data to subrecipient supporting records.

Criteria

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

MSF's on-site review process did not require a comparison of the data submitted by post-secondary subrecipients to the subrecipient's supporting records during its on-site reviews.

Effect

MSF may have incorrectly allocated funds to subrecipients or reported inaccurate information in its Comprehensive Annual Report. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MSF include validation of the accuracy of student data in its on-site review process.

Management Views and Corrective Action Plan

Management Views:

MSF agrees with the finding.

Planned Corrective Action:

WDA transferred to the Talent Investment Agency by Executive Order No. 2014-12 on December 18, 2014 and is no longer a part of MSF. WDA will validate the accuracy of student data submitted by post-secondary subrecipients during on-site reviews by creating and implementing a written process to address items found in the Comprehensive Annual Report (CAR) and following best practices for validation of data.

Anticipated Completion Date:

July 1, 2015

Responsible Individual(s):

Cliff Akujobi, Workforce Development Agency

FINDING 2014-038

Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, Cash Management - Inappropriate Funding Technique

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Rehabilitation Services - Vocational Rehabilitation Grants to States: CFDA 84.126
Award Identification Number and Year	H126A140090 10/01/2013 - 09/30/2014 H126A130090 10/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$98,687,238
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Cash Management
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$643,408
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not make cash draws for the Rehabilitation Services - Vocational Rehabilitation Grants to States program in accordance with the funding technique as required in the Cash Management Improvement Act (CMIA) agreement. Also, MDHHS did not complete quarterly cash settlements as required by the CMIA agreement funding technique.

Our review disclosed that MDHHS incorrectly calculated the amount of the biweekly cash draws and did not complete any of the quarterly cash settlements between total cash draws and total cash expenditures resulting in an overdraw of the Rehabilitation Services - Vocational Rehabilitation Grants to States program 2013 grant award by \$643,383 as of September 30, 2014. In addition, MDHHS did not report the overdrawn amount to the Michigan Department of Treasury for inclusion in the State's calculation of interest due to the federal government.

Criteria

The CMIA agreement requires MDHHS to use the modified payment schedule biweekly funding technique for cash draws related to the Rehabilitation Services - Vocational Rehabilitation Grants to States expenditures. This funding technique requires MDHHS to calculate the biweekly draw amount based on the expected federal share of expenditures to be paid during

fiscal year 2014 divided by 26 and then make quarterly cash settlements between total cash draws and total cash expenditures each quarter.

Cause

MDHHS's federal reporting section informed us that it incorrectly calculated the biweekly cash draws because MDHHS based the cash draws on the total federal award instead of the expected federal share of expenditures to be incurred during the fiscal year.

Also, MDHHS was not aware of the requirement to complete quarterly cash settlements; therefore, MDHHS did not complete the quarterly cash settlements when required.

In addition, MDHHS was not aware of the overdrawn amount until February 2015; therefore, MDHHS did not report the overdraw to the Michigan Department of Treasury when required.

Effect

MDHHS was not in compliance with the CMIA agreement and may owe the federal grantor agency the overdrawn funds and interest.

Known Questioned Costs

- \$643,383 - 2013 grant award overdrawn at September 30, 2014.
- \$25 - interest for overdrawn balance.

Recommendation

We recommend that MDHHS make Rehabilitation Services - Vocational Rehabilitation Grants to States cash draws and quarterly cash settlements in accordance with the funding technique as required by the CMIA agreement.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS Accounting began completing quarterly cash settlement reports effective October 1, 2014. MDHHS Accounting began reviewing the draw calculations to verify the draws are being made based on projected expenditures in June 2015.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services
Marilyn Carey, Michigan Department of Health and Human Services
Deborah Christopherson, Michigan Department of Health and Human Services

FINDING 2014-039

Twenty-First Century Community Learning Centers, CFDA 84.287, Eligibility - Data Sheets

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Twenty-First Century Community Learning Centers: CFDA 84.287
Award Identification Number and Year	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 S287C130022-13A 07/01/2013 - 09/30/2014 S287C140022 07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$35,261,835
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Eligibility
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

MDE did not ensure that 2 (8%) of 26 sampled projects included data sheets documenting MDE's review of subrecipient eligibility.

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 information contained on the data sheets is verified to determine if the subrecipients meet the eligibility criteria and is used to score each subrecipient to ensure that grant funds are awarded on a competitive basis.

Cause

MDE informed us that the missing data sheets may not have been placed back into the subrecipient files subsequent to verifying and entering the data onto an Excel spreadsheet used for scoring the subrecipients.

Effect

MDE limited its assurance that subrecipients were eligible for grant funds. The federal grantor agency could issue sanctions or disallowances for noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDE maintain data sheets to document its review of subrecipient eligibility.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding. MDE was able to provide a summary of the data sheets for all grantees indicating that the MDE data sheets did exist and were used during the grant competition, but the two missing data sheets cited in the finding could not be provided.

Planned Corrective Action:

Program staff will review the 21st CCLC Audit Process - Controls Over Compliance document. Staff will receive guidance on the necessity of ensuring that all submitted portions of a grantee's application be present at all times in the original grant file and communicating with other staff members if individual parts of grant files are taken for review.

Anticipated Completion Date:

June 30, 2015

Responsible Individual(s):

Richard Lower, Michigan Department of Education

FINDING 2014-040

Twenty-First Century Community Learning Centers, CFDA 84.287, Subrecipient Monitoring - FER Review

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Twenty-First Century Community Learning Centers: CFDA 84.287
Award Identification Number and Year	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 S287C130022-13A 07/01/2013 - 09/30/2014 S287C140022 07/01/2014 - 09/30/2015
Total Expenditures of Federal Awards	\$35,261,835
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

MDE did not ensure that subrecipient final expenditure reports (FERs) with budget-to-actual variances over 10% were reviewed. We sampled 26 FERs and noted that 2 of 26 FERs had variances exceeding 10%; however, MDE did not review the 2 subrecipient FERs with variances.

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 it reviews variances between budgeted and actual expenditures exceeding 10% to ensure that subrecipient expenditures are consistent with approved budgets.

Cause

MDE informed us that it had not yet reviewed all FERs with a variance exceeding 10% in part due to staff turnover.

Effect

MDE limited its assurance that subrecipients spent federal funds in accordance with their grant agreements. The federal grantor agency could issue sanctions or disallowances for noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDE review subrecipient FERs with a variance exceeding 10%.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

Planned Corrective Action:

A report will be run in the Cash Management System (CMS) that identifies all grants with deviations of 10% or more on FERs from approved budgets in the Michigan Electronic Grants System Plus (MEGS+). The identified grants will be assigned to 21st CCLC consultants. All FERs from fiscal year 2014 and future periods that deviate 10% or more will be reviewed and approved by 21st CCLC consultants.

Anticipated Completion Date:

June 30, 2015

Responsible Individual(s):

Richard Lower, Michigan Department of Education

FINDING 2014-041

Improving Teacher Quality State Grants, CFDA 84.367, Subrecipient Monitoring - Function Codes

Federal Agency	U.S. Department of Education
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Improving Teacher Quality State Grants: CFDA 84.367

Award Identification Number and Year	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
	S367A130021	07/01/2013 - 09/30/2014
	S367A130021-13A	07/01/2013 - 09/30/2014
	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
S367B130019	07/01/2013 - 09/30/2014	
S367B130019-13A	07/01/2013 - 09/30/2014	
Total Expenditures of Federal Awards	\$92,591,549	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Subrecipient Monitoring	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$11,353	
Repeat Finding	2013-017	
State Agency	Michigan Department of Education	

Condition

MDE did not ensure that 3 (11%) of 27 sampled Improving Teacher Quality State Grants subrecipient budgets included only allowable function codes. The subrecipient charged expenditures to unallowable function codes in 1 of the 3 instances identified.

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 MDE consultants inadvertently processed the subrecipient budgets with function codes that were either not to be used for this grant or only to be used if the subrecipient was consolidating or transferring funds.

Effect

MDE may have paid for activities that were not allowable. The federal grantor agency could issue sanctions or disallowances for noncompliance.

Known Questioned Costs

- \$11,353 - the 1 fiscal year 2014 sampled grant expenditure charged to an unallowable function code.

Recommendation

We recommend that MDE improve its internal control to ensure that subrecipient budgeted and actual expenditures include only allowable function codes.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding.

One of the instances cited was due to human error by one of the regional consultants. The other two instances were due to MEGS+ not blocking the use of a function code when a district did not respond indicating that it was transferring Title II, Part A funds to Title I, Part A.

Planned Corrective Action:

In the first instance, the manager counseled the regional consultant on the office protocol for checking function codes for all line items in the budget and on the importance of function code accuracy. MDE management will check the coding when performing routine monitoring of the work completed by consultants.

For the other two instances, MDE is working with the MEGS+ programmers to have the system prompt an error message if a Title I, Part A function code is used in the Title II, Part A budget. MEGS+ will be updated for the 2016-17 application cycle. Due to timing, updates were not made to MEGS+ for the 2015-16 application cycle. For the 2015-16 application cycle, MDE will add a bold-lettered line to the application review protocol to remind consultants to either indicate that the funds were transferred or change the unallowable function code.

Anticipated Completion Date:

MEGS+ will be corrected in March 2016 for the 2016-17 application cycle.

Responsible Individual(s):

Fred Williams, Michigan Department of Education

FINDING 2014-042

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Lack of Income Eligibility Documentation

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

Program Title and CFDA Number	TANF Cluster: <i>CFDA 93.558</i>	
Award Identification Number and Year	13 02 MI TANF	10/01/2012 - Until Expended
	14 02 MI TANF	10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Income Eligibility and Verification System	
Type of Finding	Material Weakness and Material Noncompliance	
Known Questioned Costs	\$1,544	
Repeat Finding	Not Applicable	
State Agency	Michigan Department of Health and Human Services	

Condition

MDHHS did not maintain sufficient income eligibility documentation to support client eligibility for 24 (65%) of 37 sampled TANF Cluster assistance case records. Our review disclosed:

- a. MDHHS did not maintain documentation of the Consolidated Inquiry (CI) and/or State Online Query (SOLQ) in order to demonstrate that 22 families were in need of TANF Cluster assistance.
- b. MDHHS did not ensure that it documented CI and SOLQ reviews and results in accordance with MDHHS policy for 2 families.

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 regulations 45 *CFR* 205.51, 45 *CFR* 205.55, and 45 *CFR* 205.56 require states to have an Income Eligibility and Verification System (IEVS) to request, use, and verify income and benefit information when determining a client's eligibility for assistance. Also, federal regulation 45 *CFR* 205.60(a) requires MDHHS to maintain records to support eligibility, including facts to support the client's need for assistance.

MDHHS's policies and procedures require caseworkers to verify client income at the time of application and redetermination through CI and SOLQ matches. Caseworkers are required to document the results of the CI and SOLQ matches in the case comments section of Bridges.

The CI match identifies income sources requested through IEVS, such as child support, unemployment compensation, new hire income, and child day care provider income. The SOLQ match identifies retirement, survivors, and disability insurance; social security income; and Medicare benefits requested through IEVS.

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.

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

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

Effect

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

Known Questioned Costs

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.

- \$1,544 - TANF Cluster federal share.
- \$127 - State-funded costs that MDHHS inappropriately used as State MOE.

The following are questioned in Finding 2014-043 and are not reported in this finding:

- \$1,329 - federally funded.
- \$228 - State-funded costs that MDHHS inappropriately used as State MOE.

Recommendation

We recommend that MDHHS maintain sufficient income eligibility documentation to support client eligibility for TANF Cluster assistance.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS will continue its efforts to educate staff. MDHHS Field Operations Administration will issue an updated communication to provide staff with guidance on the requirement to view SOLQ and CI for each individual and use the results for eligibility determinations and on the requirement to document results in the case record. Local offices will review the communication with staff.

MDHHS will prioritize two work requests, Technical Solution to Store Consolidated Inquiries and Technical Solution to Store SOLQ, to allow caseworkers to view and instantly store the CI and SOLQ results into the Bridges electronic case file. These work requests will discontinue the current manual process of the caseworker viewing the CI and SOLQ results and documenting the results in Bridges Case Comments or on page level comments.

Anticipated Completion Date:

MDHHS expects the communication to be issued and work requests to be prioritized by October 1, 2015. After the work requests have been prioritized, MDHHS will be able to identify a tentative date for the Bridges enhancements to be available.

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Sheryl Thompson, Michigan Department of Health and Human Services
Business Service Center Directors, Michigan Department of Health and Human Services
Local Office Directors, Michigan Department of Health and Human Services

FINDING 2014-043

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$1,437
Repeat Finding	2013-040
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not maintain sufficient case record documentation to support client eligibility for 21 (55%) of 38 sampled TANF Cluster assistance case records.

MDHHS did not maintain documentation such as the assistance application, school attendance 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 21 families were in need of TANF Cluster assistance.

In addition, we noted that MDHHS counted all 21 of the case records that did not have documentation to support client eligibility toward the State's 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 MDHHS to maintain records to support eligibility, including facts to support the client's need for assistance. MDHHS's policies and procedures require designated forms to be completed at application and redetermination of benefits. MDHHS'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

MDHHS 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

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

Known Questioned Costs

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.

- \$1,437 - federally funded.
- \$258 - State-funded costs that MDHHS inappropriately used as State MOE.

These questioned costs represent the amount of the 21 sampled cases noted for which MDHHS did not maintain case record documentation to support client eligibility.

Recommendation

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

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS Field Operations Administration will issue an updated communication to provide staff with guidance on the program eligibility requirements, the requirement to consider information in the case record and other sources needed to determine eligibility, and the requirements to obtain and retain documentation in the case record to support eligibility determinations. The memorandum will reiterate MDHHS Web-based training that is available and should be reviewed by staff. Local offices will review the communication with staff.

MDHHS will prioritize the work request for the Bridges Birth Registry Display Enhancement. This functionality will allow caseworkers to obtain Michigan residents' relationship verification.

MDHHS has asked for a work request to add the relationship policy requirement to Bridges eligibility determination and correspondence so workers do not have to do a manual process for this policy requirement.

Anticipated Completion Date:

MDHHS expects the communication to be issued and work requests to be prioritized by October 1, 2015. After the work requests have been prioritized, MDHHS will be able to identify a tentative date for the Bridges enhancements to be available.

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Sheryl Thompson, Michigan Department of Health and Human Services
Dale Shaw, Michigan Department of Health and Human Services

FINDING 2014-044

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$647
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not conduct an annual eligibility redetermination to ensure that the adoptive family met eligibility requirements for 1 (10%) of 10 sampled TANF Cluster-funded adoption subsidy case records.

The child's birthday was before the date of the adoption subsidy payment, but the annual redetermination report was not completed as of the date of our review.

Criteria

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

Also, Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal programs be adequately documented, be necessary and reasonable for the administration of the federal award, and be in accordance with the relative benefits received by the program.

Cause

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

Effect

MDHHS may have made adoption subsidy payments to a family that did not qualify for TANF Cluster-funded adoption subsidy. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

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.

- \$647 - federally funded amount of 1 sampled case for which MDHHS did not maintain case record documentation to support client eligibility.

Recommendation

We recommend that MDHHS conduct annual eligibility redeterminations to ensure that adoptive families meet TANF Cluster eligibility requirements.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding. MDHHS believes this to be an isolated incident. For the case cited, the client case record included the annual redetermination report for the prior year and the subsequent year.

Planned Corrective Action:

MDHHS utilizes monthly spreadsheet tracking for annual reports. These spreadsheets allow staff to track when an annual report is overdue or is incomplete. Staff complete follow-up calls and letters to families who have failed to report their annual status.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Steve Yager, Michigan Department of Health and Human Services
Christine Rehagan, Michigan Department of Health and Human Services
Dawn Ritter, Michigan Department of Health and Human Services

FINDING 2014-045

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$784,465
Repeat Finding	2013-038
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS may not have appropriately excluded juvenile justice expenditures from TANF Cluster claims. We noted:

- a. MDHHS claimed \$28,360,828 of county program expenditures that appeared to be for juvenile justice services and may not have qualified as an allowable activity. MDHHS claimed these expenditures under TANF purpose 3 (to prevent and reduce the incidence of out-of-wedlock pregnancies).
- b. MDHHS claimed \$784,465 of expenditures related to juvenile justice diversion and reintegration activities to serve the counties' adjudicated and pre-adjudicated juveniles that may not have qualified as an allowable activity. MDHHS claimed these expenditures under TANF purpose 4 (to encourage the formation and maintenance of two-parent families).

These county program expenditures included 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.

MDHHS considers the expenditures it claimed 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, MDHHS 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 homes. 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 the TANF Cluster.

Criteria

Federal law 42 USC 604(a)(1) allows MDHHS to use TANF Cluster funds in any manner that is reasonably calculated to accomplish the purposes of TANF.

Also, federal law 42 USC 604(a)(2) allows MDHHS to use TANF Cluster funds in any manner that MDHHS was authorized to use amounts received under the State's 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 MDHHS may expend federal funds for activities that were previously authorized under the State's prior AFDC Plan, including certain foster care and juvenile justice expenditures that could not otherwise be claimed under TANF

Cluster federal laws and regulations. However, the prior AFDC Plan did not include juvenile justice programs.

Federal regulation 45 *CFR* 92.20(a)(2) requires that MDHHS'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.

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

MDHHS 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. MDHHS 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, MDHHS claimed the expenditures because the programs in question place the youths among the public and support the prevention or diversion of juveniles from more stringent living arrangements that MDHHS believes would qualify as juvenile justice situations.

MDHHS calculated the TANF Cluster claim amounts based on its review of county Child Care Fund annual plans 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; however, this review did not provide an adequate audit trail that supported how these juvenile justice expenditures claimed could be reasonably calculated to accomplish the prevention and reduction of out-of-wedlock pregnancies.

Based on our prior audit finding (2013-038), MDHHS sought clarification from the U.S. Department of Health and Human Services' (HHS's) Administration for Children and Families (ACF) on October 1, 2014. MDHHS informed us that as of March 2015, it had not received any clarification or correspondence from ACF concerning this matter.

Effect

MDHHS may have received TANF Cluster reimbursement for claims that were not allowable under the State's prior AFDC Plan and TANF Cluster laws and regulations. In addition, MDHHS may have double counted expenditures that were also counted toward State MOE (Finding 2014-048). The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$784,465 - federally funded.

Recommendation

We recommend that MDHHS continue to work with HHS's ACF to confirm that the services provided by the county programs are not considered juvenile justice services and therefore meet the requirements for TANF Cluster claims.

Management Views and Corrective Action Plan

Management Views:

MDHHS disagrees with the finding.

MDHHS maintains that the expenditures claimed are allowable for TANF and should not be considered juvenile justice expenditures. MDHHS does not agree that the label "juvenile justice" applied to a portion of the at-risk youth population served fundamentally alters the nature or intended outcomes of these services to promote responsible behavior and keep families together. The original TANF Rules and Regulations at *Federal Register* 64:69 (12 April 1999), page 17831, specifically discussed expenditures for "juvenile justice" services and concludes with the following paragraph:

Clearly, expenditures on eligible families for services that are reasonably calculated to accomplish the purpose of the program do qualify for basic MOE purposes. For example, a State may wish to provide family preservation services so that an eligible child family member may be cared for in his or her own home (purpose 1). Such assistance could include family or individual counseling services or parenting training to improve family functioning, referrals to outside service providers who could help an "at risk" child or family function better, and associated assessment and case management activities.

Although the above paragraph references basic MOE, the MOE criteria is more stringent and would also apply to federal TANF used for these services. MDHHS and the Office of the Auditor General have differing interpretations of what constitutes "juvenile justice" services for TANF purposes, and the federal guidance cited above does not provide a definition. At *Federal Register* 64:69 (12 April 1999) page 17752, it states:

We understood that excessive definition of terms could unduly and unintentionally limit State flexibility in designing programs that best serve their needs.

The federal government gave states the flexibility to determine which services were reasonably calculated to meet a TANF purpose. While MDHHS claimed the cited expenditures under different TANF purposes than the purpose included in the above example, MDHHS believes that the services listed above and other pro-social activities are reasonably calculated to increase the ability of at-risk youth to function successfully within their schools, homes, and society in general. When labeled "child welfare" or provided to "abused/neglected" youth, these services are generally accepted to meet TANF purposes because they allow the child to be cared for in the home, can be reasonably calculated to reduce a youth's engagement in high risk activities (which could also result in a reduction in out-of-wedlock pregnancies), and reduce conflicts within the home which can lead to stronger familial connections and promote the maintenance of parental bonds.

Strengthening families, helping children remain in their own homes, and reducing out-of-wedlock pregnancies are clearly fundamental purposes of TANF, regardless of the number

attached to the purpose. Different states can interpret the same set of activities as meeting different TANF purposes under current reporting categories and definitions. This problem was illustrated in a December 2012 report published by the U.S. Government Accountability Office (GAO-13-33) regarding TANF use for nonassistance purposes. The GAO notes that non-cash services such as family preservation activities, child welfare services, substance abuse treatment, and case management are "other" activities that meet TANF purposes and that an increased emphasis on such services is widespread among the states. The report identified a need for improved TANF expenditure reporting as well as a need for more refined categories of spending than the current categories in existing federal reporting.

In response to the report cited above, HHS indicated, in part:

...The categories for financial reporting were established in 1999, and since that time, there has been a significant expansion in the range of benefits and services for which TANF funds are used and for which states report Maintenance of Effort (MOE) expenditures. A substantial share of TANF and MOE expenditures are now simply categorized as "other nonassistance," and in other cases, the category listings are too broad to provide a clear picture of how funds are being used. Moreover, in some cases, an expenditure might be reportable in more than one category, so different states may be reporting the same types of expenditures in different categories. Accordingly, HHS has recognized the need for improvements to TANF and MOE financial reporting categories and definitions...

Given the acknowledgement at the federal level that the TANF definitions and reporting categories have not kept pace with the wide array of nonassistance services provided by the states, MDHHS has focused on the pro-social, pro-responsibility, and family preservation aspects of these services in its assessment of whether or not they meet the intent of the TANF program.

Planned Corrective Action:

Although MDHHS disagrees with the finding, MDHHS will follow up with the HHS's ACF to confirm that the services provided meet the requirements for TANF claims.

Anticipated Completion Date:

October 1, 2015

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services

FINDING 2014-046

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Ineligible Emergency Foster Care Assistance

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	TANF Cluster: CFDA 93.558	
Award Identification Number and Year	13 02 MI TANF	10/01/2012 - Until Expended
	14 02 MI TANF	10/01/2013 - Until Expended

Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$12,896
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS claimed TANF Cluster funds on behalf of children ineligible for emergency foster care assistance. Our review of 12 children receiving emergency foster care assistance noted:

- a. For 2 (17%) of 12 children, MDHHS obtained funding for emergency foster care assistance from both Foster Care - Title IV-E and the TANF Cluster. Also, we reviewed an additional 4 children from the data file used to calculate the TANF Cluster claim and determined that these children also received Foster Care - Title IV-E funding and should have been excluded from the TANF Cluster claim.
- b. For 1 (8%) of 12 children, MDHHS included emergency foster care assistance beyond the 364 days allowed in the State's prior AFDC Plan.
- c. For 1 (8%) of 12 children, MDHHS included emergency foster care assistance after the child was returned to the parental home.

Criteria

Federal law 42 *USC* 604(a)(2) allows MDHHS to use TANF Cluster funds in any manner that MDHHS was authorized to use amounts received under the State's AFDC Plan in effect on September 30, 1995 or, at State option, August 21, 1996. The prior AFDC Plan included emergency foster care assistance for children who were removed from their homes and were not eligible for Foster Care - Title IV-E and limited the emergency foster care assistance to no more than 364 days.

Federal regulation 45 *CFR* 92.20(a)(2) requires that MDHHS'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.

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, and be in accordance with the relative benefits received by the program.

Cause

For part a., MDHHS's methodology used to calculate the TANF Cluster claim did not detect and exclude some children already receiving Foster Care - Title IV-E funding.

For part b., MDHHS's methodology used to calculate the 364-day maximum did not correctly identify the date the child entered a TANF eligible emergency foster care placement.

For part c., the foster care worker did not appropriately update the child's living arrangement in the Michigan Statewide Automated Child Welfare Information System (MiSACWIS) at the time the child was returned to the parental home.

Effect

MDHHS's TANF Cluster claim included emergency foster care assistance on behalf of children who did not qualify for TANF Cluster federal reimbursement. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$12,896 - federally funded.

Recommendation

We recommend that MDHHS ensure that its TANF Cluster claims include only children eligible for emergency foster care assistance.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS will continue to strengthen the processes used to identify TANF claims and ensure that TANF claims for emergency foster care include only eligible children.

Anticipated Completion Date:

September 30, 2015

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services
 Marilyn Carey, Michigan Department of Health and Human Services
 Steve Yager, Michigan Department of Health and Human Services
 Nancy Rostoni, Michigan Department of Health and Human Services

FINDING 2014-047

TANF Cluster, CFDA 93.558, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Lack of Documentation to Identify Drug Felony Convictions and Probation/Parole Violations

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$0

Repeat Finding	2013-042
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not maintain sufficient documentation in 19 (40%) of 47 case records to identify whether the associated individuals were convicted of a drug-related felony after August 22, 1996 and were in violation of probation or parole; were convicted of two or more drug-related felonies; or were in violation of their probation or parole requirements related to any offense.

Also, MDHHS did not require individuals completing an electronic assistance application when applying for TANF Cluster assistance to disclose if the individuals had been convicted of two or more drug-related felonies.

In addition, MDHHS did not require individuals applying for TANF Cluster-funded State Emergency Relief (SER) assistance to state, in writing (on the assistance application), whether the client, or any member of the household, had been convicted of a drug-related felony or were in violation of their probation or parole requirements related to any offense.

Criteria

Federal law 21 *USC* 862a denies TANF Cluster assistance to any individual convicted of a felony for the possession, use, or distribution of a controlled substance but permits MDHHS to provide TANF Cluster 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 59, P.A. 2013, states that MDHHS 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 law 21 *USC* 862a(c) states that a state shall require individuals applying for assistance during the application process to state, in writing, whether the individual, or any member of the household, has been convicted of a drug-related felony.

Federal law 42 *USC* 608(a)(9)(A) states that a state may not provide assistance to any individual who is violating a condition of probation or parole imposed under federal or state law.

Federal regulation 45 *CFR* 205.60(a) requires MDHHS to maintain individual records that contain pertinent facts about each applicant and recipient. The records will include the facts essential for the determination of eligibility.

Cause

MDHHS's internal control was not designed effectively. MDHHS informed us that it relied on the individuals' self-reporting of the drug-related felony questions and the probation and parole violation questions on their paper or electronic assistance application. However, MDHHS did not ensure that it included questions necessary to rely on self-reporting on all types of applications for TANF Cluster assistance. Also, MDHHS could not always locate the individual's case record and/or assistance application to support the individual's self-reporting.

MDHHS also informed us that if the individual's answer to these questions is "no" or if he or she fails to answer the questions on the electronic application, the answers are not included in the

saved version of the electronic application in Bridges for the caseworker to consider when determining the individual's eligibility.

Effect

MDHHS did not identify that 1 of the 47 sampled case records included an individual who absconded from probation. This individual completed an electronic assistance application, and the probation and parole violation question was not included in the saved electronic version of the application. We could not determine if the individual answered "no" to the question or failed to answer it when applying for assistance.

MDHHS may have paid TANF Cluster assistance to other individuals who were convicted of a drug-related felony after August 22, 1996 and were in violation of their probation or parole requirements; were convicted of two or more drug-related felonies; or were in violation of their probation or parole requirements related to any offense. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

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.

The following are questioned in Finding 2014-043 and are not reported in this finding:

- \$66 - federally funded amount of the 1 sampled case in which the client had absconded from probation.
- \$19 - State-funded costs that MDHHS inappropriately used as State MOE.

Recommendation

We recommend that MDHHS maintain sufficient documentation to identify if individuals receiving TANF Cluster assistance are convicted of a drug-related felony after August 22, 1996 and are in violation of probation or parole; are convicted of two or more drug-related felonies; or are in violation of their probation or parole requirements related to any offense.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS Field Operations Administration will issue an updated communication to provide staff with guidance on program eligibility requirements pertaining to these three criminal justice related disqualification categories. The memorandum will include application and interview requirements as well as application and case documentation requirements.

MDHHS will file and prioritize a Bridges work request that will make it mandatory for the client to answer the criminal justice related questions. Also, the Bridges work request will include a fix to ensure that the question and client answers are shown on the saved electronic version of the application so the worker can view the results and determine eligibility of TANF benefits correctly.

MDHHS will update the State Emergency Relief application to include the questions regarding drug-related felony conviction and probation or parole violation.

Anticipated Completion Date:

MDHHS expects the communication to be issued and work request to be prioritized by October 1, 2015. After the work request has been prioritized, MDHHS will be able to identify a tentative date for the Bridges enhancement to be available.

The State Emergency Relief application corrections will be completed by October 1, 2015.

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
 Sheryl Thompson, Michigan Department of Health and Human Services
 Business Service Center Directors, Michigan Department of Health and Human Services
 Local Office Directors, Michigan Department of Health and Human Services

FINDING 2014-048

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Reporting
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-041
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS counted \$7,859,578 of expenditures toward TANF Cluster laws and regulations for MOE for one county's programs that provided services to adjudicated and pre-adjudicated juveniles. In addition, of the \$7,859,578 counted by MDHHS, \$1,136,182 may have been inappropriately double counted toward both the TANF Cluster and State MOE (Finding 2014-45). 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. MDHHS 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).

MDHHS 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, MDHHS 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. 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 homes. 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 MDHHS 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, 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

MDHHS 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. MDHHS 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, MDHHS counted the expenditures as TANF purpose 3 because the county's programs are community-based services.

Based on our prior audit finding (2013-041), MDHHS sought clarification from HHS's ACF on October 1, 2014. MDHHS informed us that as of March 2015, it had not received any clarification or correspondence from ACF concerning this matter.

Effect

MDHHS may have counted juvenile justice expenditures toward its State MOE requirement in fiscal year 2014 that were not in accordance with TANF Cluster laws and regulations. In addition, MDHHS may have double counted expenditures that were claimed for TANF Cluster reimbursement (Finding 2014-045) so MDHHS 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
Undeterminable.

Recommendation

We recommend that MDHHS continue to work with HHS's ACF to confirm that the services provided by the county's programs are not considered juvenile justice 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:

MDHHS disagrees with the finding.

MDHHS does not agree that \$1,136,182 may have been double counted for the TANF Cluster claim and State MOE. MDHHS identified over \$43 million in TANF eligible in-home care expenditures for at-risk youth that did not include the programs that were used for the State MOE. Since the TANF claim was limited to \$38,161,016.37, there was more than \$5,000,000 in TANF eligible expenditures that were neither claimed for federal reimbursement nor used for TANF MOE.

In addition, DHS does not agree that the label "juvenile justice" applied to a portion of the at-risk youth population served fundamentally alters the nature or intended outcomes of these services to promote responsible behavior. The original TANF Rules and Regulations at *Federal Register* 64:69 (12 April 1999), page 17831, specifically discussed expenditures for "juvenile justice" services and concludes with the following paragraph:

Clearly, expenditures on eligible families for services that are reasonably calculated to accomplish the purpose of the program do qualify for basic MOE purposes. For example, a State may wish to provide family preservation services so that an eligible child family member may be cared for in his or her own home (purpose 1). Such assistance could include family or individual counseling services or parenting training to improve family functioning, referrals to outside service providers who could help an "at risk" child or family function better, and associated assessment and case management activities.

MDHHS and the Office of the Auditor General have differing interpretations of what constitutes "juvenile justice" services for TANF purposes, and the federal guidance cited above does not provide a definition. At *Federal Register* 64:69 (12 April 1999), page 17752, it states:

We understood that excessive definition of terms could unduly and unintentionally limit State flexibility in designing programs that best serve their needs.

The federal government gave states the flexibility to determine which services were reasonably calculated to meet a TANF purpose. While MDHHS claimed the cited expenditures under a different TANF purpose than the purpose included in the above example, MDHHS believes that the services listed above and other pro-social activities are designed to increase the ability of at-risk youth to function successfully within their schools, homes, and society in general. These same services, when labeled "child welfare" or

provided to "abused/neglected" youth, are generally accepted to meet TANF purposes because the nature of the services provided can be reasonably calculated to reduce a youth's engagement in high risk activities (which could also result in unplanned pregnancies) and reduce conflicts within the home which can lead to stronger familial connections and promote the maintenance of parental bonds.

Strengthening families, helping children remain in their own homes, and reducing out-of-wedlock pregnancies are clearly fundamental purposes of TANF, regardless of the number attached to the purpose. Different states can interpret the same set of activities as meeting different TANF purposes under current reporting categories and definitions. This was illustrated in a December 2012 report published by the U.S. Government Accountability Office (GAO-13-33) regarding TANF use for nonassistance purposes. The GAO notes that non-cash services such as family preservation activities, child welfare services, substance abuse treatment, and case management are "other" activities that meet TANF purposes and that an increased emphasis on such services is widespread among the states. The report identified a need for improved TANF expenditure reporting as well as a need for more refined categories of spending than the current categories in existing federal reporting.

In response to the report cited above, HHS indicated, in part:

...The categories for financial reporting were established in 1999, and since that time, there has been a significant expansion in the range of benefits and services for which TANF funds are used and for which states report Maintenance of Effort (MOE) expenditures. A substantial share of TANF and MOE expenditures are now simply categorized as "other nonassistance," and in other cases, the category listings are too broad to provide a clear picture of how funds are being used. Moreover, in some cases, an expenditure might be reportable in more than one category, so different states may be reporting the same types of expenditures in different categories. Accordingly, HHS has recognized the need for improvements to TANF and MOE financial reporting categories and definitions...

Given the acknowledgement at the federal level that the TANF definitions and reporting categories have not kept pace with the wide array of nonassistance services provided by the states, MDHHS has focused on the pro-social, pro-responsibility, and family preservation aspects of these services in its assessment of whether or not they meet the intent of the TANF program.

Planned Corrective Action:

Although MDHHS disagrees with the finding, MDHHS will follow up with HHS's ACF to confirm that these services meet the requirements for TANF MOE claims.

Anticipated Completion Date:

October 1, 2015

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services

FINDING 2014-049

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-043
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS 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 26 cases. We noted that 1 (4%) of the 26 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 MDHHS 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, MDHHS's TANF State Plan indicates that an adult head of household is ineligible for federally funded FIP cash assistance after 60 months. MDHHS'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

MDHHS, in conjunction with DTMB, hired a contractor to update and incorporate the federal time limit counter into Bridges, effective October 2011. MDHHS 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. MDHHS informed us that Bridges did not count all months toward the 60-month federal time limit because county/district office caseworkers incorrectly entered the payment reason code into the client information system that MDHHS used prior to Bridges. As a result, the payments did not convert correctly to Bridges for inclusion in the counter.

MDHHS indicated in the prior audit corrective action plan that it ran an ad hoc report to identify all federally funded FIP payments coded incorrectly and reviewed the payments to determine if they should be included in the federal time limit counter. As of March 2015, the report had not been completed.

Effect

MDHHS 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 of disallowances related to noncompliance.

Known Questioned Costs

None.

We did not identify questioned costs related to this finding because the adult head of household on the sampled case in error had not reached the 60-month federal time limit for FIP benefits as of the end of the audit period.

Recommendation

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

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS reviewed the payments for the one case cited and determined that they should have been part of the time limit count. The time limit counter for this case will be updated and corrected.

MDHHS will continue to develop an ad hoc report that identifies cases that did not convert correctly from the legacy system to Bridges. Any errors will be corrected as they are identified.

Anticipated Completion Date:

The cited case will be corrected by July 1, 2015. A date for the ad hoc report has not yet been determined.

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Sheryl Thompson, Michigan Department of Health and Human Services
Dale Shaw, Michigan Department of Health and Human Services

FINDING 2014-050

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

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	TANF Cluster: CFDA 93.558	
Award Identification Number and Year	13 02 MI TANF	10/01/2012 - Until Expended
	14 02 MI TANF	10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025	

Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Reporting
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-045
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS may have inappropriately excluded the Section 31a At-Risk Pupils Program and the Great Start Readiness Program expenditures totaling \$151,652,615 from the new spending test used to meet the State's MOE requirement in fiscal year 2014.

These programs were in operation prior to fiscal year 1995 and were not part of the former AFDC State Plan. In prior years, MDHHS had limited the amount of expenditures in these programs that it counted toward TANF Cluster MOE until a private consulting group advised MDHHS 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 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 1995.

Criteria

Federal regulation 45 *CFR* 263.5 states that expenditures of a state program, that was also operated in fiscal year 1995 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 1995.

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 MDHHS 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 1995 would qualify that program as a new program.

Effect

MDHHS may not have met its annual State MOE requirement in fiscal year 2014 because it did not have other State expenditures to replace these unallowable MOE expenditures. In addition, MDHHS may not have accurately reported required State MOE information in its ACF-196 and ACF-204. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendation

We recommend that MDHHS seek guidance from HHS to ascertain whether these programs are exempt from the new spending test.

Management Views and Corrective Action Plan

Management Views:

MDHHS 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. ACF has indicated that the new spending test applies where an "apples to apples" comparison can be made between current expenditures and fiscal year 1995 expenditures. If a state or local program has undergone any changes to its mission, purpose, costs, procedures, etc., then the "apples to apples" comparison is not possible. If a state or local program operating since fiscal year 1995 has undergone any changes in its operational components, it is reasonable to conclude that the program is no longer a pre-existing program and, therefore, it is not necessary to apply the new spending test to the program.

The legislation and funding allocation of Section 31a of the Michigan School Aid Act has continuously changed since 1995 in regards to activities that constitute allowable use of the funds. For example, there is expanded flexibility for the districts in using the Section 31a funds that 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.

Great Start Readiness is a new program initiated in fiscal year 2009 (Act 268, P.A. 2008). A prior program, known as the Michigan School Readiness Program, was in existence from 1985 to 2008. The new program has new 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:

MDHHS disagrees with the finding, but agrees to seek guidance from HHS to ascertain whether these programs are exempt from the new spending test.

Anticipated Completion Date:

MDHHS will send a letter seeking guidance on this issue to HHS by October 1, 2015.

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services

FINDING 2014-051

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking and Special Tests and Provisions - Child Support Noncooperation
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-046
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS 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 MDHHS did not appropriately sanction the family in 3 (5%) of the 60 case records. MDHHS 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 from MiCSES identified that the TANF Cluster family was not cooperating, but MDHHS did not impose a sanction when the clients failed to cooperate within the required time frame.

Criteria

Federal regulation 45 *CFR* 264.30 states that MDHHS 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. MDHHS's TANF State Plan states that failure to cooperate in establishing paternity and pursuing child support for dependent children will result in TANF Cluster ineligibility for a one-month minimum.

In 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

MDHHS's internal control was not designed effectively to prevent county/district office caseworkers from inappropriately reinstating benefits before clients serve the one-month sanction period.

Effect

MDHHS 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

None.

Recommendation

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

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS will continue its efforts to educate staff. MDHHS Field Operations Administration will issue a communication to provide staff with guidance on the child support sanction policy and procedure. Local offices will review the communication with staff.

MDHHS's Office of Quality Assurance and Internal Control and Field Operations Administration will continue to complete monthly TANF case reads. As part of this process, needed corrections are sent to the worker, program manager, and director or district manager and a response is due in 12 days. Results are rolled up to the business service centers and Field Operations Administration.

Anticipated Completion Date:

October 1, 2015.

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Sheryl Thompson, Michigan Department of Health and Human Services
Business Service Center Directors, Michigan Department of Health and Human Services
Local Office Directors, Michigan Department of Health and Human Services

FINDING 2014-052

TANF Cluster, CFDA 93.558, Subrecipient Monitoring - Untimely Management Decision

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	TANF Cluster: CFDA 93.558
Award Identification Number and Year	13 02 MI TANF 10/01/2012 - Until Expended 14 02 MI TANF 10/01/2013 - Until Expended
Total Expenditures of Federal Awards	\$688,235,025
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0

Repeat Finding	2013-018, part b.
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not issue a management decision within the six-month required time frame after receipt of 1 of 9 subrecipient single audit reports.

Criteria

OMB Circular A-133, Section 400(d)(5) requires MDHHS to issue a management decision on subrecipient audit findings related to its federal awards within six months after receipt of a subrecipient's single audit report.

Cause

MDHHS informed us that this may be an isolated incident caused by an internal miscommunication.

Effect

Untimely issuance of management decisions increases the risk of the subrecipient's continued noncompliance with grant requirements and expenditure of federal awards.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS issue management decisions within six months after receipt of a subrecipient's single audit report.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS has implemented additional monitoring steps that will provide additional assurance that all required management decisions are issued within the required time frames.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Julie Horn Alexander, Michigan Department of Health and Human Services
 Josh Larsen, Michigan Department of Health and Human Services
 Steve Yager, Michigan Department of Health and Human Services
 Cynthia Hedden, Michigan Department of Health and Human Services

FINDING 2014-053

CCDF Cluster, CFDA 93.575 and 93.596, Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking - Lack of Documentation

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Award Identification Number and Year	G 13 03 MI CCDF 10/01/2012 - 09/30/2013 G 14 03 MI CCDF 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$122,033,079
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$1,782
Repeat Finding	2013-049
State Agencies	Michigan Department of Education and Michigan Department of Health and Human Services

Background

Executive Order No. 2011-8 transferred CCDF responsibility from MDHHS to MDE, effective August 2011. In accordance with the memorandum of understanding between MDE and MDHHS, MDHHS was responsible for all client and most provider eligibility determinations. MDE assumed responsibility for unlicensed provider eligibility determinations on January 1, 2013.

Condition

MDE and MDHHS did not maintain documentation to support client and/or child eligibility, provider eligibility, client need for the number of hours authorized, proper authorization of providers to render services, and/or the provider's rate of pay. During our review of 60 sampled CCDF Cluster child care payments, which included payments to 41 licensed providers and 19 unlicensed providers, we noted:

- a. MDHHS did not maintain case record documentation to support client and/or child eligibility for 5 (8%) of the 60 sampled CCDF Cluster child care payments. We noted incomplete supporting documentation related to the child's citizenship status, the client's categorical or income eligibility, and the client's need reason for child care services.
- b. MDHHS 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 MDHHS county/district 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 24% of the total CCDF Cluster child care payments MDE made during fiscal year 2014 were on behalf of TANF - FIP eligible clients or children. During our review of the TANF Program, we noted that MDHHS did not maintain sufficient case record documentation to support client eligibility for 21 (55%) of 38 TANF - FIP payments sampled for fiscal year 2014. 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. MDHHS did not maintain documentation to support the client's need for the number of hours of child care that MDHHS authorized in Bridges for 12 (20%) of 60 sampled CCDF Cluster child care payments. MDHHS authorized hours of care in Bridges that exceeded the client's documented need for hours of child care services.
- d. MDHHS did not maintain documentation to support that MDHHS appropriately authorized the provider to render services for a client's child prior to payment for 8 (13%) of 60 sampled CCDF Cluster child care payments.
- e. MDE did not maintain documentation to support that 1 (5%) of 19 sampled unlicensed child care providers attended the level of training required to support the rate at which the child care provider was paid.

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 MDHHS county/district 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 basic health and safety training for providers. MDE's CCDF State Plan requires unlicensed providers to complete a minimum of seven hours of health and safety training. Unlicensed providers who voluntarily complete an additional 10 hours of training receive a higher reimbursement rate.

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 1994 or 1995 (whichever is greater) under Sections 402(g) and 402(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 MDHHS informed us that their internal control and monitoring activities were insufficient to detect that MDE and MDHHS 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 MDHHS authorized in Bridges, to support that the provider was appropriately authorized to render services for a client's child, and/or to support that the provider was paid at the appropriate rate.

Effect

MDE may have made payments that do not qualify for the CCDF Cluster. In addition, based on the exceptions noted, it is likely that MDE did not meet the CCDF Cluster match requirements. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

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.

- \$1,782 - federally funded.
- \$659 - State-funded costs that MDE inappropriately used as matching expenditures for CCDF Cluster funds.

The questioned costs represent the amount of sampled CCDF Cluster payments for which MDHHS did not maintain documentation to support client and/or child eligibility, provider eligibility, client need for the number of hours authorized, proper authorization of providers to render services, and/or the provider's rate of pay.

Recommendation

We recommend that MDE and MDHHS maintain sufficient documentation to support client and/or child eligibility, provider eligibility, client need for the number of hours authorized, proper authorization of providers to render services, and/or the provider's rate of pay.

Management Views and Corrective Action Plan

Management Views:

MDE and MDHHS agree with the finding.

Planned Corrective Action:

MDHHS will continue its efforts to educate staff regarding policy eligibility factors and documentation requirements. MDHHS Field Operations Administration will issue an updated communication reiterating the need to obtain and retain verifications in the case file, such as the assistance application/redetermination, the Child Development and Care Provider Verification form, and the hours of care authorized. This memorandum will reiterate Web-based training that is available and should be reviewed by staff. Local offices will review the communication with staff.

MDE will continue to complete random case reads and provide review results monthly to MDHHS Field Administration Operations and the Business Service Centers for corrective action and to identify trends for targeted training. Business Service Centers are to review for error trends and training needs and will follow up with local office management as

needed. MDE centralized unlicensed provider enrollment with the Office of Great Start/Child Development and Care program effective January 1, 2013. All applications processed by the unit are stored electronically, which has ensured that the provider files are complete and can be easily located.

While the item cited in part e. is specific to one organization that is no longer contracted to provide Great Start to Quality Resource Center services, MDE's contractor responsible for training documentation revisited all recordkeeping processes and procedures specific to the provision of professional development with all Resource Centers to ensure that proper documentation is maintained as required at all times. Annual monitoring will occur during scheduled financial monitoring visits to ensure that proper procedures are in place.

Anticipated Completion Date:
October 1, 2015

Responsible Individual(s):
Terry Beurer, Michigan Department of Health and Human Services
Lisa Brewer-Walraven, Michigan Department of Education
Business Service Center Directors, Michigan Department of Health and Human Services
Local Office Directors, Michigan Department of Health and Human Services

FINDING 2014-054

CCDF Cluster, CFDA 93.575 and 93.596, Cash Management - CMIA Funding Technique

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Award Identification Number and Year	G 13 03 MI CCDF 10/01/2012 - 09/30/2013 G 14 03 MI CCDF 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$122,033,079
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Cash Management
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

MDE did not make cash draws for the CCDF Cluster administrative expenditures in accordance with the funding technique as required in the Cash Management Improvement Act (CMIA) agreement.

Our review of 8 sampled administrative cash draws disclosed that MDE made all 8 cash draws based on actual expenditures rather than the modified payment schedule biweekly funding technique required by the CMIA agreement.

Criteria

The CMIA agreement requires MDE to request reimbursement based on a prorated share of the total amount of federal funds expected to be paid out for program purposes during the year

divided by 26. MDE is then required to adjust the estimated amount to actual costs at the end of each quarter.

Cause

MDE informed us that it was using a method that it felt was more accurate for administrative draws; however, this process was not a funding technique included in the CMIA agreement for CCDF Cluster administrative cash draws.

Effect

MDE was not in compliance with federal requirements for the funding technique required for CCDF Cluster administrative cash draws. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDE make CCDF Cluster administrative cash draws in accordance with the funding technique as required in the CMIA agreement.

Management Views and Corrective Action Plan

Management Views:

MDE agrees with the finding. MDE applied the same methodology used for other federal administrative funds when drawing the CCDF Cluster administrative funds. The methodology used was based on actual expenditures incurred at the time of the draw rather than estimates.

Planned Corrective Action:

The 2015 CMIA agreement between the State of Michigan and the U.S. Department of Treasury was approved on November 6, 2014 and states that the "Modified Direct Administrative Costs - Weekly" technique will be used for the CCDF Cluster administrative cash draws. This technique includes draws made on a reimbursement basis and is consistent with the methodology used for MDE's other administrative funds.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Rose Zuker, Michigan Department of Education

FINDING 2014-055

CCDF Cluster, CFDA 93.575 and 93.596, Cash Management - Expenditure Reclassification

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Award Identification Number and Year	G 13 03 MI CCDF 10/01/2012 - 09/30/2013 G 14 03 MI CCDF 10/01/2013 - 09/30/2014

Total Expenditures of Federal Awards	\$122,033,079
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Cash Management
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Education

Condition

MDE did not have a process in place to timely identify overdrawn federal revenue for expenditures that were reclassified to a State funding source.

MDE reclassified expenditures that had been reimbursed from HHS from a federal funding source to a State funding source in April 2014, causing federal revenue to be greater than federal expenditures. MDE detected the overdrawn federal revenue in July 2014 and reduced its subsequent draw from HHS.

MDE also did not report the cash draws on its annual interest report to the Michigan Department of Treasury for inclusion in the State's calculation of interest due to the federal government.

Criteria

The CMIA agreement requires MDE to use a composite clearance funding technique for CCDF provider payroll expenditures. This funding technique requires MDE to request reimbursement based on the sum of payments issued that would also include the impact of any CCDF expenditure reclassifications.

Also, MDE is required to inform the Michigan Department of Treasury when MDE overdraws federal funds so that the Michigan Department of Treasury can calculate federal interest liabilities.

Cause

The CCDF Cluster provider payroll draw process used by MDE did not take into account the reclassification of expenditures from a federal funding source to a State funding source.

Effect

MDE was not in compliance with the CMIA agreement and may owe the federal grantor agency interest on overdrawn funds.

Known Questioned Costs

None.

Recommendations

We recommend that MDE implement a process to timely identify overdrawn federal revenue for expenditures reclassified to a State funding source.

We also recommend that MDE report cash draws on its annual interest report to the Michigan 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:

MDE agrees with the finding.

Planned Corrective Action:

MDE will analyze the effect of future CCDF expenditure reclassifications on revenue at the time they are processed and transfer revenue as needed to comply with CMIA standards. MDE will report cash draws for CCDF on future annual CMIA interest reports if applicable instances occur. MDE will also implement a monthly reconciliation process for CCDF funds to ensure that draw adjustments are made timely.

Anticipated Completion Date:

September 30, 2015

Responsible Individual(s):

Brandon Reed, Michigan Department of Education
Rose Zuker, Michigan Department of Education

FINDING 2014-056

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	CCDF Cluster: CFDA 93.575 and 93.596
Award Identification Number and Year	G 13 03 MI CCDF 10/01/2012 - 09/30/2013 G 14 03 MI CCDF 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$122,033,079
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Special Tests and Provisions - Fraud Detection and Repayment
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-052
State Agencies	Michigan Department of Education and Michigan Department of Health and Human Services

Background

Executive Order No. 2011-8 transferred CCDF responsibility from MDHHS to MDE, effective August 2011. In accordance with the memorandum of understanding between MDE and MDHHS, MDHHS was responsible for developing and implementing a coordinated system to identify and investigate cases of actual or suspected client or provider fraud. In addition, MDHHS was responsible for working with MDE to recoup funds from any provider or client that had an outstanding financial obligation.

Condition

MDE and MDHHS 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 MDHHS did not have a process to reconcile cases identified as fraud by the MDHHS Office of Inspector General (OIG) to the claims established on the Bridges Benefits Recovery System (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 BRS for recoupment. Restitution amounts for these 3 client cases totaled \$5,284 (\$1,321 State-funded).
- b. MDE and MDHHS did not have a process to routinely send automated notices to providers and clients that were late in remitting payment. In addition, MDE and MDHHS did not regularly submit delinquent client claims to the Michigan Department of Treasury for additional collection efforts.

Criteria

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

Cause

For part a., MDHHS informed us that the OIG's process was to send automated e-mail notifications of the identified fraud to the applicable recoupment specialist (RS) for entry into BRS. The RS was responsible for certifying that he or she had entered the fraud claim into BRS for recoupment. However, MDHHS did not have a control to ensure that all identified fraud cases forwarded to the RS were certified and entered into BRS.

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

Effect

MDE and MDHHS 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

None.

Recommendation

We recommend that MDE and MDHHS develop and implement sufficient processes to help ensure that MDE and MDHHS initiate and pursue repayment efforts for all fraudulent child care payments.

Management Views and Corrective Action Plan

Management Views:

MDE and MDHHS agree with the finding.

Planned Corrective Action:

For part a. of the finding, corrective action was implemented March 31, 2015. MDHHS developed a quarterly report to reconcile completed Child Development and Care (CDC) investigations with claims to Bridges BRS. MDHHS's OIG will follow up with the appropriate MDHHS organizational unit and with MDE to ensure that any required actions have been taken.

For part b., MDE and MDHHS continue to pursue collection recovery for provider CDC through the manual referral process in place. Debt referral to the Michigan Department of Treasury and to the Department of Attorney General continues on a propriety basis; however, with no automation to determine delinquency and status or timeliness. MDE and MDHHS have submitted requests to Bridges BRS for changes to the recoupment functions. Those requests have not been prioritized for implementation and remain pending.

Anticipated Completion Date:

Corrective action related to part a. of the finding is complete. A completion date for part b. will be determined after the Bridges work requests are prioritized.

Responsible Individual(s):

Dave Russell, Michigan Department of Health and Human Services
Bob Drake, Michigan Department of Health and Human Services
Rose Zuker, Michigan Department of Education
Lisa Brewer Walraven, Michigan Department of Education

FINDING 2014-057

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 - Beneficiary Eligibility

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$2,154
Repeat Finding	2013-057
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure or demonstrate compliance with federal laws and regulations relating to beneficiary eligibility for Medicaid services for 4 (6%) of 65 Medicaid cases. Our review disclosed:

- a. Beneficiary eligibility was not determined in accordance with eligibility requirements for 1 (2%) of 65 cases reviewed.
- b. Case file documentation to support beneficiary eligibility was not maintained for 2 (3%) of 65 cases reviewed.
- c. MDHHS paid for pharmacy services for an eligible undocumented alien that did not appear directly related to an emergency condition for 1 (2%) of the 65 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* 435.914 requires that case record documentation be maintained to support the eligibility decision. Federal regulation 42 *CFR* 435.10 requires MDHHS to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. MDHHS's Medicaid State Plan states that MDHHS meets all requirements for processing applications, determining eligibility, and furnishing Medicaid. Also, federal law 8 *USC* 1611 allows all aliens who otherwise meet Medicaid eligibility requirements to receive care and services that are necessary for the treatment of an emergency medical condition.

Cause

MDHHS did not always properly consider all available beneficiary information when determining beneficiary eligibility. MDHHS also indicated that internal control was not always sufficient to ensure that documentation was retained. In addition, MDHHS indicated that questions about whether a medication is necessary to prevent or treat an urgent/emergency or life threatening condition are evaluated on a post-payment sample basis.

Effect

MDHHS cannot demonstrate compliance with established eligibility policies and procedures and, therefore, MDHHS cannot ensure that payments were made on behalf of eligible individuals. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

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.

- \$2,154 - federal share of payments made to providers on behalf of the beneficiaries for the sampled dates of service.

Recommendations

We recommend that MDHHS properly consider Medicaid eligibility documentation in accordance with the eligibility requirements.

We also recommend that MDHHS maintain documentation to support that beneficiary eligibility was determined in accordance with eligibility requirements.

We further recommend that MDHHS provide eligible undocumented aliens with pharmacy services directly related to only an emergency condition.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

- a. MDHHS will review the interface process to determine the cause of the error by August 2015. System changes will be made as needed.
- b. Electronic Document Management (EDM) for case records was implemented Statewide as of August 2014. Implementation of EDM for case record storage will reduce lost or misfiled records.
- c. MDHHS will evaluate and, if determined appropriate, issue policy clarification or additional billing requirements for purposes of further ensuring that pharmacy coverage for eligible aliens is limited to drugs directly related to treatment of emergency conditions.

Anticipated Completion Date:

January 2016

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
 Amy Hundley, Michigan Department of Health and Human Services
 Michelle Best, Michigan Department of Health and Human Services
 Trish O'Keefe, Michigan Department of Health and Human Services

FINDING 2014-058

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 - Under Age 21 Eligibility Group

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$339,305
Repeat Finding	2013-058
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that beneficiaries in the "under age 21" Medicaid eligibility group were appropriately end dated in Bridges and CHAMPS.

Criteria

Federal regulation 42 *CFR* 435.10 requires MDHHS to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. MDHHS's Medicaid State Plan states that it provides Medicaid coverage for financially eligible individuals who are under the age of 21. MDHHS developed policies and procedures related to the "under age 21" eligibility group that require, when possible, MDHHS 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

MDHHS and DTMB indicated that there were several contributing factors, including staff actions and potential system issues.

Effect

MDHHS paid Medicaid providers \$511,618 (\$172,313 General Fund/general purpose) during fiscal year 2014 on behalf of 1,084 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

- \$339,305 - federal share of payments made to providers.

Recommendation

We recommend that MDHHS ensure that beneficiaries in the "under age 21" Medicaid eligibility group are appropriately end dated in Bridges and CHAMPS.

Management Views and Corrective Action Plan

Management Views:

MDHHS and DTMB agree that they did not always ensure that beneficiaries in the "under age 21" Medicaid eligibility group were appropriately end dated in Bridges and CHAMPS.

Planned Corrective Action:

MDHHS and DTMB staff met several times to discuss various issues related to this finding after the previous audit. Several corrective actions were implemented, such as modifications were made to existing Bridges Information Management Mart (BRIMM) reports for local MDHHS workers to review, MDHHS analyzed ad hoc query data to assist in case closure, and some batch processes were run to ensure that cases closed appropriately. However, MDHHS and DTMB acknowledge that additional analysis needs to be completed and the previous workgroup needs to be reconvened.

Anticipated Completion Date:

Workgroup meetings will reconvene within 90 days to begin analysis of outstanding closure issues, with initial analysis expected to be completed by December 2015.

Responsible Individual(s):

Linda Pung, Department of Technology, Management, and Budget
 Dan Ridge, Michigan Department of Health and Human Services
 Karen Parker, Michigan Department of Health and Human Services
 Terry Beurer, Michigan Department of Health and Human Services
 Teresa Spalding, Michigan Department of Health and Human Services

FINDING 2014-059

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-065
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS 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 2 (15%) of 13 required six-month reviews with clients. Also, ASWs did not timely complete 2 (15%) of 13 required six-month reviews with clients. ASWs completed the untimely six-month reviews between 1 month and 3 months late.
- b. ASWs did not complete 4 (31%) of 13 required six-month reviews with service providers. Also, ASWs did not timely complete 1 (8%) of 13 required six-month reviews with a service provider. The ASW completed the untimely six-month review 3 months late.
- c. ASWs did not timely complete 1 (10%) of 10 required annual redeterminations with a client. The ASW completed the untimely annual redetermination 1 month late.
- d. ASWs did not timely complete required contact with service providers for 3 (30%) of 10 client annual redeterminations. ASWs contacted service providers between 1 month and 8 months late.

Criteria

Federal regulation 42 *CFR* 435.10 requires MDHHS to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. MDHHS's Medicaid State Plan states that it will provide personal care services under the Home Help Program (HHP). MDHHS has 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 providers for each of their clients at the client's six-month review and annual redetermination to verify that the providers 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

MDHHS informed us that high ASW caseloads precluded many ASWs from completing all required contacts. MDHHS also informed us that a lack of staffing likely contributed to most of the late or uncompleted contacts.

Effect

MDHHS 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

None.

Recommendation

We recommend that MDHHS ensure that ASWs timely complete six-month reviews, annual redeterminations, and other required monitoring contacts for their assigned clients and providers.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

In October 2014, the Adult Services Comprehensive Assessment Program (ASCAP) was updated to include the contact type "face to face with provider" to allow the ASWs the ability to choose this contact type in ASCAP to show contact with the provider occurred. Two additional contact types for the provider will be added to ASCAP in the June 2015 release, which will be "telephone contact with provider" and a combination contact type of "face to face visit with client and provider." These contact types being available in ASCAP will assist in providing verification that contact was made with the provider as required by policy.

In December 2014, reports CL 321 and CL 121 were implemented which aid the ASWs and their supervisors in the monitoring of their cases for reviews and redeterminations.

Anticipated Completion Date:
Completed

Responsible Individual(s):
Terry Beurer, Michigan Department of Health and Human Services
Cynthia Farrell, Michigan Department of Health and Human Services
Dick Miles, Michigan Department of Health and Human Services

FINDING 2014-060

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$1,263
Repeat Finding	2013-066
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that it 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 livings (IADLs) for 2 (17%) of 12 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 2 clients of \$1,904 (\$1,263 federal and \$641 General Fund/general purpose) from October 1, 2013 through September 30, 2014.
- b. ASWs did not obtain or timely obtain an annual certification of medical need for 2 (40%) of 5 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 MDHHS to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. MDHHS's Medicaid State Plan states that it will provide personal care services under HHP.

MDHHS has 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

MDHHS 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

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.

- \$1,263 - federally funded amount overpaid for sampled clients from October 1, 2013 through September 30, 2014 that shared a residence with another adult.

Recommendation

We recommend that MDHHS ensure that it makes required client benefit reductions and timely obtains client certifications of medical need.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS reviewed the cases cited in the audit. The Office of Adult Services issued FOA memorandum 2014-36 reiterating these policies. In addition, the ASW supervisors review cases to ensure compliance with these policies as part of the local office case read process.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Cynthia Farrell, Michigan Department of Health and Human Services
Dick Miles, Michigan Department of Health and Human Services

FINDING 2014-061

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$23,634
Repeat Finding	2013-067
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure that HHP clients met HHP eligibility criteria prior to paying for HHP services. We noted:

- a. MDHHS allowed 90 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. MDHHS implemented a system edit in March 2014 to prevent future inappropriate payments. The inappropriate payments totaled \$32,489 (\$21,547 federal and \$10,942 General Fund/general purpose), of which \$31,439 was prior to the edit's implementation.
- b. MDHHS overpaid for 9 of 15 sampled clients who were hospitalized. The overpayments for the 9 hospitalized clients totaled \$783 (\$519 federal and \$264 General Fund/general purpose).
- c. MDHHS overpaid for 7 of 15 sampled clients who were in a nursing facility. The overpayments for the 7 clients totaled \$2,364 (\$1,568 federal and \$796 General Fund/general purpose).

Criteria

Federal regulation 42 *CFR* 435.10 requires MDHHS to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. MDHHS's Medicaid State Plan states that it will provide personal care services under HHP. MDHHS has developed the ASM to further define specific policies and procedures for delivery of Medicaid HHP services.

Effective October 1, 2011, MDHHS 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

MDHHS informed us that it did not implement a system edit until March 2014 to prevent payments that did not comply with the new ADL eligibility criteria. MDHHS also informed us that it implemented a post-payment review process to identify providers who were reimbursed when clients were hospitalized or admitted to nursing facilities; however, the post-payment review process is complicated by the lag time (up to one year) associated with MDHHS receiving and processing hospital and nursing facility claims and delays in changes to clients' level of care.

Effect

MDHHS payments for ineligible services from October 1, 2013 through September 30, 2014 totaled \$35,636 (\$23,634 federal and \$12,002 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

- \$23,634 - federally funded amounts paid for HHP services for clients who did not have an ADL assessment score of 3 or higher from October 1, 2013 through September 30, 2014 and sampled clients who were either hospitalized or in a nursing facility during that same time period.

Recommendation

We recommend that MDHHS ensure that HHP clients meet HHP eligibility criteria prior to paying for HHP services.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

- a. An edit was implemented in ASCAP and Adult Services Automated Payments (ASAP) in March 2014 that prevents a payment authorization from processing without an ADL need identified.
- b. A hospital has a year to bill for services rendered; therefore, any recoupment will always be handled during a post-payment review process. MDHHS runs monthly data matches to identify clients who have been hospitalized, and the Office of Adult Services provides the results to the local office to follow up with the client and determine if recoupment is necessary.
- c. An edit was implemented in March 2014 that checks for the nursing home level of care. However, the level of care is sometimes changed after the home help date of service. Therefore, a monthly data match is also processed to determine if home help payments

were made while the client was residing in a nursing home. If matches are identified, they are referred to the local office for recoupment.

Anticipated Completion Date:
Completed

Responsible Individual(s):
Terry Beurer, Michigan Department of Health and Human Services
Cynthia Farrell, Michigan Department of Health and Human Services
Dick Miles, Michigan Department of Health and Human Services

FINDING 2014-062

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$2,409
Repeat Finding	2013-068
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS 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. MDHHS did not have provider service logs or invoices to support 3 (18%) of 17 monthly provider payments.

The known improper payments associated with the 3 missing provider service logs or invoices totaled \$3,633 (\$2,409 federal and \$1,224 General Fund/general purpose).

- b. MDHHS did not ensure that both the client and the provider signed 1 (8%) of 13 provider service logs that it received verifying that the services were delivered by providers for 13 monthly provider payments.

- c. MDHHS did not ensure that the provider log or invoice was received timely for 6 (43%) of 14 provider service logs and invoices that it received verifying that the services were

delivered by providers for 14 monthly provider payments. The untimely provider logs and invoices were received between 2 weeks and 8 months late.

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, the Cash Management System (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, MDHHS'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 providers and the clients to sign the provider service log to verify that the services approved for payment were delivered.

Cause

During fiscal year 2014, ASWs preauthorized monthly payments for up to 13 months for most HHP individual providers and some agency providers. MDHHS requires 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 MDHHS's payment system generates a monthly payment regardless of whether the providers submit the provider service logs or invoices.

Effect

MDHHS 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

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.

- \$2,409 - federal share of the payments that were not supported by a provider log or invoice.

Recommendation

We recommend that MDHHS 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:

MDHHS agrees with the finding.

Planned Corrective Action:

Payment authorizations have been shortened to six months. In October 2014, a provider log Access database was made available to the local offices for tracking the receipt of the provider logs. The ASWs are managing the receipt of the provider logs and sending negative action notices to clients who have not returned a provider log via the Access database.

Beginning July 1, 2015, an electronic service verification process will be implemented that will require the Home Help provider to submit an electronic services verification on a monthly basis. The paper service log that was submitted on a quarterly basis will no longer be used by Home Help providers. If a Home Help provider is unable to submit electronic service verification, a paper services verification form will be available under certain circumstances.

Anticipated Completion Date:

January 2016

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Cynthia Farrell, Michigan Department of Health and Human Services
Dick Miles, Michigan Department of Health and Human Services

FINDING 2014-063

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-055
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS 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 MDHHS's Paternity Casualty Recovery System, MDHHS reported \$195.9 million of pregnancy and birthing-related Medicaid costs;

however, it did not report \$5.9 million of additional pregnancy and birthing-related costs during the audit period.

Criteria

Federal regulation 42 *CFR* 433.138 requires MDHHS 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

MDHHS indicated that it determined which services would be incorporated and which services would be specifically excluded from its pregnancy and birthing-related cost recovery methodology and has consistently followed that methodology.

Effect

MDHHS did not report \$5.9 million of pregnancy and birthing-related Medicaid costs to the FOC or the local prosecuting attorney offices 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 prosecuting attorney offices did not have the opportunity to consider the costs for inclusion in court-ordered child support obligations and MDHHS 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

None.

Recommendation

We recommend that MDHHS report all pregnancy and birthing-related Medicaid costs to the 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:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS will modify its existing methodology for future FOC reports to incorporate all pregnancy and birthing-related Medicaid costs reported to the FOC or the local prosecuting attorney office responsible for establishing paternity and for seeking court-ordered child support. However, MDHHS would like to note that this is unlikely to increase court-ordered support obligations because the reported amount is subjected to the "birth expense obligation" formula required by federal law. This formula assesses the payer's ability to pay child support and establishes a maximum obligation that can be used for birth expenses.

Anticipated Completion Date:

September 2015

Responsible Individual(s):
 Dan Voss, Michigan Department of Health and Human Services

FINDING 2014-064

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking - Beneficiaries With Multiple Medicaid Identification Numbers

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$21,116
Repeat Finding	2013-060
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS's internal control did not prevent, detect, or correct payments made on behalf of beneficiaries who were assigned more than one Medicaid identification number.

Criteria

According to its Medicaid Provider Manual, MDHHS 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

MDHHS stated that it has an automated edit in CHAMPS to identify possible duplicate Medicaid identification numbers on the incoming Bridges eligibility file; however, MDHHS noted that the edit does not cover all scenarios to ensure that all duplicate identification numbers are identified.

Effect

MDHHS issued multiple monthly capitated payments to MHPs for the same beneficiary totaling \$31,839 (\$10,723 General Fund/general purpose) for 50 beneficiaries from October 1, 2013 through September 30, 2014.

Known Questioned Costs

- \$21,116 - federal share of improper monthly capitated payments issued to MHPs from October 1, 2013 through September 30, 2014.

Recommendation

We recommend that MDHHS implement internal control to prevent, detect, or correct payments made on behalf of beneficiaries who were assigned more than one Medicaid identification number.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS will review the existing CHAMPS edit and determine if additional criteria should be added to enhance its functionality.

Duplicate identification numbers are sometimes inadvertently created as part of the adoption process. MDHHS will work with the operational area that oversees the adoption process to research ways to minimize this from occurring.

MDHHS's Medical Services Administration (MSA) is modifying processes to monitor and close duplicate identification numbers identified using queries as well as duplicates reported through the Medicaid Problem Resolution process. In addition, MSA is exploring other options including using MDHHS's Master Person Index to identify duplicate identification numbers in the most comprehensive manner. MDHHS has also recently established a procedure that allows MSA to (in some cases) close the case with the duplicate identification number.

MDHHS will use the data derived from these new processes to investigate the source, cause, and circumstance of the duplicate identification numbers and work to resolve the issue. MDHHS continues to explore the development of additional preventative procedures.

Anticipated Completion Date:

October 2015

Responsible Individual(s):

Dan Ridge, Michigan Department of Health and Human Services

FINDING 2014-065

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

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)	
Award Identification Number and Year	05-1405MI5MAP	10/01/2013 - 09/30/2014
	05-1405MI5ADM	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576	
Total ARRA Expenditures	\$53,099,168	

Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-069
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS 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. MDHHS did not obtain the required supporting documentation to meet fiscal year 2014 policy requirements for 7 (47%) of 15 agencies that were on MDHHS's list of approved agencies. We estimated that MDHHS paid these agencies \$549,627 at the agency rate during fiscal year 2014, an amount that exceeded the individual pay rates by \$236,522.
- b. MDHHS did not remove nonresponding agencies from its list of provisionally approved agencies and reduce the nonresponding agencies' pay rate to the individual provider pay rate. Of the 207 agencies on the provisionally approved list, 22 (11%) did not have an approval date documented and 2 (1%), 26 (13%), 33 (16%), 14 (7%), and 53 (26%) have been on the list since fiscal years 2009, 2010, 2011, 2012, and 2013, respectively. We estimated that MDHHS paid these agencies \$15,354,887 at the agency rate during fiscal year 2014, an amount that exceeded the individual rates by \$5,445,742.
- c. MDHHS 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 MDHHS's list of approved agencies. We estimated that MDHHS paid 8 (53%) of 15 providers \$280,711 at the agency rate during fiscal year 2014, an amount that exceeded the provider rate by \$93,956.
- d. MDHHS did not periodically verify that approved agencies continued to qualify for the agency pay rate. During fiscal year 2013, we reviewed 255 of the 284 agencies' listings of employees and subcontractors, which were still effective during fiscal year 2014. We noted that 20 (8%), 11 (4%), and 14 (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. MDHHS did not update the agencies' listings of employees and subcontractors for fiscal year 2014.

Criteria

Federal regulation 42 *CFR* 435.10 requires MDHHS to specify in its State Plan the groups to whom Medicaid is provided and the conditions of eligibility for individuals in those groups. MDHHS's Medicaid State Plan states that it will provide personal care services under HHP. MDHHS 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 MDHHS with the agency's federal employer 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 MDHHS to periodically verify that approved agencies continue to meet the requirements to receive the higher agency pay rate.

Cause

MDHHS informed us that the cited conditions were caused by system limitations, outdated policies, and limited staff resources.

Effect

We estimated that MDHHS may have overpaid agencies \$5,776,214 (\$1,945,429 General Fund/general purpose) during fiscal year 2014. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendation

We recommend that MDHHS ensure that agency providers meet the requirements to receive the higher agency pay rate.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees that there were delays in obtaining all supporting documentation to show that the agency providers met all requirements; however, a lack of supporting documentation does not mean that the agency did not meet the agency provider requirements.

The majority of the agencies noted in the finding were enrolled/approved as agency providers several years ago, prior to the implementation of recent policy changes that enacted various new agency requirements.

Planned Corrective Action:

MDHHS has reviewed all agency provider files for appropriate documentation and is in the process of contacting these agencies to obtain any necessary documentation. If the agencies do not respond within the allotted time, they will be adjusted to the individual rate. MDHHS eliminated the provisional approval effective April 1, 2014. MDHHS is in the process of enrolling all home help providers in CHAMPS; once full implementation is completed, agency verification will be conducted through CHAMPS. MDHHS will implement an annual process for auditing a sample of provider agencies to ensure documentation compliance.

Anticipated Completion Date:

September 2015

Responsible Individual(s):

Michael Daeschlein, Michigan Department of Health and Human Services

FINDING 2014-066

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$50,997
Repeat Finding	2013-061
State Agency	Michigan Department of Health and Human Services

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.pds>, MDHHS did not ensure proper payment of DMEPOS. We conducted follow-up procedures during the fiscal year 2014 single audit and identified two reportable conditions that continued to impact single audit conclusions related to duplicate payments and claims paid for beneficiaries in nursing facilities (Findings 2 and 3).

Criteria

According to its Medicaid State Plan, MDHHS provides coverage of DMEPOS for eligible Medicaid beneficiaries. Also, MDHHS's policy contained in its Medicaid Provider Manual establishes limitations, restrictions, and other requirements that must be met in order for MDHHS 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.

Effect

Based on the follow-up procedures conducted during the fiscal year 2014 single audit, we determined that MDHHS made improper DMEPOS payments of \$76,895 (\$25,898 General Fund/general purpose) for dates of service from October 1, 2013 through September 30, 2014.

Known Questioned Costs

- \$50,997 - federal share of improper payments made to providers for dates of service from October 1, 2013 through September 30, 2014.

Recommendation

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

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS has quality review procedures and metrics in place to monitor manual review of claims. MDHHS has an initiative underway to address retroactive changes in eligibility.

Anticipated Completion Date:

October 2015

Responsible Individual(s):

Susan Klein, Michigan Department of Health and Human Services

FINDING 2014-067

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-062
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not perform 67 (66%) of 101 annual cost reconciliations during fiscal year 2014 for MI Choice Waiver Program (MI Choice) payments for fiscal years 2009 through 2013. Of the 34 cost reconciliations completed during fiscal year 2014, 34 (100%) were not performed timely.

Criteria

MDHHS provides home and community-based services through a federally approved MI Choice waiver. Federal regulation 42 CFR 441.302 requires MDHHS to ensure financial accountability for funds expended for home and community-based services. In its MI Choice waiver, MDHHS

states that it provides financial accountability through an annual reconciliation process, which compares claims approved in CHAMPS to monthly prospective payments that have been distributed to MI Choice waiver agents. In addition, within its agreements with MI Choice waiver agents, MDHHS 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 MDHHS's cost and utilization data contained in CHAMPS.

Cause

MDHHS indicated that the MI Choice settlement process was relocated to a different area within MDHHS's Medical Services Administration during November 2013. This required additional processing time as procedures were developed, new staff were trained, systems were designed, and new audit controls were established.

Effect

MDHHS is unable to ensure financial accountability without performing annual cost reconciliations. MDHHS could have potentially reimbursed MI Choice waiver agents for improper amounts. The federal grantor agency could terminate the waiver and/or issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendation

We recommend that MDHHS perform all required annual cost reconciliations in a timely manner.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

All settlements for fiscal years 2009 through 2013 were completed in April 2015.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Sherri Gensterblum, Michigan Department of Health and Human Services

Kristi Pastor, Michigan Department of Health and Human Services

FINDING 2014-068

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

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

Award Identification Number and Year	05-1405MI5MAP	10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576	
Total ARRA Expenditures	\$53,099,168	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Matching, Level of Effort, and Earmarking	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$254,962	
Repeat Finding	2013-063	
State Agency	Michigan Department of Health and Human Services	

Condition

As originally reported in our performance audit of Medicaid Practitioner Fee-for-Service Reimbursement, Department of Community Health (391-0713-13), MDHHS did not ensure proper payment of practitioner fee-for-service claims. We conducted follow-up procedures during the fiscal year 2014 single audit and identified two reportable conditions that continued to impact single audit conclusions related to a place of service edit and claims paid for beneficiaries enrolled in an MHP (Findings 1 and 2).

Criteria

According to its Medicaid State Plan, MDHHS provides coverage of practitioner services for eligible Medicaid beneficiaries. Also, MDHHS's policy contained in its Medicaid Provider Manual establishes limitations, restrictions, and other requirements that must be met in order for MDHHS 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 were not in place and system edit criteria was not reviewed for adequacy since the implementation of CHAMPS.

Effect

Based on follow-up procedures conducted during the fiscal year 2014 single audit, we determined that MDHHS made improper fee-for-service practitioner payments of \$384,442 (\$254,962 federal and \$129,480 General Fund/general purpose) from October 1, 2013 through September 30, 2014.

Known Questioned Costs

- \$254,962 - federal share of improper payments made to providers from October 1, 2013 through September 30, 2014.

Recommendation

We recommend that MDHHS ensure proper payment of practitioner fee-for-service claims for the Medicaid Cluster.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

Additional edits were implemented in April 2015 to ensure that claims are only paid for the appropriate place of service and any improper payments will be recovered by July 2015. During the implementation of Healthy Michigan, there were some fee-for-service payments made prior to the beneficiaries' eligibility record showing enrollment into a health plan. MDHHS processed recoupments; however, these claims were not included in that recoupment process. MDHHS will determine by September 2015 if additional fee-for-service recoupments would be detrimental to its provider community.

Anticipated Completion Date:

September 2015

Responsible Individual(s):

Susan Klein, Michigan Department of Health and Human Services
Samantha Wolf, Michigan Department of Health and Human Services

FINDING 2014-069

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - PACE Program Recoveries

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Allowable Costs/Cost Principles; Matching, Level of Effort, and Earmarking; and Special Tests and Provisions - Utilization Control and Program Integrity
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$48,697
Repeat Finding	2013-071
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not recover all overpayments identified by its contracted quality improvement organization for the Program of All-Inclusive Care for the Elderly (PACE). In addition, MDHHS did not refund the federal share of all known identified PACE overpayments within one year of discovery.

Criteria

Federal regulation 42 CFR 456.22 requires MDHHS 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, MDHHS contracted the performance of PACE reviews to identify overpayments from inappropriate claims. Federal regulation 42 CFR 433.316 states that MDHHS 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 and that any appeal rights extended to a provider do not extend the date of recovery.

Cause

MDHHS indicated it had not recovered PACE overpayments because potential PACE recoveries are under appeal. MDHHS stated that it does not plan to refund the federal share until all appeals are complete.

Effect

MDHHS did not recoup overpayments totaling \$73,350 (\$24,653 General Fund/general purpose) that MDHHS's contracted quality improvement organization identified for claims with dates of discovery during fiscal year 2013. Untimely recovery or refund of overpayments could result in the federal grantor agency issuing sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$48,697 - federally funded overpayments identified by MDHHS's contracted quality improvement organization for claims with dates of discovery during fiscal year 2013.

Recommendations

We recommend that MDHHS recover PACE overpayments identified by its contracted quality improvement organization.

We also recommend that MDHHS refund the federal share of identified PACE overpayments within one year of discovery.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

The PACE organization referenced in the finding has continued to exercise provider appeal rights in response to the notice of overpayment. This issue is now in the administrative hearing process, and MDHHS is being represented by the Department of Attorney General. Further, the beneficiary has appealed dismissal from the program and enrollment may be reinstated pending the outcome of the hearing. The hearing is currently scheduled for June 2015. MDHHS will meet with the Bureau of Finance to determine how best to handle return of any federal funding prior to resolution of the appeal process.

Anticipated Completion Date:

July 2015

Responsible Individual(s):

Susan Yontz, Michigan Department of Health and Human Services
Roxanne Perry, Michigan Department of Health and Human Services
Steve Bendele, Michigan Department of Health and Human Services
Elizabeth Aastad, Michigan Department of Health and Human Services

FINDING 2014-070

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Cash Management - Early Benefit Payments Draw

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405 MI5MAP 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Cash Management
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not request federal reimbursement in accordance with the required funding technique for 9 Medical Assistance Program cash draws.

Criteria

Federal regulation 31 *CFR* 205 requires state recipients to enter into agreements with the U.S. Department of Treasury that prescribe specific methods of drawing down federal funds for selected large programs, including the Medical Assistance Program. In the agreement, the State agreed to draw federal funds for Medicaid benefit payments with a 1-day clearance pattern.

Cause

In July 2014, MDHHS received instruction from the Michigan Department of Treasury to change MDHHS's clearance pattern for Medicaid benefit payments for the last quarter of the fiscal year, from 1 day to 0 days, without an amendment to the State's agreement with the U.S. Department of Treasury.

Effect

MDHHS drew \$2,071,895,494 in Medical Assistance Program funds one day earlier than the agreed upon clearance pattern and the effect of the early cash draws was not considered by the Michigan Department of Treasury for inclusion in the State's calculation of interest due to the federal government. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS request federal reimbursement in accordance with the required funding technique for Medical Assistance Program cash draws.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding. MDHHS and the Michigan Department of Treasury agreed upon a change in the clearance pattern for the last quarter of the fiscal year based on an analysis of existing data. However, MDHHS and the Michigan Department of Treasury acknowledge that they did not amend the agreement with the U.S. Department of Treasury to reflect this change as they were already working on revisions for fiscal year 2015.

Planned Corrective Action:

A new agreement between the Michigan Department of Treasury and the federal government for fiscal year 2015 was submitted reflecting the 0-day clearance pattern in October 2014 and was approved by the U.S. Department of Treasury in early November 2014.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Paul McDonald, Michigan Department of Health and Human Services
Ed Willoughby, Michigan Department of Health and Human Services
Mike Krouse, Michigan Department of Treasury

FINDING 2014-071

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Policies and Procedures

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Special Tests and Provisions - Utilization Control and Program Integrity
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not have comprehensive written program integrity policies and procedures.

Criteria

Federal regulation 42 CFR 456.5 requires MDHHS to establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. In addition, federal regulation

42 *CFR* 456.22 requires MDHHS to have procedures for the ongoing evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services.

Cause

During fiscal year 2014, MDHHS was in the process of developing more comprehensive program integrity policies and procedures. However, MDHHS did not finalize the policies and procedures during the year.

Effect

Absence of comprehensive written policies and procedures increases the risk that MDHHS is not effectively safeguarding against unnecessary utilization of Medicaid services.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS establish comprehensive written program integrity policies and procedures.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

In response to a Cash Management System (CMS) program integrity review, internal policies and procedures were drafted and implemented during the latter part of fiscal year 2014.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Alan Kimichik, Michigan Department of Health and Human Services

FINDING 2014-072

Medicaid Cluster, *CFDA* 93.775, 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Contract Monitoring

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and <i>CFDA</i> Number	Medicaid Cluster: <i>CFDA</i> 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Special Tests and Provisions - Utilization Control and Program Integrity

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

Condition

MDHHS did not ensure that all 1,648 provider long-term care determinations identified by MDHHS were reviewed by the contractor.

Criteria

Federal regulation 42 *CFR* 456.22 requires MDHHS 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, MDHHS contracted for the performance of 1,800 long-term care reviews annually to ensure that long-term care providers are only providing services to beneficiaries who meet MDHHS's medical and functional nursing facility level-of-care criteria. The contract states that if MDHHS determines that reviews from the previous month are not completed correctly or timely, MDHHS will withhold 25% of the monthly future payments until the contractor achieves compliance. The agreement also states that if a long-term care review identifies a beneficiary ineligible for nursing facility level of care, MDHHS could recoup funds paid to the provider.

Cause

MDHHS indicated that it did not ensure that all long-term care reviews were completed by the contractor because MDHHS relies on the contractor's tracking mechanism.

Effect

Without MDHHS monitoring the ongoing evaluations, Medicaid providers may provide unnecessary long-term care services. In addition, MDHHS cannot ensure that it is properly withholding future contractor payments or maximizing its recoupment potential.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS ensure that all provider long-term care determinations identified by MDHHS are reviewed by the contractor.

Management Views and Corrective Action Plan

Management Views:

MDHHS disagrees with the finding.

MDHHS does not expect all long-term care determinations sent to the vendor to be reviewed. MDHHS selects its level-of-care determinations (LOCDs) to be reviewed from its Oracle database and transmits the sample to its vendor. There are inherent limitations in the current LOCD database, which does not allow tracking of LOCDs that are duplicate, do not have sufficient lead time prior to the determination, etc.; therefore, it is possible that not all LOCDs transmitted to the vendor are reviewed. Per the MDHHS contract, the vendor submits its monthly invoice for all LOCDs completed during the month and MDHHS fully

reviews this invoice and only reimburses for completed LOCDs. MDHHS will be correcting any LOCD database limitations as part of implementation of the LOCD into CHAMPS.

Planned Corrective Action:

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

Anticipated Completion Date:

Not applicable

Responsible Individual(s):

M. Elizabeth Aastad, Michigan Department of Health and Human Services
 Michael Daeschlein, Michigan Department of Health and Human Services

FINDING 2014-073

Medicaid Cluster, CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - Quarterly Certifications

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Medicaid Cluster: CFDA 93.775, 93.777, 93.778, and 93.778 (ARRA)
Award Identification Number and Year	05-1405MI5MAP 10/01/2013 - 09/30/2014 05-1405MI5ADM 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$9,757,537,576
Total ARRA Expenditures	\$53,099,168
Compliance Requirement(s)	Special Tests and Provisions - Utilization Control and Program Integrity
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not obtain quarterly certifications from the Attorney General - Medicaid Fraud Control Unit (MFCU) to warrant continuation of suspending Medicaid payments to providers with fraud allegations during fiscal year 2014.

Criteria

Federal regulation 42 CFR 455.23(d)(3)(ii) requires MDHHS to request, on a quarterly basis, a certification from MFCU that any matter accepted on the basis of a referral for investigation continues to be under investigation, thus warranting continuation of the suspension.

Cause

MDHHS informed us that it did not request the certifications. The memorandum of understanding between MDHHS and MFCU does not include responsibilities related to quarterly certifications.

Effect

MDHHS could be improperly suspending provider payments. During fiscal year 2014, 32 provider cases were referred to MFCU for fraud investigations.

Known Questioned Costs

None.

Recommendation

We recommend that the MDHHS obtain quarterly suspension certifications from MFCU.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees that a formal, written quarterly certification was not obtained during fiscal year 2014. However, MDHHS and the MFCU met monthly throughout fiscal year 2014 to discuss the status of their investigations.

The 32 provider cases referred to MFCU included 40 individual providers. In compliance with federal regulation 42 CFR 455.23, MDHHS suspended 11 of the 40 providers referred to MFCU during fiscal year 2014. Six of those 11 providers' suspensions were lifted when MFCU notified MDHHS that it either was not pursuing prosecution or was prosecuting another individual (non-provider) for the fraud.

Planned Corrective Action:

MDHHS obtained its first formal, written certification from MFCU on February 23, 2015 regarding the status of suspended provider investigations.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Stacie Sampson, Michigan Department of Health and Human Services

FINDING 2014-074

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Child Support Enforcement: CFDA 93.563
Award Identification Number and Year	1404MI4005 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$150,129,772
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Allowable Costs/Cost Principles, Procurement and Suspension and Debarment, and Subrecipient Monitoring
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-072

State Agencies	Michigan Department of Health and Human Services and Department of Technology, Management, and Budget
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Condition

MDHHS 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 MDHHS to administer procurement and subrecipient monitoring for the Child Support Enforcement Program. We noted:

- a. MDHHS and DTMB did not require security agreements for any State employees or grant recipients who used E-GrAMS. Also, MDHHS did not maintain documentation to show that user access was authorized by MDHHS before system administrators from MDHHS, 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. MDHHS 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 or she is impersonating. This capability can be used when assisting another user with questions because he or she will be able to see the same screens as the person he or she is impersonating. Changes made while impersonating another user are shown as having been made by the user being impersonated. In addition, MDHHS 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

MDHHS and DTMB had not established formal documented policies and procedures for assigning and authorizing State employee access to the E-GrAMS application. MDHHS has documented policies and procedures for assigning and authorizing grantee access to the E-GrAMS application; however, because of the impersonation function, we were unable to validate that MDHHS authorized the grantee access.

Also, MDHHS had not established a formal process to monitor the impersonation function. In April 2014, MDHHS created a report to identify the use of the impersonation function and limited the number of users that had impersonation capabilities; however, MDHHS could not document that it used the report to monitor the impersonation function during the audit period.

* See glossary at end of report for definition.

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 MDHHS 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

None.

Recommendation

We recommend that MDHHS and DTMB establish effective security management and access controls over E-GrAMS.

Management Views and Corrective Action Plan

Management Views:

MDHHS and DTMB agree with the finding.

Planned Corrective Action:

- a. The departments agree that security agreements were not required and they did not maintain documentation to show authorization for user access. However, due to the functionality of the E-GrAMS application, processes exist that minimize the risk of unauthorized access. No additional corrective action is planned.
- b. The departments agree that privileged users cannot be prevented from making changes to E-GrAMS data while using the impersonation function. As noted in the audit finding, a report has been created that identifies who and when the impersonation function is used within E-GrAMS. This report will be monitored and any exceptions identified will be followed up on and appropriate actions will be taken. This process was implemented during fiscal year 2015; however, the reports were generated and reviewed for the fiscal year 2014 audit period and no exceptions were identified.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Erin Frisch, Michigan Department of Health and Human Services
Duane Noworyta, Michigan Department of Health and Human Services
Pratin Trivedi, Michigan Department of Health and Human Services

FINDING 2014-075

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

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

Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	1401MIRCMA 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Material Weakness and Noncompliance
Known Questioned Costs	\$18,357
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not redetermine the eligibility of 15 (83%) of 18 sampled cases with clients receiving refugee medical assistance for expanded Medicaid when the State's expanded Medicaid went into effect April 1, 2014.

Criteria

Federal regulation 45 *CFR* 400.100 limits refugee medical assistance to refugees who are ineligible for Medicaid.

Also, Office of Refugee Resettlement (ORR) State Letter 13-10 states that every effort shall be made by states to redetermine eligibility as Medicaid expands, even if the client is close to the 8-month eligibility limit and, when appropriate, transition the client from refugee medical assistance to Medicaid.

In addition, 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

MDHHS did not implement an automated process in Bridges to systematically redetermine all refugee medical assistance clients' eligibility for expanded Medicaid on April 1, 2014. MDHHS also did not instruct county/district caseworkers to manually initiate the redetermination in Bridges for all refugee medical assistance clients as an alternative to a systemic process. Instead, MDHHS redetermined eligibility at a case change or the end of the client's 8-month eligibility period. In addition, MDHHS did not prepare accounting adjustments and appropriately charge Medicaid for the medical services already incurred by the refugees that MDHHS charged to the Refugee and Entrant Assistance - State Administered Programs (REAP).

Effect

MDHHS paid for services on behalf of clients who were not eligible for REAP refugee medical assistance because they were eligible for expanded Medicaid. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

- \$18,357 - federally funded medical services costs incurred and charged to REAP after April 1, 2014.

Recommendation

We recommend that MDHHS redetermine the eligibility of all clients receiving refugee medical assistance for expanded Medicaid.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

All new refugee cases are being evaluated for Medicaid eligibility (including expanded MA programs) prior to refugee medical assistance eligibility.

MDHHS Field Operations Administration will issue a memorandum to the field regarding review of active and future refugee medical assistance cases for accurate eligibility determination prior to certifying benefits.

The REAP program office will review active refugee medical assistance cases on a quarterly basis to analyze their eligibility.

Anticipated Completion Date:

October 1, 2015

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Al Horn, Michigan Department of Health and Human Services

FINDING 2014-076

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Refugee and Entrant Assistance - State Administered Programs: CFDA 93.566
Award Identification Number and Year	1401MIRCMA 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$19,780,440
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$141
Repeat Finding	2013-074
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS 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 ORR for refugee cash assistance and refugee medical assistance.

Our review disclosed:

- a. For 4 (14%) of 28 REAP case records, MDHHS 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 in compliance with work registry requirements.
- b. For 1 (4%) of 28 REAP case records, MDHHS paid for services during fiscal year 2014 that were incurred approximately 3 months after the client's 8-month eligibility period for refugee medical assistance 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; and cannot, without good cause, fail or refuse to meet the work registry requirements. Also, federal regulation 45 *CFR* 400.28 requires that MDHHS 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

MDHHS informed us that its internal control was insufficient to detect that it did not maintain the required verification documentation in clients' case records. MDHHS also informed us that county/district office caseworkers may not have always closed refugee medical assistance cases at the end of the 8-month eligibility period when Bridges sent the automatic notification.

Effect

MDHHS 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

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.

- \$141 - federally funded costs for which MDHHS did not maintain documentation to support eligibility.
- \$1,252 - federally funded services costs incurred by refugees beyond the 8-month eligibility period, which is questioned in Finding 2014-075 and, as a result, is not reported in this finding.

Recommendation

We recommend that MDHHS 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:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS has assigned specific eligibility workers in each of the county offices to process and maintain the refugee caseloads in the seven counties with resettlement agencies. A Web-based training was developed to specifically address refugee policy and federal refugee regulations. The assigned workers and their supervisors have completed the training. Refresher trainings will be offered as needed.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Al Horn, Michigan Department of Health and Human Services

FINDING 2014-077

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Award Identification Number and Year	G 13 B1 MI LIEA 10/01/2012 - 09/30/2014 G 14 B1 MI LIEA 10/01/2013 - 09/30/2015 G 14 01 MI LIE4 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$168,542,402
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$1,301
Repeat Finding	Part a. repeats 2013-079
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not always ensure that clients were eligible for LIHEAP-funded State Emergency Relief (SER) energy payments.

We reviewed 40 sampled SER energy payments, of which 28 payments were for clients who were categorically eligible and 12 payments were for clients who were not categorically eligible, and noted:

- a. MDHHS did not consider all client assets when determining eligibility for 1 (5%) of 21 SER energy payments made on behalf of clients who disclosed assets on the SER application, resulting in an incorrect eligibility determination.
- b. MDHHS improperly paid 2 (13%) of 16 SER energy payments made on behalf of households that were required to make a client contribution to the energy provider prior to MDHHS making the payment. Client contributions may be required for households that include disqualified group members, that have assets in excess of minimum thresholds, that have a required payment shortfall, or that have exceeded their fiscal year cap total for energy assistance.
- c. MDHHS did not document that it verified that the client made the minimum required payments for 1 (8%) of 12 SER energy payments made on behalf of clients who were not categorically eligible.

Criteria

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

MDHHS policy requires county/district office caseworkers to verify and include certain assets of SER group members to determine eligibility for SER energy services. MDHHS policy states that both payment authorization and verification that the client has paid any shortfall and/or client contribution must be obtained prior to the MDHHS payment being issued. MDHHS policy also states that required payments must be met and verified for clients who are not categorically eligible.

Also, federal regulation 45 *CFR* 96.30 requires that MDHHS's fiscal control and accounting procedures permit the tracing of LIHEAP funds to document that MDHHS did not use LIHEAP funds in violation of restrictions and prohibitions of LIHEAP laws and federal regulations.

Cause

MDHHS's internal control and monitoring activities were insufficient to detect that county/district office caseworkers did not follow established policies and procedures.

Effect

MDHHS made payments to clients who were ineligible according to the LIHEAP State Plan and MDHHS policy. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

We consider the noncompliance in this finding and Finding 2014-078 to collectively represent material noncompliance for LIHEAP.

Known Questioned Costs

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.

- \$1,301 - federally funded.

Recommendation

We recommend that MDHHS ensure that clients receiving LIHEAP-funded SER energy payments are eligible.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

Categorical eligibility was removed from the eligibility determination for LIHEAP benefits effective October 1, 2014.

MDHHS Field Operations Administration LIHEAP staff and the Office of Quality Assurance and Internal Control (OQAIC) continue to develop the quality assurance case review process for the SER program. The quality assurance SER case reads are planned to be conducted by OQAIC staff with a focus on compliance with policy and known deficiencies identified during the fiscal year 2013 and fiscal year 2014 single audit.

Anticipated Completion Date:

Removal of categorical eligibility from policy and eligibility determination for LIHEAP benefits is complete. The anticipated implementation date for the quality improvement initiative is July 1, 2015.

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Tammy Bair, Michigan Department of Health and Human Services
Julie Horn Alexander, Michigan Department of Health and Human Services
Business Service Center Directors, Michigan Department of Health and Human Services
Local Office Directors, Michigan Department of Health and Human Services

FINDING 2014-078

Low-Income Home Energy Assistance, CFDA 93.568, Allowable Costs/Cost Principles - Propriety of LIHEAP-Funded Payments

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Low-Income Home Energy Assistance: CFDA 93.568
Award Identification Number and Year	G 13 B1 MI LIEA 10/01/2012 - 09/30/2014 G 14 B1 MI LIEA 10/01/2013 - 09/30/2015 G 14 01 MI LIE4 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$168,542,402
Total ARRA Expenditures	Not Applicable

Compliance Requirement(s)	Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$632
Repeat Finding	2013-080, part a.
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure the propriety of LIHEAP-funded SER energy payments.

We reviewed 25 sampled SER energy payments and noted:

- a. MDHHS did not authorize 2 (8%) of 25 sampled SER energy payments prior to payment issuance.
- b. MDHHS improperly paid for multiple energy-related services when payment had only been authorized for one service for 1 (4%) of 25 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 MDHHS 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 MDHHS's fiscal control and accounting procedures permit the tracing of LIHEAP funds to document that MDHHS did not use LIHEAP funds in violation of restrictions and prohibitions of LIHEAP laws and federal regulations.

MDHHS policy requires that the county/district office caseworkers sign the SER payment authorization form to authorize the fiscal unit to make the SER energy payment. The LIHEAP State Plan and MDHHS policy stated that the SER payment amount is the minimum amount necessary to prevent shut-off or to restore service.

Cause

MDHHS's internal control and monitoring activities were insufficient to detect that county/district office caseworkers did not follow established policies and procedures.

Effect

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

We consider the noncompliance in this finding and Finding 2014-077 to collectively represent material noncompliance for LIHEAP.

Known Questioned Costs

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.

- \$632 - federally funded.

Recommendation

We recommend that MDHHS ensure the propriety of LIHEAP-funded SER energy payments.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS Field Operations Administration LIHEAP staff and OQAIC continue to develop the quality assurance case review process for the SER program. The quality assurance SER case reads are planned to be conducted by OQAIC staff with a focus on compliance with policy and known deficiencies identified during the fiscal year 2013 and fiscal year 2014 single audit.

Anticipated Completion Date:

July 1, 2015

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Tammy Bair, Michigan Department of Health and Human Services
Julie Horn Alexander, Michigan Department of Health and Human Services
Business Service Center Directors, Michigan Department of Health and Human Services
Local Office Directors, Michigan Department of Health and Human Services

FINDING 2014-079

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 - AFDC Eligibility

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$537
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not determine the child's Aid to Families with Dependent Children (AFDC) eligibility based on the month of the child's removal from the home of the specified relative for 1 (3%) of the 39 sampled foster care maintenance payments.

Criteria

Federal regulation 45 CFR 1356.21(l)(2) states that a child is eligible for maintenance payments if the child was living with the parent or specified relative within six months of the month of the voluntary placement agreement or the initiation of court proceedings and the child would have

been AFDC eligible in that month if the child had still been living in that home. MDHHS policy requires the county/district office caseworker to determine if the child met eligibility for the former AFDC Program in the month that the court removed the child from the parent's or specified relative's home.

Also, federal regulation 45 *CFR* 1356.60(a) allows states to claim federal financial participation for allowable expenditures in the approved Title IV-E State Plan, including expenditures related to foster care maintenance payments. Maintenance payments for ineligible children are not allowable expenditures. Federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs to the federal award.

Cause

MDHHS informed us that the child was removed from the specified relative's home and placed in a delinquency center before the court order placed the child in MDHHS's custody. The county/district office caseworker inadvertently determined the child's AFDC eligibility based on the month that MDHHS took custody, rather than the month of the child's removal from the home.

Effect

MDHHS may have made foster care payments on behalf of a foster child who did not qualify for Foster Care - Title IV-E federal reimbursements at the time of his or her removal. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

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.

- \$537- federally funded.
- \$273 - State-funded costs that MDHHS inappropriately used as matching expenditures for the Foster Care - Title IV-E funds.

Recommendation

We recommend that MDHHS determine a child's AFDC eligibility based on the month of the child's removal from the specified relative's home.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

As of May 2015, MDHHS included the cited case sample as an example in child welfare funding specialist training to emphasize the importance of determining the correct removal month from the specified relative's home.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Steve Yager, Michigan Department of Health and Human Services

Jenifer Pettibone, Michigan Department of Health and Human Services

FINDING 2014-080

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Eligibility; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	2013-083
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not maintain documentation that verified the foster child's U.S. citizenship for 4 (10%) of 39 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, MDHHS policy requires that the county/district 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

MDHHS 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

MDHHS 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 related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS maintain documentation that verifies the foster children's U.S. citizenship.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

Beginning with the implementation of the Michigan Statewide Automated Child Welfare Information System (MiSACWIS) in May 2014, all eligibility documentation for new cases is uploaded into MiSACWIS. MDHHS will send a communication to field staff to reiterate the importance of ensuring that back up documentation, including birth certificates, must be in all files for cases prior to MiSACWIS. MDHHS will address the documentation to be included in case files again at the child welfare funding specialist training in May 2015.

Anticipated Completion Date:

June 30, 2015

Responsible Individual(s):

Steve Yager, Michigan Department of Health and Human Services
Jenifer Pettibone, Michigan Department of Health and Human Services

FINDING 2014-081

Foster Care - Title IV-E, CFDA 93.658 and 93.658 (ARRA), Special Tests and Provisions - Child Care Institution Maintenance Payment Rates

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Foster Care - Title IV-E: CFDA 93.658 and 93.658 (ARRA)
Award Identification Number and Year	13 01 MI 1401 10/01/2012 - 09/30/2013 14 01 MI 1401 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$152,254,979
Total ARRA Expenditures	(\$1,762)
Compliance Requirement(s)	Special Tests and Provisions - Payment Rate Setting and Application
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS needs to amend the Title IV-E State Plan to include its procedures for periodic review of child care institution (CCI) maintenance payment rates. In addition, MDHHS did not review

CCI maintenance payment rates in accordance with its procedures to ensure the continued appropriateness of the payment rates. We noted:

- a. MDHHS did not include in the Title IV-E State Plan its procedures and methodology related to the periodic review and the continued appropriateness of CCI maintenance payment rates. The Title IV-E State Plan only addressed the periodic review methodology for age appropriate maintenance rates to foster care and relative care providers. The methodology MDHHS employed to review CCI maintenance payment rates is significantly different from MDHHS's methodology to review age appropriate maintenance rates.
- b. MDHHS did not follow its procedures and obtain the documentation necessary to conduct a periodic review of CCI maintenance payment rates. MDHHS did not ensure that 5 (100%) of 5 newly contracted CCIs sampled submitted required semiannual maintenance cost reports. MDHHS's procedures were to obtain semiannual maintenance cost reports from newly contracted CCIs to establish a permanent payment rate.

Criteria

Federal law 42 *USC* 671(a)(11) and 45 *CFR* 1356.21(m)(1) requires that the State, in accordance with the Title IV-E State Plan, shall conduct periodic reviews of the standards and amounts paid as foster care maintenance payments to ensure their continued appropriateness. Federal law 45 *CFR* 1356.20(d) requires MDHHS to submit a revised Title IV-E State Plan to the federal government for any significant and relevant change in information, assurances, organization, policies, or operations described in the Title IV-E State Plan.

MDHHS procedures require it to obtain from the CCI's semiannual reports showing the actual maintenance costs incurred for each new contracted program. MDHHS procedures required MDHHS to calculate the actual payment rate based on the maintenance cost and compare the actual payment rate to the initial contracted payment rate. If the actual payment rate was substantially below the initial contracted payment rate, the newly calculated CCI payment rate becomes the permanent CCI payment rate.

Cause

MDHHS did not have sufficient internal control to identify all significant and relevant changes to the Foster Care - Title IV-E business processes that required an amendment to the Title IV-E State Plan.

Also, MDHHS did not include necessary language in the CCI contracts to require that CCIs submit the semiannual reports for newly contracted rates. Also, MDHHS's tracking process did not include following up on the overdue semiannual reports from CCIs.

Effect

MDHHS could have paid CCIs that were required to submit a semiannual maintenance cost report a higher maintenance payment rate than allowed by procedures. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendations

We recommend that MDHHS amend the Title IV-E State Plan to include its procedures for periodic review of CCI maintenance payment rates.

We also recommend that MDHHS review CCI maintenance payment rates in accordance with its procedures to ensure the continued appropriateness of the payment rates.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

For part a., the CCI rate review process will be added to the Title IV-E State Plan during the next update, which is scheduled to be completed and forwarded for approval no later than December 2015.

For part b., MDHHS included language in the residential foster care contracts effective October 1, 2014, requiring submission of annual actual cost reports. MDHHS will review the appropriateness of the CCI maintenance payment rates based on actual costs for the reporting period and the actual days of care provided during the period.

Anticipated Completion Date:

Title IV-E State Plan updates will be complete by December 31, 2015. Residential foster care contract revisions have been implemented.

Responsible Individual(s):

Steve Yager, Michigan Department of Health and Human Services
Jenifer Pettibone, Michigan Department of Health and Human Services
Susan Kangas, Michigan Department of Health and Human Services
Christine Sanchez, Michigan Department of Health and Human Services

FINDING 2014-082

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Adoption Assistance: CFDA 93.659
Award Identification Number and Year	1401MI1407 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$117,012,473
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed and Eligibility
Type of Finding	Material Noncompliance
Known Questioned Costs	Undeterminable
Repeat Finding	2013-087
State Agency	Michigan Department of Health and Human Services

Condition

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

Adoption subsidy payments begin at the time of a child's adoption and, in most cases, are continuous until the child reaches 18 years of age. As a result, the adoption subsidy payments MDHHS 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 of October 1, 2013 through September 30, 2014, MDHHS's adoption subsidy payments totaled approximately \$106.1 million. MDHHS made an estimated 69% of those payments on behalf of children whose eligibility determinations were made prior to July 2009.

Prior to July 2009, MDHHS Adoption Assistance Program staff relied on the Foster Care - Title IV-E Program eligibility determination information recorded within 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. In July 2009, MDHHS 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.

Our reviews of MDHHS's Foster Care - Title IV-E Program eligibility determinations for periods from October 1, 2000 through 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 MDHHS may make adoption subsidy payments to adoptive parents on behalf of eligible children. Federal law 42 USC 673(a)(2)(A) indicates that a child must meet one of three financial based criteria to be eligible for the Adoption Assistance Program. The criterion used for approximately 91% 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 response to our prior audit Finding 2013-087, MDHHS performed procedures on a test basis to determine the level of noncompliance in the population of children adopted prior to July 2009. In February 2014, MDHHS submitted its test results to HHS and had not received a response or guidance on how to proceed as of September 30, 2014.

Effect

During the period October 1, 2013 through September 30, 2014, MDHHS made federal adoption subsidy payments of approximately \$66.0 million to children whose eligibility was determined prior to July 2009. Because MDHHS 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 MDHHS 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, 2013 through

September 30, 2014) did not disclose any errors. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

Undeterminable.

Recommendation

We recommend that MDHHS continue to work with HHS to obtain a resolution concerning the funding of adoption subsidies for children adopted prior to July 2009 and whose eligibility for adoption subsidy was based on former AFDC eligibility and judicial determinations.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

As noted, in July 2009, the adoption subsidy staff began determining eligibility for adoption subsidy cases and no errors were noted for the audit period.

MDHHS will continue to work with HHS to obtain a resolution concerning the funding of adoption subsidies for children adopted prior to July 2009.

Anticipated Completion Date:

Completed

Responsible Individual(s):

- Steve Yager, Michigan Department of Health and Human Services
- Stacie Bladen, Michigan Department of Health and Human Services
- Christine Rehagen, Michigan Department of Health and Human Services
- Dawn Ritter, Manager, Michigan Department of Health and Human Services

FINDING 2014-083

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: CFDA 93.674
Award Identification Number and Year	G 13 01 MI 1420 10/01/2012 - 09/30/2014 G 14 01 MI 1420 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$3,414,991
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$90,009

Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not allocate Chafee Foster Care Independence Program (CFCIP) payroll expenditures in accordance with the Public Assistance Cost Allocation Plan (PACAP) for 12 (75%) of 16 quarterly allocations. During fiscal year 2014, MDHHS implemented a new PACAP and changed the payroll expenditures charged to CFCIP from a direct method to a cost allocation method.

Criteria

Appendix D of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires MDHHS to develop, document, and implement a PACAP. Also, Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs must be necessary and reasonable for proper and efficient performance and administration of the federal award. Appendix A states that costs are allocable to a particular cost objective if the services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

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

Cause

MDHHS informed us that for some quarterly allocations it did not have all of the data necessary to follow the cost allocation methods outlined in the new PACAP. MDHHS informed us that for other quarterly allocations, it had the necessary data but did not have sufficient resources to implement the new cost allocation methods. MDHHS did not amend its new PACAP to reflect the actual methods it used to allocate CFCIP payroll expenditures.

Effect

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

Known Questioned Costs

- \$90,009 - federally funded payroll expenditures inappropriately charged.
- \$22,502 - State-funded expenditures that MDHHS inappropriately used as matching expenditures for CFCIP funds.

Recommendation

We recommend that MDHHS allocate CFCIP payroll expenditures in accordance with its PACAP.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS Accounting will work with the Children's Services Education and Youth Services Program to identify the staff assigned to the Chafee grant and verify that its payroll expenditures are allocated in accordance with the PACAP.

Anticipated Completion Date:

October 1, 2015

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services
Marilyn Carey, Michigan Department of Health and Human Services
Steve Yager, Michigan Department of Health and Human Services
Janet Kaley, Michigan Department of Health and Human Services

FINDING 2014-084

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

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Chafee Foster Care Independence Program: CFDA 93.674
Award Identification Number and Year	G 13 01 MI 1420 10/01/2012 - 09/30/2014 G 14 01 MI 1420 10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$3,414,991
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking
Type of Finding	Significant Deficiency and Noncompliance
Known Questioned Costs	\$271
Repeat Finding	Part a. repeats 2013-091
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure the propriety of CFCIP funded payments.

We reviewed a sample of 60 CFCIP payments, of which 21 related to CFCIP discretionary payments. We noted:

- a. For 4 (19%) of 21 CFCIP discretionary payments, MDHHS did not maintain youth service plans supporting the youth's need for goods and services or receipts to ensure the services were consistent with the youth's need.
- b. For 1 (5%) of 21 CFCIP discretionary payments, MDHHS incorrectly paid Michigan general sales tax when the county/district office caseworker purchased goods on behalf of the youth.

Criteria

Federal law 42 USC 677(d)(1) states that CFCIP funding may be used in any manner that is reasonably calculated to accomplish the purposes of the program. Also, federal law 42 USC

677(a) describes these activities as assistance in obtaining a high school diploma, career exploration, job placement and retention, vocational training, training in daily living skills, money management, counseling, substance abuse prevention, and preventive health activities.

In addition, Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal awards be necessary and reasonable for the proper performance of CFCIP, be adequately documented, and be consistent with policies and procedures that apply to both the federal award and other activities of the state. MDHHS policy requires that the county/district office 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. MDHHS policy also requires that payments of the goods or services be supported by the original invoice and/or receipt. Section 205.54h of the *Michigan Compiled Laws* indicates that the State or its departments are exempt from the Michigan general sales tax. Further, federal regulation 45 *CFR* 92.24 requires that costs used for matching be allowable costs of the federal award.

Cause

For part a., MDHHS informed us that internal control and monitoring activities were insufficient to detect that required verification documentation was not maintained in the youths' case records.

For part b., MDHHS did not consistently apply the Michigan general sales tax exemption when county/district office caseworkers made purchases. MDHHS informed us that it believes that it is acceptable to pay Michigan general sales tax for a purchase made on behalf of a youth.

Effect

MDHHS may have paid for goods and services without proper documentation to ascertain that the goods and services were appropriate and accomplished the purposes of CFCIP. Also, MDHHS may have paid for goods and services inconsistent with policies and procedures that apply to both the federal award and other activities of the State. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

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.

- \$271 - federally funded amount of the 5 sampled discretionary payments for which MDHHS did not maintain appropriate documentation or inappropriately paid Michigan general sales tax.
- \$68 - State-funded costs that MDHHS inappropriately used as matching expenditures for CFCIP funds.

Recommendation

We recommend that MDHHS ensure the propriety of CFCIP funded payments.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding. In regard to part b. of the finding, MDHHS's accounting policy at the time of this expenditure was to include Michigan general sales tax in a purchase made on behalf of a client.

Planned Corrective Action:

To ensure the propriety of payments using CFCIP funds:

The program office will provide clarification and instruction to child welfare supervisors and coordinators of the Michigan Youth Opportunities Initiative sites regarding allowable expenses and activities, as well as required documentation. This clarification and instruction will be provided through the monthly Child Welfare Field Operations supervisory phone calls and the monthly coordinator phone calls.

The program office will also issue a written communication to child welfare workers, supervisors and administrators documenting the CFCIP findings from the fiscal year 2014 single audit and highlighting specific areas in need of improvement.

MDHHS's Accounting Division evaluated the policy around tax exemptions for client purchases with the Michigan Department of Treasury and will make appropriate changes by distributing communications to MDHHS staff and stakeholders to clarify the tax exempt status for youth purchases.

Anticipated Completion Date:

August 1, 2015

Responsible Individual(s):

Steve Yager, Michigan Department of Health and Human Services
Janet Kaley, Michigan Department of Health and Human Services
Susan Kangas, Michigan Department of Health and Human Services
Marilyn Carey, Michigan Department of Health and Human Services

FINDING 2014-085

Block Grants for Community Mental Health Services, CFDA 93.958, Matching, Level of Effort, and Earmarking - Level of Effort for Aggregate State Expenditures

Federal Agency	U.S. Department of Health and Human Services
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Block Grants for Community Mental Health Services: CFDA 93.958
Award Identification Number and Year	14B1MICMHS 10/01/2013 - 09/30/2015 13B1MICMHS 10/01/2012 - 09/30/2014
Total Expenditures of Federal Awards	\$10,319,368
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0

Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS could not document compliance with federal regulations regarding level of effort. MDHHS estimated in its fiscal year 2014 Behavioral Health Report that it would fail to meet the fiscal year 2014 level of effort requirement by approximately \$57 million and that final amounts would be reported by April 1, 2015. MDHHS informed us that it has not determined the final expenditure amounts for each of the 3 fiscal years included in the fiscal year 2014 level of effort calculation.

Criteria

Federal law 42 USC 300x-4 states that the State must maintain State expenditures for BGCMHS at a level that is not less than the average level of such expenditures maintained by the State for the two-year period preceding the fiscal year for which the State is applying for the grant.

Cause

MDHHS informed us that because of staff turnover, the calculation was not updated in a timely manner with the most up-to-date expenditure information. In order to determine the amounts expended for CMHS, MDHHS deducts from certain expenditure categories the percentage of expenditures attributable to those with developmental disabilities. The percentages used in the calculation were determined in fiscal year 2004 and have not been updated since that time. MDHHS informed us that in order to update these percentages, technical assistance will be necessary to develop scripts that will access data from applicable MDHHS systems.

MDHHS also informed us that General Fund appropriations for BGCMHS were reduced with the implementation of the Healthy Michigan program (i.e., Michigan's expansion of the Medicaid program). MDHHS stated that this reduction may result in noncompliance with the level of effort requirement.

Effect

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

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS comply with federal regulations regarding level of effort.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees that it has still not finalized its revised calculation methodology for the fiscal year 2014 maintenance of effort calculation.

Planned Corrective Action:

Historically, a large percentage of the general fund allocations appropriated to Community Mental Health Services Programs (CMHSPs) were included in maintenance of effort calculations. In fiscal year 2014, the overall general fund allocations were reduced for

CMHSPs from \$284 to \$194 million dollars to reflect anticipated savings from the State's implementation of the Healthy Michigan program. That program is currently 100 percent funded by the federal government and those expenditures cannot be included in maintenance of effort calculations.

MDHHS continues to work on revising its maintenance of effort calculation methodology while ensuring compliance with federal regulations. MDHHS will discuss all possible solutions with the responsible federal Substance Abuse and Mental Health Administration (SAMHSA) block grant officer.

Anticipated Completion Date:

MDHHS has completed its maintenance of effort calculations and has begun discussions with the SAMHSA block grant officer to determine how to proceed.

Responsible Individual(s):

Kristin Jordan, Michigan Department of Health and Human Services
 Karen Cashen, Michigan Department of Health and Human Services
 Tom Renwick, Michigan Department of Health and Human Services
 Cynthia Kelly, Michigan Department of Health and Human Services

FINDING 2014-086

Maternal and Child Health Services Block Grant to the States, CFDA 93.994, Allowable Costs/Cost Principles and Eligibility - Beneficiary Eligibility

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
Award Identification Number and Year	1 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 B04MC26674-01-00	10/01/2013 - 09/30/2015
	6 B04MC26674-01-01	10/01/2013 - 09/30/2015
	6 B04MC26674-01-02	10/01/2013 - 09/30/2015
	6 B04MC26674-01-03	10/01/2013 - 09/30/2015
	6 B04MC26674-01-04	10/01/2013 - 09/30/2015
	6 B04MC26674-01-05	10/01/2013 - 09/30/2015
	6 B04MC26674-01-06	10/01/2013 - 09/30/2015
	6 B04MC26674-01-07	10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Allowable Costs/Cost Principles and Eligibility	
Type of Finding	Significant Deficiency and Noncompliance	
Known Questioned Costs	\$10	

Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not ensure or demonstrate compliance with Children's Special Health Care Services (CSHCS) program eligibility requirements for 2 (6%) of 33 cases. Our review disclosed:

- a. A client's eligibility was not determined in accordance with CSHCS eligibility renewal requirements for 1 (3%) of 33 cases reviewed.
- b. Medical documentation to support a client's renewal of medical eligibility was not obtained for 1 (3%) of 33 cases reviewed.

Criteria

MDHHS's policy and procedures state that CSHCS client coverage will be renewed if all financial and medical eligibility criteria continue to be met and the client completes the renewal process. For CSHCS coverage to be renewed, CSHCS clients who are not Medicaid or MICHild eligible must complete and sign an income review payment agreement. Clients are also required to provide medical reports from a physician subspecialist for renewal of coverage.

Cause

For part a., MDHHS stated that the current CSHCS system logic checks for full Medicaid and/or MICHild eligibility three months prior to the client's enrollment end date. If full Medicaid or MICHild is verified via a web service call with CHAMPS, the system locks the financial code and displays the determination date and does not change it prior to enrollment renewal.

For part b., MDHHS stated that it did not properly consider all needed beneficiary information, or lack of information before changing the medical review field, prior to renewal taking place.

Effect

MDHHS cannot demonstrate that it is in compliance with established eligibility policies and procedures and, therefore, MDHHS cannot ensure that payments were made on behalf of eligible individuals. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

OMB Circular A-133 requires the reporting of questioned costs that would likely exceed \$10,000.

- \$10 - representing the federal share of payments made to providers on behalf of the beneficiaries for the sampled dates of service.

Recommendations

We recommend that MDHHS properly determine CSHCS client's eligibility in accordance with the CSHCS eligibility renewal requirements.

We also recommend that MDHHS obtain medical documentation to support the client's renewal of medical eligibility in accordance with CSHCS eligibility requirements.

Management Views and Corrective Action Plan

Management Views:

MDHHS partially agrees with the finding. CSHCS disagrees that one beneficiary's eligibility was not determined in accordance with CSHCS eligibility renewal requirements. CSHCS follows the renewal process timeline as delineated in the CSHCS Guidance Manual. CSHCS eligibility for renewal is determined prospectively, and prior to the end of the current enrollment period. Therefore, financial eligibility determination along with determination of Medicaid coverage takes place prior to the end of the current enrollment period. Reviewing this information 3 months prior to the current enrollment end date allows for sufficient time for families to complete any required information and for CSHCS to process the re-enrollment. Determining financial eligibility after current coverage ends would lead to a lapse in coverage and negatively impact access to needed medical services.

Planned Corrective Action:

MDHHS disagrees with part a. of the finding and does not intend to take further action at this time. Related to part b., all Customer Support Section staff will receive guidance on medical review and renewal and when to update the medical review field.

Anticipated Completion Date:

August 2015

Responsible Individual(s):

Sandra Lane, Michigan Department of Health and Human Services
 Jim Beaver, Michigan Department of Health and Human Services

FINDING 2014-087

Maternal and Child Health Services Block Grant to the States, CFDA 93.994, Matching, Level of Effort, and Earmarking - Improper Identification of Expenditures

Federal Agency	U.S. Department of Health and Human Services	
Pass-Through Entity	Not Applicable	
Program Title and CFDA Number	Maternal and Child Health Services Block Grant to the States: CFDA 93.994	
Award Identification Number and Year	1 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 B04MC26674-01-00	10/01/2013 - 09/30/2015
	6 B04MC26674-01-01	10/01/2013 - 09/30/2015
	6 B04MC26674-01-02	10/01/2013 - 09/30/2015
	6 B04MC26674-01-03	10/01/2013 - 09/30/2015
	6 B04MC26674-01-04	10/01/2013 - 09/30/2015
	6 B04MC26674-01-05	10/01/2013 - 09/30/2015

	6 B04MC26674-01-06	10/01/2013 - 09/30/2015
	6 B04MC26674-01-07	10/01/2013 - 09/30/2015
Total Expenditures of Federal Awards	\$18,326,719	
Total ARRA Expenditures	Not Applicable	
Compliance Requirement(s)	Matching, Level of Effort, and Earmarking	
Type of Finding	Significant Deficiency	
Known Questioned Costs	\$0	
Repeat Finding	2013-093	
State Agency	Michigan Department of Health and Human Services	

Condition

MDHHS did not have controls in place to properly identify expenditures used toward meeting its minimum preventive and primary care services for children earmarking requirement.

Criteria

Federal law 42 USC 705(a)(3)(A) requires MDHHS to use at least 30% of payment amounts for preventive and primary care services for children.

Cause

For fiscal year 2014, MDHHS did not identify expenditures meeting its minimum preventive and primary care services for children earmarking requirement by specific financial coding. Rather, MDHHS identified expenditures meeting its earmarking requirement, primarily, by allocating maternal and child health care expenditures based on a count of women and children served. MDHHS noted that this allocation method was intended to be an interim process until additional financial coding was established for fiscal year 2015.

Effect

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

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS properly identify expenditures used toward meeting its minimum preventive and primary care services for children earmarking requirement.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS modified the fiscal year 2015 Local Maternal Child Health Budget and Plan contract instructions requiring each contractor to identify the number of both preventive and primary care services for children provided. They were also required to report actual Maternal Child Health Block Grant federal funds expended for each population and service category allowable to be served. MDHHS requested that this same information be included in the contractors' modified fiscal year 2014 Outcome Report.

In August 2014, MDHHS included additional reporting requirements in the contract to capture this information and also established coding in the State's accounting system to track earmarking requirements.

Anticipated Completion Date:
Completed

Responsible Individual(s):
Brenda Fink, Michigan Department of Health and Human Services
Cindy Masterson, Michigan Department of Health and Human Services

FINDING 2014-088

Disability Insurance/SSI Cluster, CFDA 96.001, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Lack of Payroll Certifications

Federal Agency	Social Security Administration
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Disability Insurance/SSI Cluster: CFDA 96.001
Award Identification Number and Year	1304MIDI00 10/01/2012 - 09/30/2013 1404MIDI00 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$82,592,709
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not timely complete semiannual certifications for 3 (19%) of 16 employees' payroll costs charged solely to the Disability Insurance/SSI Cluster.

Criteria

Appendix B of OMB Circular A-87 (federal regulation 2 CFR 225) requires that employees who work solely on a federal award or cost objective have their time certified at least semiannually to ensure that the costs are allowable to the program. The certification must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Cause

MDHHS implemented a new PACAP during fiscal year 2014 and made accounting adjustments at the end of the fiscal year to move employee payroll costs from an indirect cost pool to a sole charge (100%) to the Cluster. MDHHS did not consider the OMB Circular A-87 payroll documentation requirements when it made the adjusting entries to solely charge the adjusted employees' payroll costs to the Cluster.

Effect

MDHHS's internal control did not prevent and detect its noncompliance with OMB Circular A-87 in a timely manner. In March 2015, MDHHS provided us with certification for the sole charge of the 3 employees' payroll costs.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS timely complete semiannual certifications for employees' payroll costs charged solely to the Disability Insurance/SSI Cluster.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

MDHHS program staff is reviewing the 100% federal funded payroll costs that were the subject of this audit. Once completed, MDHHS will reinforce that the semiannual certifications will be completed timely and verified in the future for staff so that their 100% federal grant status is properly confirmed.

Anticipated Completion Date:

October 1, 2015

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Charles A. Jones, Michigan Department of Health and Human Services
Jess S. Ruiz, Michigan Department of Health and Human Services

FINDING 2014-089

Disability Insurance/SSI Cluster, CFDA 96.001, Cash Management - Inappropriate Funding Technique

Federal Agency	Social Security Administration
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Disability Insurance/SSI Cluster: CFDA 96.001
Award Identification Number and Year	1404MIDI00 10/01/2013 - 09/30/2014 1304MIDI00 10/01/2012 - 09/30/2013
Total Expenditures of Federal Awards	\$82,592,709
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Cash Management
Type of Finding	Material Weakness and Material Noncompliance
Known Questioned Costs	\$0
Repeat Finding	2013-094
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS 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 4 sampled cash draws disclosed that MDHHS made all 4 cash draws 3 calendar days or more after the date of disbursement when MDHHS was required to make the cash draws 2 calendar days after the date of disbursement.

Criteria

The CMIA agreement requires MDHHS to use the average clearance funding technique for cash draws related to Disability Insurance/SSI Cluster expenditures. This funding technique requires MDHHS to make cash draws 2 calendar days from the date of disbursement for the exact amount of the disbursement.

Cause

MDHHS's federal reporting section made cash draws 3 calendar days or more after the date of disbursement because MDHHS'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

MDHHS was not in compliance with federal requirements for the funding technique required for Disability Insurance/SSI Cluster cash draws.

Known Questioned Costs

None.

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 MDHHS 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:

MDHHS agrees with the finding. The funding technique was revised and approved, which will bring MDHHS into compliance for fiscal year 2015.

Planned Corrective Action:

Corrective action has been implemented. The State received the fully executed CMIA agreement for fiscal year 2015 from the U.S. Department of Treasury on November 6, 2014.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Susan Kangas, Michigan Department of Health and Human Services

Marilyn Carey, Michigan Department of Health and Human Services

FINDING 2014-090

Disability Insurance/SSI Cluster, CFDA 96.001, Reporting - Accuracy of Reports

Federal Agency	Social Security Administration
Pass-Through Entity	Not Applicable
Program Title and CFDA Number	Disability Insurance/SSI Cluster: CFDA 96.001
Award Identification Number and Year	1304MIDI00 10/01/2012 - 09/30/2013 1404MIDI00 10/01/2013 - 09/30/2014
Total Expenditures of Federal Awards	\$82,592,709
Total ARRA Expenditures	Not Applicable
Compliance Requirement(s)	Reporting
Type of Finding	Significant Deficiency
Known Questioned Costs	\$0
Repeat Finding	Not Applicable
State Agency	Michigan Department of Health and Human Services

Condition

MDHHS did not report the correct number of hours that the Disability Insurance/SSI Cluster employees worked in its fiscal year 2014 fourth quarter Time Report of Personnel Services for Disability Determination Services (SSA-4514).

We estimated that MDHHS understated the 248,769 total hours reported on the fiscal year 2014 fourth quarter SSA-4514 by 43,414 hours (15%).

Criteria

Section 39506.231 of the Program Operations Manual System requires MDHHS to submit a quarterly SSA-4514 report that reflects all of the hours worked by employees engaged in the Disability Insurance/SSI Cluster during the reporting period.

Cause

MDHHS relied on a query to create the SSA-4514 that was not effective.

Effect

Reporting incomplete information diminishes the Social Security Administration's ability to oversee and monitor the Disability Insurance/SSI Cluster. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Known Questioned Costs

None.

Recommendation

We recommend that MDHHS ensure that it reports the correct number of hours that the Disability Insurance/SSI Cluster employees worked in its quarterly SSA-4514.

Management Views and Corrective Action Plan

Management Views:

MDHHS agrees with the finding.

Planned Corrective Action:

Due to changes in the applicable cost pools, the query used to provide the necessary data to complete the SSA-4514 fiscal year 2014 fourth quarter report did not include all DDS hours worked. The old system does not allow for the numerous cost pools that were added. MDHHS notified the SSA Regional Office that a revised/corrected quarterly report for this period would be submitted once the query was adjusted to reflect the correct hours worked. The query was adjusted and a revised quarterly report was submitted to SSA on April 8, 2015.

Anticipated Completion Date:

Completed

Responsible Individual(s):

Terry Beurer, Michigan Department of Health and Human Services
Charles A. Jones, Michigan Department of Health and Human Services
Jess S. Ruiz, Michigan Department of Health and Human Services

FINDING 2014-091

Section 8 Project-Based Cluster, CFDA 14.182 and CFDA 14.856

See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2014, Finding 2014-004.

FINDING 2014-092

Home Investment Partnerships Program, CFDA 14.239

See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2014, Finding 2014-003.

FINDING 2014-093

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, 2014, Finding 14-01.

OTHER SCHEDULE

STATE OF MICHIGAN
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2014

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 3131210
Initial Year Written: Fiscal Year 2008
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 are required to report actual spending for early intervention when completing reports in the Financial Information Database (FID) in November of each year. MDE analyzes the information to determine Michigan's total Statewide spending from State and local funds for early intervention. Ongoing work is being done to increase the completeness and accuracy of this reporting.

ISDs are required to report each year with the July 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. These amounts are aggregated to come up with Michigan's total Statewide budgeting from State and local funds for early intervention. This requirement has been in place since July 2013 and all ISDs have adhered to the requirement.

Each year after the aggregated total Statewide budgeting from State and local funds for early intervention (as reported in the July MEGS+ application) is calculated and the aggregated Statewide spending from State and local funds for early intervention as reported in the previous November 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 Individuals with Disabilities Education Act 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.

MDE continues to collect level of effort budgeting information as part of the annual application for funds process. All ISDs continue to comply with this reporting requirement.

MDE also collects level of effort expenditure information as part of the FID reporting process. Through review of the data collected in the November 2014 FID, it was determined that additional work needs to take place in order to ensure that complete and accurate data are being collected. MDE is working with the Center for Educational Performance and Information (CEPI) to provide more guidance and support to ISDs around this reporting requirement in order to improve the quality of the data being collected.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 5511205
Initial Year Written: Fiscal Year 2011
Finding Title: OMB Circular A-133 Subrecipient Audit Requirements

Finding: The Michigan Department of State Police's (MSP's) internal control did not ensure that MSP complied with federal laws and regulations regarding subrecipient monitoring.

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

Audit Period: October 1, 2008 through September 30, 2010
Finding Number: 5911105
Initial Year Written: Fiscal Year 2009
Finding Title: Monitoring of Subrecipient Single Audit Reports

Finding: The Michigan Department of Transportation's (MDOT's) internal control over the Federal Transit Cluster, the Transit Services Programs Cluster, and the Formula Grants for Other Than Urbanized Areas Program did not ensure compliance with federal laws and regulations regarding monitoring of subrecipients' single audit reports.

Current Status: MDOT did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-032.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7511206
Initial Year Written: Fiscal Year 2004
Finding Title: Outdoor Recreation - Acquisition, Development and Planning, CFDA 15.916

Finding: The Department of Natural Resources' (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 worked with the National Park Service (NPS) to verify outstanding projects. DNR has developed and is implementing a process to complete the backlog of delinquent post-completion inspections through a self-certification process. This process was reviewed and is approved for use by NPS.

DNR began this process in November 2012 and has complied with federal laws and regulations regarding the reporting of post-completion inspections in 64 of the 83 counties in Michigan. Inspections are also being completed by DNR land managing divisions on sites where they have received grants. DNR Grants Management staff will also continue to complete inspections of projects to ensure compliance with NPS requirements. The updated, targeted date for completion is June 2016.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611202
Initial Year Written: Fiscal Year 2004
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 Program did not ensure compliance with federal laws and regulations regarding the monitoring of subrecipient single audit reports.

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

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611203
Initial Year Written: Fiscal Year 2008
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 2013. 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 total matching expenditures have not yet exceeded the required match amount. DEQ is prepared to record over-matching expenditures as soon as they are incurred.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611204
Initial Year Written: Fiscal Year 2011
Finding Title: State Clean Diesel Grant Program and ARRA - State Clean Diesel Grant Program, *CFDA* 66.040

Finding: DEQ's internal control over the State Clean Diesel Grant Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring and special tests and provisions.

Current Status: DEQ corrected the deficiencies noted for subrecipient monitoring.

The deficiencies noted for special tests and provisions are no longer valid because DEQ fully expended its American Recovery and Reinvestment Act of 2009 (ARRA) award at the end of fiscal year 2011.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611205
Initial Year Written: Fiscal Year 2010
Finding Title: State Public Water System Supervision, *CFDA* 66.432

Finding: DEQ's internal control over the State Public Water System Supervision 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
Initial Year Written: Fiscal Year 2008
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: The deficiencies noted for reporting are no longer applicable because ARRA 1512 reporting requirements have ended. DEQ corrected the deficiencies noted for subrecipient monitoring and special tests and provisions.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611207
Initial Year Written: Fiscal Year 2008
Finding Title: Nonpoint Source Implementation Grants, *CFDA* 66.460

Finding: DEQ's internal control over the NPS Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

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

DEQ corrected the deficiencies noted related to monitoring of subrecipient single audit reports. To correct the remaining 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 departmentwide. DEQ is in the process of training staff to complete a risk assessment* to comply with the new Uniform Guidance and to interpret the results. Full implementation should be complete by June 30, 2015.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611208
Initial Year Written: Fiscal Year 2008
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 in the finding.

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611209
Initial Year Written: Fiscal Year 2010
Finding Title: Great Lakes Program, *CFDA* 66.469

* See glossary at end of report for definition.

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

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

Audit Period: October 1, 2009 through September 30, 2011
Finding Number: 7611210
Initial Year Written: Fiscal Year 2010
Finding Title: Performance Partnership Grants, *CFDA* 66.605

Finding: DEQ's internal control over the Performance Partnership Grants 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, 2011 through September 30, 2012
Finding Number: 2012-052
Initial Year Written: Fiscal Year 2012
Finding Title: Medicaid Cluster, *CFDA* 93.775, 93.777, 93.778, and 93.778 (ARRA), Special Tests and Provisions - County Health Plan Monitoring

Finding: The Department of Community Health (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: The deficiencies noted are no longer applicable. As of April 2014, individuals served by the county health plans transitioned to the Healthy Michigan Plan and will be served by Medicaid Health Plans.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-001
Initial Year Written: Fiscal Year 2011
Finding Title: Bridges Interface and Change Controls

Finding: The Department of Human Services (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 Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Child Care and Development Fund (CCDF) Cluster, Medicaid Cluster, Refugee and Entrant Assistance - State Administered Programs, and Low-Income Home Energy Assistance Program (LIHEAP).

Current Status: The Michigan Department of Health and Human Services (MDHHS) and DTMB partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-001.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-002
Initial Year Written: Fiscal Year 2011
Finding Title: Bridges Security Management and Access Controls

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

Current Status: MDHHS and DTMB partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-002.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-003
Initial Year Written: Fiscal Year 2011
Finding Title: 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 county office caseworkers considered and used Income Eligibility and Verification System (IEVS) information when making eligibility and benefit level determinations for these programs.

Current Status: MDHHS and DTMB partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-003.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-004
Initial Year Written: Fiscal Year 2013

Finding Title: Adoption Subsidy, Adult Services Comprehensive Assessment Program (ASCAP), and Services Worker Support System (SWSS) Security Management and Access Controls

Finding: DHS and DTMB had not established effective security management and access controls over the Adoption Subsidy, Adult Services Comprehensive Assessment Program (ASCAP), and Services Worker Support System (SWSS) systems.

Current Status: The deficiencies noted for Adoption Subsidy and SWSS are no longer applicable. 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).

MDHHS and DTMB partially corrected the deficiencies noted for ASCAP. Local office responsibility for ASCAP has been moved under BSC 6 for access approval and a quarterly review of users. DTMB is creating a query to track Oracle database activity and it will be monitored using Oracle Audit Vault. DTMB is developing a corrective action plan to address security and access controls over the operating systems.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-005

Initial Year Written: Fiscal Year 2013

Finding Title: Adoption Subsidy and SWSS Change Controls

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

Current Status: The deficiencies noted are no longer applicable. The Adoption Subsidy and SWSS systems were frozen as of April 24, 2014 and were replaced by MiSACWIS.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-006

Initial Year Written: Fiscal Year 2008

Finding Title: ADP Security Program

Finding: 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.

Current Status: MDHHS, in conjunction with DTMB, partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-004.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-007
Initial Year Written: Fiscal Year 2013
Finding Title: High-Risk Security and Access Controls

Finding: DCH and DTMB had not established effective security and access controls for significant systems used to administer federal programs.

Current Status: MDHHS and DTMB partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-005.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-008
Initial Year Written: Fiscal Year 2013
Finding Title: CHAMPS Security and Access Controls

Finding: 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.

Current Status: DTMB and MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-007.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-009
Initial Year Written: Fiscal Year 2013
Finding Title: MDE IT Security and Controls

Finding: 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.

Current Status: MDE and DTMB partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-009.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-010
Initial Year Written: Fiscal Year 2013
Finding Title: FNS-FRS Read-Only User Access Restrictions

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

Current Status: MDE corrected the deficiencies noted in the finding as of March 14, 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-011
Initial Year Written: Fiscal Year 2013
Finding Title: Map Financial Obligation System and Project Accounting and Billing System - Access Controls

Finding: DTMB had not fully established and implemented effective access controls over the Map Financial Obligation System and the Project Accounting and Billing System database management systems.

Current Status: DTMB did not correct the deficiencies noted in the finding for the program included in Finding 2014-028 and the Airport Improvement Program (AIP). See corrective action for Finding 2014-028.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-012
Initial Year Written: Fiscal Year 2013
Finding Title: MDE, Level of Effort - MOE

Finding: MDE did not exclude capital outlay and unrestricted federal expenditures in its calculation of maintenance of effort (MOE) for local educational agencies.

Current Status: MDE did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-017.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-013
Initial Year Written: Fiscal Year 2012
Finding Title: MDE, Reporting - FFATA Reporting

Finding: 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).

Current Status: MDE partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-020.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-014
Initial Year Written: Fiscal Year 2013
Finding Title: DCH, Reporting - FFATA Report Accuracy

Finding: 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.

Current Status: MDHHS corrected the deficiencies noted in the finding in June 2014.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-015

Initial Year Written: Fiscal Year 2012

Finding Title: DHS, Reporting - FFATA Report Accuracy

Finding: 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.

Current Status: MDHHS did not correct the deficiencies noted in the finding for the programs included in Finding 2014-021 and the Weatherization Assistance for Low-Income Persons Program. See corrective action for Finding 2014-021.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-016

Initial Year Written: Fiscal Year 2012

Finding Title: MDE, Subrecipient Monitoring - DUNS Number

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 2013 grant awards.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-017

Initial Year Written: Fiscal Year 2013

Finding Title: MDE, Subrecipient Monitoring - Function Codes

Finding: 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.

Current Status: MDE corrected the deficiencies noted in the finding for the Title I, Part A Cluster. MDE did not correct the deficiencies noted in the finding for the Improving Teacher Quality State Grants program. See corrective action for Finding 2014-041.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-018
Initial Year Written: Fiscal Year 2011
Finding Title: Centralized Subrecipient Monitoring - OMB Circular A-133 Subrecipient Audit Requirements

Finding: 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.

Current Status: The responsibility for monitoring of subrecipient audit reports was transferred back to the State departments in February 2014.

DEQ and MSP corrected the deficiencies noted in the finding.

MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-052.

MDOT did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-032.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-019
Initial Year Written: Fiscal Year 2008
Finding Title: DCH, Allowable Costs/Cost Principles and Special Tests and Provisions - Entity Disclosures

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

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-016.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-020
Initial Year Written: Fiscal Year 2013

Finding Title: DCH, Special Tests and Provisions - Pharmacy Provider State License Monitoring

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

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-022.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-021

Initial Year Written: Fiscal Year 2013

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

Finding: 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.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-023.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-022

Initial Year Written: Fiscal Year 2013

Finding Title: Special Supplemental Nutrition Program for Women, Infants, and Children, *CFDA* 10.557, Cash Management - Formula Rebates

Finding: 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.

Current Status: MDHHS corrected the deficiencies noted in the finding in June 2014.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-023

Initial Year Written: Fiscal Year 2013

Finding Title: Special Supplemental Nutrition Program for Women, Infants, and Children, *CFDA* 10.557, Cash Management - Late Administrative Draws

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

Current Status: MDHHS corrected the deficiencies noted in the finding in June 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-024
Initial Year Written: Fiscal Year 2011
Finding Title: Special Supplemental Nutrition Program for Women, Infants, and Children, *CFDA* 10.557, Reporting - FFATA Reporting Timeliness

Finding: DCH did not timely submit the FFATA reports for the WIC Program.

Current Status: MDHHS corrected the deficiencies noted in the finding in June 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-025
Initial Year Written: Fiscal Year 2013
Finding Title: Child and Adult Care Food Program, *CFDA* 10.558, Allowable Costs/Cost Principles, Subrecipient Monitoring - Claims in Excess of Authorized Capacity

Finding: MDE reimbursed the Child and Adult Care Food Program 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).

Current Status: MDE did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-024.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-026
Initial Year Written: Fiscal Year 2011
Finding Title: CDBG - State-Administered CDBG Cluster, *CFDA* 14.228, Reporting - Section 3 Summary Report

Finding: 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).

Current Status: MSF corrected the deficiencies noted in the finding in September 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-027

Initial Year Written: Fiscal Year 2012
Finding Title: CDBG - State-Administered CDBG Cluster, *CFDA* 14.228, Reporting - FFATA

Finding: 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, for 8 CDBG subawards that were distributed to subrecipients by MSF, 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.

Current Status: MSF corrected the deficiencies noted in the finding by May 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-028
Initial Year Written: Fiscal Year 2011
Finding Title: CDBG - State-Administered CDBG Cluster, *CFDA* 14.228, 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 corrected the deficiencies noted in the finding by May 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-029
Initial Year Written: Fiscal Year 2011
Finding Title: Airport Improvement Program, *CFDA* 20.106, Period of Availability - Expenditures Made After the Period of Availability

Finding: MDOT did not expend AIP grant funding within the period of availability.

Current Status: MDOT corrected the deficiencies noted in the finding in January 2013.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-030
Initial Year Written: Fiscal Year 2013
Finding Title: Airport Improvement Program, *CFDA* 20.106, Reporting - Accuracy of Reports

Finding: MDOT did not prepare Standard Form 271 (SF-271) and Standard Form 425 (SF-425) reports in accordance with the reports' instructions.

Current Status: MDOT partially corrected the deficiencies noted in the finding. MDOT has changed procedures to prepare SF-425 reports in accordance with instructions beginning with fiscal year 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-031
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: MDOT did not ensure that match expenditures reported to the Federal Railroad Administration (FRA) were for activities allowed and allowable costs.

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

MDOT has changed procedures to prepare SF-425 reports in accordance with instructions beginning with fiscal year 2014.

As a result of the decision to replace the Project Accounting and Billing System (PAB) with SIGMA, the functionality for recording expenditures in PAB will not be changed. MDOT will correct this finding with the implementation of SIGMA.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-032
Initial Year Written: Fiscal Year 2013
Finding Title: High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants, *CFDA* 20.319 and 20.319 (ARRA), Reporting - Accuracy of Reports

Finding: MDOT did not submit accurate reports to FRA.

Current Status: MDOT did not correct the deficiencies noted in part a. of the finding. See corrective action for Finding 2014-031.

The deficiencies noted in part b. of the finding are no longer valid because ARRA 1512 reporting requirements have ended.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-033
Initial Year Written: Fiscal Year 2013
Finding Title: Capitalization Grants for Clean Water State Revolving Funds, *CFDA* 66.458 and 66.458 (ARRA), Reporting - FFATA and ARRA Reporting

Finding: DEQ did not report subaward information for 5 of 7 sampled 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 2013, resulting in a \$33,769 understatement of ARRA expenditures.

Current Status: DEQ corrected the deficiencies noted in the finding for FFATA reporting beginning in October 2013.

The deficiencies noted for ARRA reporting are no longer applicable because ARRA 1512 reporting requirements have ended.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-034
Initial Year Written: Fiscal Year 2013
Finding Title: Energy Efficiency and Conservation Block Grant Program (EECBG), CFDA 81.128 (ARRA), Reporting - Internal Control

Finding: MSF did not ensure that federal reports were appropriately reviewed and approved prior to submission to the federal agency.

Current Status: MSF corrected the deficiencies noted in the finding in September 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-035
Initial Year Written: Fiscal Year 2013
Finding Title: School Improvement Grants Cluster, CFDA 84.377 and 84.388 (ARRA), Subrecipient Monitoring - Incorrect CFDA

Finding: MDE did not ensure that subrecipients were notified of the correct *Catalog of Federal Domestic Assistance (CFDA)* number.

Current Status: MDE corrected the deficiencies noted in the finding prior to September 30, 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-036
Initial Year Written: Fiscal Year 2013
Finding Title: Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, Cash Management - Inappropriate Funding Techniques

Finding: 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 2013.

Current Status: The Department of Treasury, in conjunction with LARA, corrected the deficiencies noted in the finding in June 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-037
Initial Year Written: Fiscal Year 2009
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: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-038
Initial Year Written: Fiscal Year 2011
Finding Title: TANF Cluster, *CFDA* 93.558, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Unallowable Juvenile Justice Expenditures

Finding: DHS may not have appropriately excluded juvenile justice expenditures from TANF Cluster claims.

Current Status: MDHHS did not correct the deficiencies noted in the finding. MDHHS disagreed with part a. of the finding. See management views and corrective action for Finding 2014-045.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-039
Initial Year Written: Fiscal Year 2005
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 it received for previously authorized Aid to Families with Dependent Children (AFDC) State Plan expenditures.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-040
Initial Year Written: Fiscal Year 2011
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 27 (45%) of 60 sampled TANF Cluster assistance case records.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-043.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-041
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: DHS counted \$15,746,806 of expenditures toward State MOE for a county's programs that provided services to adjudicated and pre-adjudicated juveniles.

Current Status: MDHHS did not correct the deficiencies noted because MDHHS disagreed with the finding. See management views and corrective action for Finding 2014-048.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-042
Initial Year Written: Fiscal Year 2007
Finding Title: TANF Cluster, *CFDA* 93.558, Eligibility - Lack of Process to Identify Drug Felony Violations

Finding: 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.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-047.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-043
Initial Year Written: Fiscal Year 2012
Finding Title: TANF Cluster, *CFDA* 93.558, Matching, Level of Effort, and Earmarking - Time on Assistance Earmark

Finding: 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.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-049.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-044
Initial Year Written: Fiscal Year 2013
Finding Title: TANF Cluster, *CFDA* 93.558, Matching, Level of Effort, and Earmarking and Reporting - Lack of Signed Agreements to Support MOE Expenditures

Finding: 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 2013.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-045
Initial Year Written: Fiscal Year 2009
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 and the Great Start Readiness Program expenditures totaling \$131,607,088 from the new spending test used to meet the State's MOE requirement in fiscal year 2013.

Current Status: MDHHS did not correct the deficiencies noted because MDHHS disagreed with the finding. See management views and corrective action plan for Finding 2014-050.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-046
Initial Year Written: Fiscal Year 2001
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 and timely sanction TANF Cluster families who did not cooperate with establishing paternity and child support orders.

Current Status: MDHHS did not correct the deficiency noted in the finding. See corrective action for Finding 2014-051.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-047
Initial Year Written: Fiscal Year 1999
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.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-048
Initial Year Written: Fiscal Year 2008
Finding Title: TANF Cluster, *CFDA* 93.558, Reporting - Accuracy of Reports

Finding: 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 2013.

Current Status: MDHHS corrected the deficiencies noted in the finding on the ACF-204 report that was due December 31, 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-049
Initial Year Written: Fiscal Year 2005
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 MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-053.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-050
Initial Year Written: Fiscal Year 2012
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 whom DHS's Office of Inspector General (OIG) identified as having known violations, from receiving CCDF child care benefits.

Current Status: MDE corrected the deficiencies noted in the finding in April 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-051
Initial Year Written: Fiscal Year 2013
Finding Title: CCDF Cluster, *CFDA* 93.575 and 93.596, Reporting - ACF-696

Finding: MDE did not accurately report federal expenditures in the Child Care and Development Fund Financial Report (ACF-696).

Current Status: MDE corrected the deficiencies noted in the finding on the January 31, 2014 quarter 5 ACF-696 report that was sent to the U.S. Department of Health and Human Services (HHS).

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-052
Initial Year Written: Fiscal Year 2011
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 MDHHS have partially corrected the deficiencies noted in the finding. Corrective actions related to the deficiencies noted in part b. of the finding are complete. See corrective action for Finding 2014-056.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-053
Initial Year Written: Fiscal Year 2011
Finding Title: CCDF Cluster, *CFDA* 93.575 and 93.596, Special Tests and Provisions - Health and Safety Requirements - Licensed Child Care Providers

Finding: 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.

Current Status: MDHHS corrected the deficiencies noted in the finding in March 2013.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-054
Initial Year Written: Fiscal Year 2013
Finding Title: Medicaid Cluster, *CFDA* 93.775, 93.777, 93.778, and 93.778 (ARRA), Allowable Costs/Cost Principles - Third Party Liability Identification

Finding: DCH did not always add other health insurance information, reported by a commercial insurance carrier, to its Third Party Liability (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.

Current Status: MDHHS corrected the deficiencies noted in the finding in August 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-055
Initial Year Written: Fiscal Year 2006
Finding Title: 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

Finding: 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.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-063.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-056
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: 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 FOC or the local prosecuting attorney office responsible for establishing paternity and for seeking court-ordered child support throughout the audit period.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-057
Initial Year Written: Fiscal Year 2008
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 - Beneficiary Eligibility

Finding: 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.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-057.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-058
Initial Year Written: Fiscal Year 2012
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: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-058.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-059
Initial Year Written: Fiscal Year 2012
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 \$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.

Current Status: MDHHS corrected the deficiencies noted in the finding in June 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-060
Initial Year Written: Fiscal Year 2013
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 - Beneficiaries With Multiple Medicaid Identification Numbers

Finding: 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.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-064.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-061
Initial Year Written: Fiscal Year 2012
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: DCH did not ensure proper payment of Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS).

Current Status: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-066.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-062
Initial Year Written: Fiscal Year 2013
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 - MI Choice Annual Cost Reconciliations

Finding: DCH did not perform annual cost reconciliations for MI Choice Waiver Program (MI Choice) payments for fiscal year 2013. Also, DCH did not perform annual reconciliations for fiscal years 2009 through 2012.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-067.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-063
Initial Year Written: Fiscal Year 2013
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 Fee-For-Service Reimbursement

Finding: DCH did not ensure proper payment of practitioner fee-for-service claims.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-068.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-064
Initial Year Written: Fiscal Year 2013
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 - Third Party Liability Notification

Finding: DHS did not always notify DCH when Medicaid beneficiaries reported other insurance on their assistance applications.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-065
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: 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.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-059.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-066
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: DCH and DHS did not ensure that they made required client benefit reductions and timely obtained client certifications of medical need.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-060.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-067
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: DCH and DHS did not ensure that the Home Help Program (HHP) clients met HHP eligibility criteria prior to paying for HHP services.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-061.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-068
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: 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.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-062.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-069
Initial Year Written: Fiscal Year 2013
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 - Agency Provider Overpayments

Finding: DCH did not ensure that agency providers met the requirements to receive the higher agency pay rate.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-065.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-070
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: 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.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-071
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: 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.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-069.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-072
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: DHS and DTMB had not established effective security management and access controls over the Electronic Grants Administration and Management System (E-GrAMS).

Current Status: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-074.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-073
Initial Year Written: Fiscal Year 2013
Finding Title: Refugee and Entrant Assistance - State Administered Programs, *CFDA* 93.566, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Assistance to Ineligible Refugee

Finding: 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.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-074
Initial Year Written: Fiscal Year 2009
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 REAP eligibility to a period of less than 8 months as required by HHS's Office of Refugee Resettlement.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-076.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-075
Initial Year Written: Fiscal Year 2012
Finding Title: Refugee and Entrant Assistance - State Administered Programs, *CFDA* 93.566, Eligibility - Accuracy of Medical Assistance Eligibility Calculations

Finding: DHS did not ensure the accuracy of REAP medical assistance eligibility calculations.

Current Status: MDHHS corrected the deficiencies noted in the finding in January 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-076
Initial Year Written: Fiscal Year 2012
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 refugee medical assistance expenditures in the appropriate REAP Cash, Medical, and Administrative grant award year.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-077
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: DHS's internal control did not ensure that it amended the fiscal year 2013 LIHEAP State Plan to reflect a change in the reduction factor used to calculate home heating credit (HHC) assistance.

Current Status: MDHHS corrected the deficiencies noted in the finding in December 2013.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-078
Initial Year Written: Fiscal Year 2003
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 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: MDHHS corrected the deficiencies noted in the finding in September 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-079
Initial Year Written: Fiscal Year 2012
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 document that it verified and considered all client assets when determining eligibility for 6 (50%) of 12 State Emergency Relief (SER) energy payments.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-077.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-080
Initial Year Written: Fiscal Year 2013
Finding Title: Low-Income Home Energy Assistance, *CFDA* 93.568, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Propriety of LIHEAP-Funded Payments

Finding: DHS did not ensure the propriety of LIHEAP-funded SER energy payments.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-078.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-081
Initial Year Written: Fiscal Year 2013
Finding Title: Low-Income Home Energy Assistance, *CFDA* 93.568, Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility - Energy Direct Program Compliance

Finding: 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.

Current Status: The deficiencies noted in the finding are no longer applicable. The Energy Direct Program ended at the end of fiscal year 2013.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-082
Initial Year Written: Fiscal Year 2013
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 - Foster Parent Household Out-of-State Background Checks

Finding: 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.

Current Status: MDHHS corrected the deficiencies noted in the finding in May 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-083
Initial Year Written: Fiscal Year 2013
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 Foster Child U.S. Citizenship Documentation

Finding: DHS did not maintain documentation that verified the foster child's U.S. citizenship for 2 (5%) of 41 sampled foster care maintenance payments.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-080.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-084
Initial Year Written: Fiscal Year 2013
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 - Payment on Behalf of Ineligible Child

Finding: 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.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-013.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-085
Initial Year Written: Fiscal Year 2013
Finding Title: Foster Care - Title IV-E, *CFDA* 93.658 and 93.658 (ARRA), Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking - Lack of Documentation for Initial Clothing Maintenance Payments

Finding: 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.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-086
Initial Year Written: Fiscal Year 2013
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 - Contract Change Notices

Finding: 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.

Current Status: DTMB corrected the deficiencies noted in the finding in May 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-087
Initial Year Written: Fiscal Year 2003

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

Finding: DHS did not ensure that adoption subsidy payments made on behalf of children who were adopted prior to 2009, and whose eligibility for adoption subsidy was based on the former Aid to Families with Dependent Children (AFDC) eligibility and judicial determinations, were eligible for the adoption subsidy.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-082.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-088
Initial Year Written: Fiscal Year 2013
Finding Title: Adoption Assistance, *CFDA* 93.659 and 93.659 (ARRA), Cash Management - Cash Draws Prior to Date of Disbursement

Finding: 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.

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

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-089
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: DHS inappropriately used Chafee Foster Care Independence Program (CFCIP) funds on ineligible youth.

Current Status: MDHHS corrected the deficiencies noted in the finding in August 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-090
Initial Year Written: Fiscal Year 2011
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: MDHHS corrected the deficiencies noted in the finding.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-091
Initial Year Written: Fiscal Year 2003
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 that it appropriately used CFCIP funds.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-084.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-092
Initial Year Written: Fiscal Year 2013
Finding Title: 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

Finding: DCH had not established role-based access controls over Children's Special Health Care Services (CSHCS) medical eligibility decisions in EZLink*. Also, DCH did not review EZLink audit logs to identify unauthorized modifications to the CSHCS medical eligibility decisions.

Current Status: MDHHS corrected the deficiencies noted in the finding in August 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-093
Initial Year Written: Fiscal Year 2013
Finding Title: Maternal and Child Health Services Block Grant to the States, *CFDA* 93.994, Matching, Level of Effort, and Earmarking - Improper Classification of Expenditures

Finding: 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.

* See glossary at end of report for definition.

Current Status: MDHHS did not correct the deficiencies noted in the finding. See corrective action for Finding 2014-087.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-094
Initial Year Written: Fiscal Year 2013
Finding Title: Disability Insurance/SSI Cluster, *CFDA* 96.001, Cash Management - Inappropriate Funding Technique

Finding: 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.

Current Status: MDHHS partially corrected the deficiencies noted in the finding. See corrective action for Finding 2014-089.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-095
Initial Year Written: Fiscal Year 2013
Finding Title: Disability Insurance/SSI Cluster, *CFDA* 96.001, Special Tests and Provisions - Consultative Examinations Process - Verification of Provider's Excluded Status

Finding: 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.

Current Status: MDHHS corrected the deficiencies noted in the finding in July 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-096
Initial Year Written: Fiscal Year 2013
Finding Title: Disability Insurance/SSI Cluster, *CFDA* 96.001, Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Employer-Employee Relations Expenditures

Finding: 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.

Current Status: MDHHS corrected the deficiencies noted in the finding in August 2014.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-097
Initial Year Written: Fiscal Year 2013

Finding Title: Disability Insurance/SSI Cluster, *CFDA* 96.001, Cash Management - Incorrect Quarterly Cash Settlement

Finding: DHS's internal control did not ensure accurate Disability Insurance/SSI Cluster quarterly cash settlements.

In addition, DHS did not report the overdrawn amount for the second quarter cash settlement to the Department of Treasury for inclusion in the State's calculation of interest due to the federal government.

Current Status: MDHHS corrected the deficiencies noted in the finding in August 2014.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-098

Initial Year Written: Fiscal Year 2013

Finding Title: Disability Insurance/SSI Cluster, *CFDA* 96.001, Special Tests and Provisions - Consultative Examinations Process - Verification of Provider's License Status

Finding: 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.

Current Status: MDHHS corrected the deficiencies noted in the finding in July 2014.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-099

Initial Year Written: Fiscal Year 2013

Finding Title: Home Investment Partnerships Program, *CFDA* 14.239

Finding: See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2013, Finding 2013-002.

Current Status: MSHDA corrected the deficiencies noted in the finding. See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2014, Summary Schedule of Prior Audit Findings, Prior Year Finding Number 2013-002.

Audit Period: October 1, 2012 through September 30, 2013

Finding Number: 2013-100

Initial Year Written: Fiscal Year 2013

Finding Title: Emergency Solutions Grant Program, *CFDA* 14.231, and Home Investment Partnerships Program, *CFDA* 14.239

Finding: See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2013, Finding 2013-003.

Current Status: MSHDA did not correct the deficiencies noted in the finding. See Michigan State Housing Development Authority, Federal Awards Supplemental Information, June 30, 2014, Finding 2014-003.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-101
Initial Year Written: Fiscal Year 2012
Finding Title: Unemployment Insurance, *CFDA* 17.225 and 17.225 (ARRA)

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.

Current Status: The Unemployment Insurance Agency corrected 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, 2014, Summary Schedule of Prior Audit Findings, Finding 13-01.

Audit Period: October 1, 2012 through September 30, 2013
Finding Number: 2013-102
Initial Year Written: Fiscal Year 2012
Finding Title: Unemployment Insurance, *CFDA* 17.225 and 17.225 (ARRA)

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.

Current Status: The Unemployment Insurance Agency corrected 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, 2014, Summary Schedule of Prior Audit Findings, Finding 13-02.

GLOSSARY

Glossary of Abbreviations and Terms

access controls	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
ACF	HHS's Administration for Children and Families.
ACF-196	TANF Financial Report.
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.
American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009; also referred to as the Recovery Act.
application controls	Controls that are directly related to individual computer applications. These controls help ensure that transactions are valid, properly authorized, and completely and accurately processed and reported.
ARRA 1512 report	Recipient reporting requirement under ARRA.
ASCAP	Adult Services Comprehensive Assessment Program.
ASM	Adult Services Manual.
ASW	adult service worker.
availability	Timely and reliable access to data and information systems.
BGCMHS	Block Grants for Community Mental Health Services.

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 Benefit 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.
CCI	child care institution.
CDBG	Community Development Block Grant.
CDC	Child Development and Care.
CE	Consultative Examination.
CFCIP	Chafee Foster Care Independence Program.
CHAMPS	Community Health Automated Medicaid Processing System.
change controls	Controls that ensure that program, system, or infrastructure modifications are properly authorized, tested, documented, and monitored.
CI	Consolidated Inquiry.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a

cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.

CMIA	Cash Management Improvement Act.
CMS	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.
confidentiality	Protection of data from unauthorized disclosure.
configuration	The way a system is set up. Configuration can refer to either hardware or software or the combination of both.
CRM	Customer Relationship Management.
CSHCS	Children's Special Health Care Services.
database administrator (DBA)	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.
database management system	Software that uses a standard method of cataloging, retrieving, and running queries on data. The database management system manages incoming data, organizes the data, and provides ways for the data to be modified or extracted by users or other programs.
DCA	HHS's Division of Cost Allocation.
DCH	Michigan Department of Health and Human Services (MDHHS), formerly the Department of Community Health.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

DEQ	Department of Environmental Quality.
DHS	Michigan Department of Health and Human Services (MDHHS), formerly the Department of Human Services.
DHS-173	Bridges application security agreement.
disclaimer of opinion	A type of modified opinion issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and the auditor concludes that the possible effects on the basic financial statements of undetected misstatements, if any, could be both material and pervasive or a statement that the auditor does not express an opinion on the audited entity's compliance with the cited requirements that are applicable to each major federal program.
DMEPOS	durable medical equipment, prosthetics, orthotics, and supplies.
DNR	Department of Natural Resources.
DSA	database security application.
DTMB	Department of Technology, Management, and Budget.
DUNS	Data Universal Numbering System.
EDM	Electronic Document Management.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
Electronic Grants Administration and Management System (E-GrAMS)	Used by MDHHS to administer the Child Support Enforcement Program.
EZLink	Web-based application that DCH physicians use to review supplied medical reports and document their medical eligibility decision (pend, approve, deny, or renew) and approval.
FAA	Federal Aviation Administration.
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> .
FER	final expenditure report.

FFATA	Federal Funding Accountability and Transparency Act of 2006.
FFEL	Federal Family Education Loans.
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 conformity with the applicable financial reporting framework.
FIP	Family Independence Program.
FNS-44	Report of the Child and Adult Care Food Program.
FNS-FRS	Food Nutrition System - Fiscal Reporting System.
FOC	Friend of the Court.
FRA	Federal Railroad Administration.
GAO	U.S. Government Accountability Office.
general controls	The structure, policies, and procedures that apply to an entity's overall computer operations. These controls include an entitywide security program, access controls, application development and change controls, segregation of duties, system software controls, and service continuity controls.
HHC	home heating credit.
HHP	Home Help Program.
HHS	U.S. Department of Health and Human Services.
HSIPR	High-Speed Rail Corridors and Intercity Passenger Rail Service.
IADLs	instrumental activities of daily living.
IDEA	Individuals with Disabilities Education Act.
IEVS	Income Eligibility and Verification System.
information technology (IT)	Any equipment or interconnected system that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information. It commonly

	includes hardware, software, procedures, services, and related resources.
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.
in-relation-to opinion	An opinion expressed by the auditor on supplementary information based on auditing procedures applied in the audit of the basic financial statements and certain additional procedures and considering materiality of the basic financial statements taken as a whole.
integrity	Accuracy, completeness, and timeliness of data in an information system.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
ISD	intermediate school district.
known questioned costs	Questioned costs that are specifically identified by the auditor.
LARA	Department of Licensing and Regulatory Affairs.
LEA	local educational agency.
LIHEAP	Low-Income Home Energy Assistance Program.
LOCD	level-of-care determination.
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.
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.
MCCNet	Michigan Community College Network.
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.
MFCU	Medicaid Fraud Control Unit.
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.
Michigan Department of Health and Human Services (MDHHS)	A department created by Executive Order No. 2015-4 by combining the former Department of Community Health (DCH) and Department of Human Services (DHS), effective April 10, 2015.
MI Choice	MI Choice Waiver Program.
MiCSES	Michigan Child Support Enforcement System.
MiSACWIS	Michigan Statewide Automated Child Welfare Information System.
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.

MSA	Medical Services Administration.
MSF	Michigan Strategic Fund.
MSHDA	Michigan State Housing Development Authority.
MSP	Michigan Department of State Police.
NPS	National Park Service.
OIG	Office of Inspector General.
OMB	U.S. Office of Management and Budget.
operating system	The essential program in a computer that manages all the other programs and maintains disk files, runs applications, and handles devices such as the mouse and printer.
ORR	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> .
OQAIC	Office of Quality Assurance and Internal Control.
PAB	Project Accounting and Billing System.
PACAP	Public Assistance Cost Allocation Plan.
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.
PFR	program fiscal review.
PIHP	Prepaid Inpatient Health Plan.
privileged access	Extensive system access capabilities granted to persons responsible for maintaining system resources. This level of access is considered high risk and must be controlled and monitored by management.

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.
REAP	Refugee and Entrant Assistance - State Administered Programs.
risk assessment	The process of identifying risks to entity operations (including mission, functions, image, or reputation), entity assets, or persons by determining the probability of occurrence, the resulting impact, and additional security controls that would mitigate this impact. Risk assessment is a part of risk management, synonymous with risk analysis, and incorporates threat and vulnerability analyses.
RS	recoupment specialist.
SAM	System of Award Management.
security	Safeguarding an entity's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity.
SEFA	schedule of expenditures of federal awards.
segregation of duties	Separation of the management or execution of certain duties or areas of responsibility to prevent or reduce opportunities for unauthorized modification or misuse of data or service.
SEA	State Educational Agency.
SER	State Emergency Relief.
significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
single audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SNAP	Supplemental Nutrition Assistance Program.
SOC 2 report	A report on controls at a service organization relevant to security, availability, processing integrity, confidentiality, or privacy.
SOLQ	State Online Query.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SSA	Social Security Administration.
SSA-4514	Time Report of Personnel Services for Disability Determination Services.
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.

unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes: <ul style="list-style-type: none"> a. The basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. b. The audited entity complied, in all material respects, with the cited compliance requirements that are applicable to each major federal program.
USC	<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.
WDA	Workforce Development Agency.
WIC Program	Special Supplemental Nutrition Program for Women, Infants, and Children.
21st CCLC	Twenty-First Century Community Learning Centers.

