

EXECUTIVE DIGEST

FAMILY INDEPENDENCE AGENCY

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit* Act, of the Family Independence Agency (FIA) for the period October 1, 1998 through September 30, 2000.

AUDIT PURPOSE

This financial audit of FIA was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

FIA's mission* is to help individuals and families meet financial, medical, and social needs; to assist people to become self-sufficient; and to help protect children and vulnerable adults from abuse, neglect, exploitation, and endangerment. To achieve this mission, FIA manages numerous State and federally funded programs that provide assistance and/or services to eligible recipients.

During our audit period, most of FIA's staff were organized into five administrations, with the Family Independence Services and Child and Family Services Administrations having primary responsibility for establishing and implementing most grant and service program policies.

The Field Operations Administration has oversight responsibility for FIA local offices. The Administration for Budget, Analysis, and Financial Management (BAFM) is responsible for accounting and financial reporting, including the preparation and submission of federal program cost reports. BAFM also performs various budgetary, policy analysis, staffing and program evaluation, and quality control functions. Information Technology Management Services is responsible for software development, maintenance and operation of FIA's computer systems, and network administration.

As of September 30, 2000, FIA had 13,228 employees. FIA's major funding sources are the State General Fund and the U.S. Departments of Health and Human Services and Agriculture. FIA's expenditures and operating transfers out for fiscal year 1999-2000 were approximately \$3.4 billion.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit FIA's financial schedules and its Children's Trust Fund (CTF) financial statements and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to FIA's financial schedules and statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999 and to audit FIA's Child Support Collection Fund (CSCF) financial statement for the fiscal year ended September 30, 2000.

Conclusion: We expressed an unqualified opinion* on FIA's financial schedules, the CTF financial statements, and the CSCF financial statement. In addition, we expressed an unqualified opinion on FIA's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation

to the financial schedules and statements taken as a whole.

Audit Objective: To assess and report on FIA's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules or statements, and on its internal control* over financial reporting, based on our audit of the financial schedules and statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules or statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*. However, we identified reportable conditions* related to the schedule of expenditures of federal awards, expenditure recognition, and personnel and payroll transactions (Findings 1 through 3).

In addition, our assessment indicated that FIA was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on FIA's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: We issued an unqualified opinion on FIA's compliance with requirements applicable to each

major federal program except Food Stamps, Temporary Assistance for Needy Families, Child Support Enforcement, Refugee and Entrant Assistance: State Administered Programs, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and Foster Care: Title IV-E, for which we qualified* our opinion. Our assessment disclosed instances of noncompliance that are required to be reported under OMB Circular A-133. These instances of noncompliance related to Michigan Administrative Information Network* (MAIN) coding of federally funded programs, case file internal control, child support enforcement efforts, documentation and allowability of federally funded expenditures, noncooperation penalties, client disqualification, discontinuance of adoption subsidy payments, vendor verification of client eligibility, allowable funding sources for federal matching requirements, financial penalties for noncompliance with federal guidelines and regulations, fixed assets, and federal payroll certifications (Findings 4, 5, 8, 10 through 14, and 17 through 20). Also, our assessment of internal control over compliance applicable to each major federal program identified five material weaknesses:

- FIA local office staff frequently did not comply with established case file internal control procedures for documenting client eligibility and the propriety of public assistance expenditures (Finding 5).
- FIA child support specialists often did not comply with established internal control regarding locating absent parents; establishing paternity and support obligations, including following up referrals to the

prosecutor or Friend of the Court; and securing medical support obligations (Finding 8).

- FIA has not revised its child support noncooperation penalties to comply with federal welfare reform requirements (Finding 11).
- FIA local offices often did not comply with established internal control for initiating client disqualification or, ultimately, case closure when a client failed to cooperate in obtaining child support or when mandatory participants in an eligible Family Independence Program group refused suitable employment (Finding 12).
- FIA often did not comply with federal guidelines and regulations, resulting in federal sanctions for the Food Stamps, Child Support Enforcement (CSE), and Foster Care: Title IV-E Programs (Finding 18).

We also identified other reportable conditions related to MAIN coding of federally funded programs; identifying, monitoring, and reporting payments to subrecipients; contracts with entities receiving federal funds; interstate central registry; documentation and allowability of federally funded expenditures; discontinuance of adoption subsidy payments; vendor verification of client eligibility; payments at prevailing minimum wage; administrative cost limitation; allowable funding sources for federal matching requirements; fixed assets; federal payroll certifications; and deceased recipients (Findings 4, 6, 7, 9, 10, 13 through 17, and 19 through 21).

AUDIT SCOPE AND METHODOLOGY

Our audit scope was to examine the financial and other records of the Family Independence Agency for the period October 1, 1998 through September 30, 2000. Our audit

was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 20 findings (Findings 1 through 20) that have 22 corresponding recommendations. FIA's corrective action plan indicates that it agrees with the 22 recommendations but disagrees with parts of Finding 8. The plan also indicates that FIA has complied with 2 of the recommendations, and plans to comply with 19 recommendations. In addition, our report contains 1 finding (Finding 21) that refers to a finding in another report that had reported questioned costs*. The plan indicates that FIA agrees with the recommendation and will comply.

As disclosed in FIA's summary schedule of prior audit findings, FIA fully corrected 7 of the 17 prior Single Audit findings and did not correct or partially corrected 10 of the prior findings. Nine prior recommendations are repeated in this audit report (Findings 3, 8, 11 through 13, and 18 through 20).