

EXECUTIVE DIGEST

DEPARTMENT OF SOCIAL SERVICES

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Social Services (DSS) for the period October 1, 1992 through September 30, 1994.

AUDIT PURPOSE

This financial audit of DSS 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 of 1984 and the federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

DSS'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 adults from abuse, neglect, and exploitation. To achieve this mission, DSS manages numerous State and federally funded programs that provide assistance and/or services to eligible recipients. During our audit period, DSS was organized into five administrations, with the Family Services and Medical Services Administrations having primary responsibility for establishing and implementing most grant and services program policies. In addition, the Family Services Administration has oversight responsibility for DSS local offices. The Financial and Internal Control Administration is responsible for accounting and financial reporting, including the preparation and submission of

federal program cost reports, and for the development of internal control policies and procedures. The Audits, Investigations, and Licensing Administration performs various regulatory, investigative, internal audit, and quality assurance functions. The Management Resources and Information Systems Administration provides various administrative support functions, including data processing, human resources, office services, and legal liaison with the Department of Attorney General.

As of September 30, 1994, DSS had 14,327 employees. DSS major funding sources are the State General Fund and the U.S. Departments of Health and Human Services and Agriculture. DSS expenditures and operating transfers out for fiscal year 1993-94 were \$7.098 billion. In addition, DSS received and distributed \$834.6 million in federal nonfinancial assistance (food stamp coupons) in fiscal year 1993-94.

After our audit period, the Governor issued Executive Orders 1996-1 and 1996-2, which transferred certain DSS functions to different departments. These transfers included the Medical Services Administration to the Department of Community Health and various licensing and regulatory functions to the Department of Consumer and Industry Services. In addition, effective April 1, 1996, the former Department of Social Services was renamed the Family Independence Agency.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the adequacy of DSS's internal control structure*, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of the internal control structure did not disclose any material weaknesses*. However, we did identify reportable conditions* relating to

case file internal controls (Finding 1), compliance with State and federal cash management standards (Finding 2), documenting Child Support Enforcement System cost allocations and reimbursements (Finding 3), approving payments in accordance with contract requirements for Education Designed for Gainful Employment program contractors (Finding 4), effectively preauditing Social Services Block Grant provider billings and requiring competitive bids for ongoing services (Finding 5), documenting claims for federal reimbursement (Finding 6), completing timely and accurate maintenance of effort calculations (Finding 7), and monitoring all subrecipients on a timely basis (Finding 8). In addition, DSS should help ensure that internal controls over other administrative functions, such as establishing accounts payable and encumbrance carry-forwards, reporting fixed asset information, and preparing time and attendance reports, are properly maintained (Findings 9 through 11).

Our assessment also disclosed that DSS was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Noteworthy Accomplishments: The progress of DSS during the course of the last four Single Audits* has indicated steady and substantial improvements in internal control, compliance, and financial accounting and reporting. This audit reports no material findings for internal control and unqualified opinions for compliance and financial accounting and reporting. DSS has improved its internal controls by setting financial control objectives in the areas of payment thresholds, requirements for accurate and appropriate documentation, roles/responsibilities with regard to financial operations, audit coordination, quarterly reports from top management

on the corrective action plans, emphasis on professional accountants, regular comparable audits of local offices, training, and consultation to local offices. In addition, although DSS has made substantial progress in improving internal controls, management remains concerned with the potential for future error rates and audit risk.

Audit Objective: To assess DSS's compliance with both State and federal laws and regulations that could have a material effect on DSS's financial schedules, its financial statements, or any of its major federal financial assistance programs.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on DSS's financial schedules, its financial statements, or any of its major federal financial assistance programs. However, our assessment disclosed instances of noncompliance related to providing child support services for foster care recipients (Finding 12) and documenting that required minimum federal Job Opportunities and Basic Skills Training program expenditures were directed toward targeted groups (Finding 13).

Audit Objective: To audit DSS's financial schedules and its Children's Trust Fund financial statements as of and for the fiscal years ended September 30, 1994 and September 30, 1993.

Conclusion: We expressed an unqualified opinion on DSS's financial schedules and on its Children's Trust Fund financial statements.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Social Services for the period October 1, 1992 through September 30, 1994. Our audit

was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit objective for the assessment of the internal control structure included an evaluation of DSS's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP

Our audit report contains 13 findings and 17 corresponding recommendations. The preliminary responses from DSS indicated that it agreed with our findings and either will take or has taken steps to implement all the recommendations.

DSS had complied with 15 of the 25 prior audit recommendations included within the scope of our current audit. Of the other 10 recommendations, 9 are repeated or rewritten in this audit report.