

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) and Michigan Commission for the Blind Federal programs within the Department of Consumer and Industry Services for the period October 1, 1994 through September 30, 1996.

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 of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

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 adults from abuse, neglect, and exploitation. To achieve this mission, FIA manages numerous State and federally funded programs that provide assistance and/or services to eligible recipients. During most of our audit period, FIA 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 FIA 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 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. The Administration for Legislation, Budget, and Analysis performs various legislative liaison, budgetary, policy analysis, staffing and program evaluation, and quality assurance functions.

As of September 30, 1996, FIA had 13,424 employees. FIA major funding sources are the State General Fund and the U.S. Departments of Health and Human Services and Agriculture. FIA expenditures and operating transfers out for fiscal year 1995-96 were \$8.0 billion. In addition, FIA received and distributed \$733.2 million in federal nonfinancial assistance (food stamp coupons) in fiscal year 1995-96.

During our audit period, the Governor issued Executive Orders 1996-1, 1996-2, and 1995-2, which transferred certain FIA functions to different departments and functions from other departments to FIA. 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, transfers to FIA included the Commission for Disability Concerns, Michigan Commission for the Blind, the Weatherization program, and Community Services Block Grant program from the

Michigan Jobs Commission. Effective April 1, 1996, the former Department of Social Services was renamed the Family Independence Agency.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the adequacy of FIA'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 disclosed two material weaknesses*:

- FIA's expenditures authorized through the Unified Child Day Care (UCDC) payment system did not reconcile to expenditures recorded on the Michigan Administrative Information Network* (MAIN). We noted that expenditures recorded on MAIN for two fiscal years exceeded UCDC authorizations by a total of \$4.2 million, the amount of funds drawn for several federal programs was inaccurate, and expenditures totaling an estimated \$19.1 million reported on FIA's schedule of federal financial assistance for various federal programs were misclassified. (Finding 1.a.)

FIA agreed with the related recommendation and responded that it will comply.

- FIA's internal control procedures did not ensure that Children's Trust Fund (CTF) transactions were properly accounted for on MAIN. As a result of the errors noted during our current audit, we expressed an adverse opinion on CTF's balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and

changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995. (Finding 12)

FIA agrees with the related recommendations and responded that it will comply by advising staff of the appropriate procedures and by providing ongoing guidance of the accounts payable and encumbrance processes throughout the fiscal year. In addition, the Office of Internal Audit will assist in the review of accounts payable and encumbrance carry-forwards established at year-end.

Our assessment also disclosed other reportable conditions* in FIA's internal control structure in the areas of expenditures charged to inappropriate Federal grants (Finding 1.b.), case file internal control and documentation (Finding 2), cash management standards (Finding 3), expenditure processing (Finding 4), distribution of child support payments and application of locating procedures by child support specialists (Finding 5), adoption subsidy payments to ineligible children and verification of data entered into internal systems (Finding 6), reconciliation of reported program expenditures (Finding 7), provision of Weatherization services in accordance with federal regulations (Finding 8), subrecipient monitoring (Finding 9), maintenance of effort calculations (Finding 10), and processing of personnel and payroll transactions (Finding 11).

In addition, our assessment disclosed that FIA 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.

Audit Objective: To assess FIA's compliance with both State and federal laws and regulations that could have a material effect on FIA'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 FIA's financial schedules. However, our assessment did disclose two instances of material noncompliance relating to FIA's financial statements and one major federal program:

- As reported under our internal control objective, FIA's internal control structure did not ensure that CTF transactions were properly accounted for on MAIN (Finding 12). As a result of FIA's material noncompliance with Act 431, P.A. 1984, as amended (Sections 18.1101 - 18.1594 of the *Michigan Compiled Laws*), in relation to CTF, we expressed an adverse opinion on the CTF balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995.

FIA agrees with the related recommendations and responded that it will comply by advising staff of the appropriate procedures and by providing ongoing guidance of the accounts payable and encumbrance

processes throughout the fiscal year. In addition, the Office of Internal Audit will assist in the review of accounts payable and encumbrance carry-forwards established at year-end.

- FIA's Office of Quality Assurance reviews determined that benefits for federal Food Stamps Program (*Catalog of Federal Domestic Assistance #10.551*) recipients exceeded the tolerable federal mispayment rate in fiscal year 1995-96. As a result, FIA was sanctioned \$3.4 million (see Note 4a. in the notes to financial schedules and financial statements).

FIA agrees that it exceeded the tolerable federal mispayment rate and responded that it will implement measures to reduce the mispayment rate.

Audit Objective: To audit FIA's financial schedules and its CTF financial statements as of and for the fiscal years ended September 30, 1996 and September 30, 1995.

Conclusion: We expressed an unqualified opinion on FIA's financial schedules for the fiscal years ended September 30, 1996 and September 30, 1995 and on its CTF statement of revenues, expenditures, and changes in fund balance and statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1996. However, we expressed an adverse opinion on FIA's CTF balance sheet as of September 30, 1996 and September 30, 1995 and the statement of revenues, expenditures, and changes in fund balance and the statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal year ended September 30, 1995. As reported in Finding 12 under our internal control structure objective, our audit disclosed a material weakness in that

FIA's internal control structure did not ensure that CTF transactions were properly accounted for on MAIN.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Family Independence Agency and Michigan Commission for the Blind federal programs within the Department of Consumer and Industry Services for the period October 1, 1994 through September 30, 1996. 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 FIA'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 12 findings and 19 corresponding recommendations. FIA's preliminary response indicated that FIA has complied or will comply with the 19 recommendations.

FIA had complied with 7 of the 15 prior audit recommendations included within the scope of our current audit. The other 8 recommendations are repeated or rewritten in this audit report.