

Office of the Auditor General
Performance Audit Report

Flint Emergency Expenditures
State of Michigan

January 2017



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

Performance Audit

Flint Emergency Expenditures

State of Michigan

Report Number:
000-2016-17

Released:
January 2017

On January 5, 2016, Governor Rick Snyder declared a State of Emergency for Genesee County (referred to as the Flint declaration of emergency) due to the ongoing health and safety issues caused by elevated lead levels in the City of Flint's drinking water. The Legislature enacted numerous appropriations to address this situation, both as supplemental appropriations to and transfers within the fiscal year 2016 budget and spending authorization provided in the fiscal year 2017 budget. As of November 18, 2016, appropriations totaled \$242.2 million and nine State departments had expended a total of \$85.4 million. Public Act 3 of 2016 requires the Office of the Auditor General to audit the use of the funds appropriated for this emergency and report at a minimum of every six months until the funds are expended. This is our second report on the expenditure of these funds.

Audit Objective			Conclusion
Objective #1: To determine the appropriateness of State agencies' expenditure of the Flint declaration of emergency appropriations as of November 18, 2016.			Appropriate
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Michigan Department of Education (MDE) did not provide sufficient oversight of the Early On (EO) grant, resulting in \$517,670 in unsupported grant charges (Finding #1).		X	Agrees
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Department of Treasury reimbursed the City of Flint \$841,637 for water bill credits issued for late fees assessed to water customer accounts from May 2014 through February 2016. Public Act 24 of 2016 provides for the reimbursement of credits issued for amounts billed for water; however, it does not specifically provide for the reimbursement of late payment fees (Observation #1 , Exhibit #7).	Not applicable	Not applicable	Not applicable

Observations Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
The City of Flint reported that 815 active water customer accounts had not had an actual water meter reading in 12 to 36 consecutive months as of September 13, 2016. The City of Flint also reported that 145 active water customer accounts had meter readings showing zero water usage for at least the last 12 consecutive months. These conditions required the City of Flint to estimate the customers' water usage and corresponding water bill credits. Over time, these estimates can differ significantly from customers' actual water usage and cause misstated State-funded water bill credits (<u>Observation #2</u> , <u>Exhibit #7</u>).	Not applicable	Not applicable	Not applicable

Audit Objective			Conclusion
Objective #2: To report State agencies' expenditures of the Flint declaration of emergency appropriations.			Information provided
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable	Not applicable	Not Applicable
Exhibits Related to This Audit Objective			
<u>Exhibit #1</u> - Department of Licensing and Regulatory Affairs <u>Exhibit #2</u> - Department of Environmental Quality <u>Exhibit #3</u> - Michigan Department of Health and Human Services <u>Exhibit #4</u> - Michigan Department of Education <u>Exhibit #5</u> - Department of Military and Veterans Affairs <u>Exhibit #6</u> - Michigan Department of State Police <u>Exhibit #7</u> - Department of Treasury <u>Exhibit #8</u> - Department of Attorney General <u>Exhibit #9</u> - Department of Natural Resources <u>Exhibit #10</u> - Department of Technology, Management, and Budget			

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.audgen.michigan.gov

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January 31, 2017

The Honorable Dave Hildenbrand, Chair
Senate Appropriations Committee
S-324 Capitol Building
Lansing, Michigan

The Honorable Laura Cox, Chair
House Appropriations Committee
S-351 Capitol Building
Lansing, Michigan

The Honorable Vincent Gregory, Min. Vice Chair
Senate Appropriations Committee
6400 Connie B. Binsfeld Building
Lansing, Michigan

The Honorable Fred Durhal III, Min. Vice Chair
House Appropriations Committee
S-589 Anderson House Office Building
Lansing, Michigan

Dear Senators Hildenbrand and Gregory and Representatives Cox and Durhal:

I am pleased to provide this performance audit report on the Flint Emergency Expenditures, State of Michigan.

Section 203 of Public Act 3 of 2016, effective January 29, 2016, requires the Office of the Auditor General to audit the use of the funds appropriated for the Flint declaration of emergency and report to the chairs of the Senate and House Appropriations Committees at a minimum of every six months until the funds are expended. Our audit scope includes all funding for the Flint declaration of emergency for fiscal year 2016 as appropriated in Public Act 143 of 2015 and Public Acts 3, 24, 249, and 268 of 2016 expended through November 18, 2016. This is the second of the reports required every six months.

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

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, AND FINDINGS

APPROPRIATENESS OF EXPENDITURE OF FLINT DECLARATION OF EMERGENCY APPROPRIATIONS AS OF NOVEMBER 18, 2016

AUDIT OBJECTIVE To determine the appropriateness of State agencies' expenditure of the Flint declaration of emergency appropriations as of November 18, 2016.

CONCLUSION Appropriate.

FACTORS IMPACTING CONCLUSION

- We did not identify any significant errors in our review of the supporting documentation for the audited transactions.
- Reportable condition* related to improved grant oversight (Finding #1).

* See glossary at end of report for definition.

FINDING #1

Grant oversight could be improved.

MDE did not provide sufficient oversight of the Early On (EO) grant, resulting in \$517,670 in unsupported grant charges.

MDE awarded the Genesee Intermediate School District (GISD) \$2.01 million to provide EO services to Flint children affected by the water crisis. MDE instructed GISD to use the Office of Great Start/Early Childhood Development and Family Education Part C of the Individuals with Disabilities Education Act/Early On Allowable Cost Guide as guidance in developing the required grant budget for MDE's approval. On April 18, 2016, MDE approved the budget for EO services for the period January 29, 2016 (the effective date of Public Act 3 of 2016) through September 30, 2016. Our review noted that:

- a. GISD allocated and retroactively charged \$258,250 to the grant for 32% of its EO workers' salaries and wages for the pre-grant period October 1, 2015 through January 28, 2016. However, the allocated costs were not determined and supported in accordance with the Allowable Cost Guide. Rather than broadly allocating employee costs, the Allowable Cost Guide required employees working on multiple activities or cost objectives to accurately document the amount of time spent on each activity or cost objective on a Personnel Activity Report. Also, GISD's approved budget and budget narrative did not include any salary and wage activity prior to January 29, 2016.

GISD informed us that the allocation covered the costs of GISD's increased service delivery during the period, which was necessitated by the Flint water crisis. However, GISD did not have documentation supporting a significant increase in EO service delivery during the pre-grant period and, therefore, the appropriateness of its allocated costs. Also, GISD's certified enrollment counts for EO show that overall enrollment in the program was nearly unchanged from October 2014 through February 2016:

GISD EO Certified Count Data

<u>Count Date</u>	<u>Number of EO Enrollees</u>	<u>Percentage Change in Enrollment</u>
October 2013	418	
June 2014	370	(11.5%)
October 2014	399	7.8%
February 2015	399	0.0%
June 2015	350	(12.3%)
October 2015	397	13.4%
February 2016	396	(0.3%)
June 2016	415	4.8%
October 2016	562	35.4%

Source: GISD and www.earlyondata.com.

- b. GISD continued to allocate 32% of the salaries and wages of its existing EO workers to the grant for the period January 29, 2016 through September 30, 2016. However, the allocated costs, which totaled \$259,420, were not determined and supported in accordance with the Allowable Cost Guide.

GISD informed us that the allocation represented the average percentage of all GISD's EO children who resided in Flint during the seven-month period ended April 30, 2016. However, the allocation did not account for GISD's hiring of 25 additional EO workers to work specifically with children impacted by the Flint water crisis. The number of these new workers approximated the number of GISD's existing EO workers, which should have significantly reduced the amount of time spent by existing EO workers providing services to the children impacted by the Flint water crisis.

RECOMMENDATION

We recommend that MDE provide sufficient oversight of the EO grant to ensure the appropriateness of grant charges.

**AGENCY
PRELIMINARY
RESPONSE**

MDE provided us with the following response:

MDE agrees with the recommendation and will improve oversight of state funding designated to Genesee ISD for early intervention services to Flint children impacted by the water crisis to ensure the appropriateness of grant charges. MDE will provide additional guidance and technical assistance regarding procedures for documentation. MDE will implement these changes starting February 6, 2017.

EXPENDITURES OF FLINT DECLARATION OF EMERGENCY APPROPRIATIONS

BACKGROUND

Public Act 3 of 2016 requires the Auditor General to conduct an audit of the use of the funds appropriated for the Flint declaration of emergency and to continue to audit and report on the use of these funds every six months until the funds are expended. Due to the ongoing nature of the audit, not all reported expenditures were audited by the end of our fieldwork. Reported expenditures not subject to audit during the prior or current audit will be considered for audit during our next audit of the Flint Emergency Expenditures, unless otherwise noted.

AUDIT OBJECTIVE

To report State agencies' expenditures of the Flint declaration of emergency appropriations.

CONCLUSION

Information provided.

FACTORS IMPACTING CONCLUSION

- We reported the agencies' expenditures of the appropriations as of November 18, 2016.

SUPPLEMENTAL INFORMATION, INCLUDING OBSERVATIONS

Exhibit #1

FLINT EMERGENCY EXPENDITURES

Department of Licensing and Regulatory Affairs (LARA)
As of November 18, 2016

Public Act 143 of 2015

Appropriated: \$200,000

Authorized Uses: Section 154

One full-time equivalent employee in the Bureau of Construction Codes.

Expenditures By Authorized Use Category

	<u>Funding Allocation</u>	<u>Total Expenditures</u>	<u>Expenditures Subject to</u>	
			<u>Prior Six-Month Audit</u>	<u>Current Six-Month Audit</u>
Construction Codes	<u>\$200,000</u>	<u>\$199,606</u>	<u>\$197,620</u>	<u>\$0</u>
Total	<u>\$200,000</u>	<u>\$199,606</u>	<u>\$197,620</u>	<u>\$0</u>

Construction Codes:

Audit Methodology and Results

Prior Audit: We reviewed 9 randomly selected expenditures totaling \$49,639. The expenditures were appropriately approved, supported, and charged to the appropriation. We did not identify any significant errors. LARA informed us that it has completed all 87 planned plumbing inspections.

Current Audit: We did not test additional expenditure transactions because the dollar amount of new expenditures was not significant.

Observations*

None

* See glossary at end of report for definition.

Public Act 3 of 2016

Appropriated: \$2,000,000

Authorized Uses: Section 601

LARA shall allocate funds to address needs related to the declaration of emergency issued on January 5, 2016. These funds shall be used to support plumbing fixture replacements at facilities to be designated by LARA.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Plumbing Fixture Replacements	\$2,000,000	\$1,220,487	\$870,961	\$0
Total	\$2,000,000	\$1,220,487	\$870,961	\$0

Plumbing Fixture Replacements:

Audit Methodology and Results

Prior Audit: We obtained an understanding and tested the effectiveness of LARA's methodology for identifying facilities requiring fixture replacement. We reviewed 21 randomly selected expenditures totaling \$682,751. The expenditures were appropriately approved, supported, and charged to the appropriation. We did not identify any significant errors. LARA informed us that it has completed all 1,399 planned fixture replacements.

Current Audit: We contacted 4 randomly selected schools and verified that LARA had replaced all of the fixtures that it reported replacing during our prior audit.

Observations

None

Source: The Office of the Auditor General prepared this exhibit based on the specified Public Acts and information obtained from the Michigan Administrative Information Network* (MAIN).

* See glossary at end of report for definition.

FLINT EMERGENCY EXPENDITURES

Department of Environmental Quality (DEQ)
As of November 18, 2016

Public Act 143 of 2015

Appropriated: \$7,300,000

Authorized Uses: Sections 152 and 1251

Section 152: Two full-time equivalent employees for drinking water and environmental health and laboratory services.

Section 1251: DEQ is authorized to pay up to \$6,000,000 for reconnection services to the Detroit Water and Sewerage Department or its successor. The payments shall only be made once a legally executable agreement has been reached between the parties and a successful reconnection has occurred to the Flint water system. These funds are intended to pay reconnection costs through June 30, 2016.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Resource Management Division				
ReConnection Services	\$6,000,000	\$6,000,000	\$6,000,000	\$ 0
Drinking Water and Environmental Health - Technical Assistance and Coordination (1)	300,000	291,735	0	291,735
Remediation and Development Division				
Laboratory Services - Water Sample Testing (2)	1,000,000	1,000,000	0	1,000,000
Total	\$7,300,000	\$7,291,735	\$6,000,000	\$1,291,735

(1) Drinking Water and Environmental Health - Technical Assistance and Coordination:

Audit Methodology and Results

We reviewed 20 judgmentally selected expenditures totaling \$147,258 and determined that they were appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

(2) Laboratory Services - Water Sample Testing:

Audit Methodology and Results

We reviewed 21 judgmentally selected items totaling \$690,868 and determined that they were appropriately approved, supported, and charged to the appropriation. We did not identify any errors. Also, we visited the DEQ testing lab and obtained an understanding of the physical controls over the

water samples and the controls to ensure accurate testing and reporting of the test results. We did not identify any significant control weaknesses.

Observations

None

Public Act 3 of 2016

Appropriated: \$5,786,500

Authorized Uses: Section 401

DEQ shall allocate funds to address needs related to the declaration of emergency issued on January 5, 2016. These funds shall be used to support the following activities:

- (a) Water system needs.
- (b) Potential payment to City of Flint to aid with utility issues.
- (c) Lab and testing costs.
- (d) Corrosion control procedures.
- (e) Infrastructure integrity study using outside experts.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Flint Declaration of Emergency				
Water System Needs (1)	\$4,553,000	\$1,668,423	\$ 758,577	\$ 909,846
Utility Issues	0	0	0	0
Lab and Testing (2)	774,000	609,359	0	609,359
Corrosion Control	36,500	0	0	0
Infrastructure Study	423,000	222,172	254,323	0
Total	\$5,786,500	\$2,499,954	\$1,012,900	\$1,519,205

(1) Water System Needs:

Audit Methodology and Results

Prior Audit: We reviewed 5 judgmentally selected expenditures totaling \$348,930 and determined that they were appropriately approved, supported, and charged to the appropriation. We did not identify any significant errors.

Current Audit: We reviewed 10 randomly selected expenditures totaling \$196,872 and determined that they were appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

(2) Lab and Testing:

Audit Methodology and Results

We reviewed 3 judgmentally selected expenditures totaling \$274,636 and determined that they were appropriately approved, supported, and charged to the appropriation. We did not identify any errors. Also, we visited the DEQ testing lab and obtained an understanding of the physical controls over the water samples and the controls to ensure accurate testing and reporting of the test results. We did not identify any significant control weaknesses.

Observations

None

Public Act 268 of 2016

Appropriated: \$38,750,100

Authorized Uses: Sections 501, 502, and 503

Section 501: DEQ is authorized to pay up to \$3.9 million to the municipal water system. The payments shall only be made once a legally executable agreement has been reached between the parties. These funds are intended to pay service costs from July 2016 through September 30, 2016.

Section 502: DEQ shall allocate funds to address needs related to the declaration of emergency for drinking water contamination. These funds may support, but are not limited to, the following activities:

- (a) Water system needs.
- (b) Water response team.

Section 503: DEQ shall grant \$25 million to a city in which a declaration of emergency due to drinking water contamination was issued. The funds shall be provided for service line removal based on a signed grant agreement between the State and the city.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
ReConnection Services (July 2016 - September 2016) (1)	\$ 3,900,000	\$ 3,900,000	\$0	\$3,900,000
Water System Needs	2,200,000	994,686	0	0
Drinking Water Emergency Response Team (Fiscal Year 2016)	2,250,000	741,646	0	0
ReConnection Services (October 2016 - December 2016) (2)	3,900,000	3,900,000	0	3,900,000
Drinking Water Emergency Response Team (Fiscal Year 2017)	1,500,100	0	0	0
Replacement of Lead Service Line (3)	25,000,000	5,000,000	0	0
Total	\$38,750,100	\$14,536,332	\$0	\$7,800,000

(1) ReConnection Services (July 2016 - September 2016):

Audit Methodology and Results

We reviewed 1 expenditure totaling \$3,900,000 and determined that it was appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

(2) ReConnection Services (October 2016 - December 2016):

Audit Methodology and Results

We reviewed 1 expenditure totaling \$3,900,000 and determined that it was appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

(3) Replacement of Lead Service Lines:

Audit Methodology and Results

The appropriation act boilerplate requires the Auditor General to conduct a preliminary audit of the City of Flint's use of these funds upon the City's receipt of \$10 million of the \$25 million. The audit will be conducted and reported separately from this audit.

Observations

None

Source: The Office of the Auditor General prepared this exhibit based on the specified Public Acts and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Michigan Department of Health and Human Services (MDHHS)
As of November 18, 2016

Public Act 143 of 2015

Appropriated: \$1,850,000

Authorized Uses: Section 153

\$1,000,000 for emergency services local office allocations and \$850,000 for the Childhood Lead Program.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Emergency Services Local Office Allocations (1)	\$1,000,000	\$1,000,000	\$964,681	\$ 0
Childhood Lead Program				
Environmental Blood Lead Investigations (2)	275,000	148,889	0	148,889
Epidemiologist Services (3)	150,000	249,129	0	179,478
Nurse Case Management (4)	425,000	298,855	0	298,855
Total	\$1,850,000	\$1,696,873	\$964,681	\$627,222

(1) Emergency Services Local Office Allocations:

Audit Methodology and Results

Prior Audit: We determined that all expenditures were properly supported by a signed receiving document and agency-approved invoice. We did not identify any errors.

Current Audit: We did not test additional expenditure transactions because the dollar amount of new expenditures was not significant.

Observations

None

(2) Environmental Blood Lead Investigations:

Audit Methodology and Results

We reviewed 3 randomly selected expenditures totaling \$38,120 and determined that they were appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

(3) Epidemiologist Services:

Audit Methodology and Results

We reviewed 5 contractor payments totaling \$11,418 and MDHHS payroll costs totaling \$17,177 and determined that they were all appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

(4) Nurse Case Management:

Audit Methodology and Results

We reviewed 9 randomly selected expenditures totaling \$267,737 and determined that they were appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

Public Act 3 of 2016

Appropriated: \$15,457,000

Authorized Uses: Section 501

MDHHS shall allocate funds to address needs related to the declaration of emergency issued on January 5, 2016. These funds shall be used to support the following activities:

- (a) Purchases of bottled water, water filters, and replacement filter cartridges.
- (b) Department field operations costs.
- (c) Epidemiological analysis and case management of individuals at risk of elevated blood lead levels.
- (d) Nutrition support, food banks, and community education.
- (e) Support for child and adolescent health centers and children's health care access program.
- (f) Assessment of potential linkages to other diseases.
- (g) Food inspections.
- (h) Crisis counseling and behavioral health services.
- (i) Additional nurse services.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Bottled Water, Water Filters, and Cartridges (1)	\$4,612,800	\$4,612,800	\$ 0	\$4,612,800
Department Field Operations Lead Abatement (2)	1,510,000	479,929	0	434,994
Epidemiological and Case Management				
Environmental Blood Lead Investigations	90,000	0	0	0
Epidemiologist Services (3)	126,500	70,510	0	70,510
Nurse Case Management	70,000	0	0	0
Adult Blood Lead Epidemiology and Surveillance	18,500	0	0	0
Nutrition Support, Food Banks, and Community Education				
Nutrition Education (4)	120,000	38,958	0	38,958
Food Bank Resources	1,037,200	1,037,200	0	0
Childhood Nutritional Education	872,000	0	0	0
Lactation Consultant (5)	85,000	6,509	0	6,509
Double Up Food Bucks Flint Expansion Project	380,000	49,044	0	0
Child and Adolescent Health Centers and Children's Health Care Access				
Children's Healthcare Access Project (6)	200,000	144,524	0	144,524
Child and Adolescent Health Centers (7)	650,000	13,851	0	13,851
Pathways to Potential Expansion (8)	720,000	217,945	0	217,945
Linkages to Other Diseases	275,000	108,592	0	0
Food Inspections	200,000	200,000	0	0
Crisis Counseling and Behavioral Health				
Crisis Counseling	500,000	500,000	500,000	0
Case Management, Care Coordination, Crisis Services, Behavioral Health, and Development Services	3,290,000	0	0	0
Michigan Child Care Collaborative	200,000	35,257	0	0
Nurse Services	500,000	0	0	0
Total	\$15,457,000	\$7,515,119	\$500,000	\$5,540,091

(1) Bottled Water, Water Filters, and Cartridges:

Audit methodology and results

Prior Audit: MDHHS received but has delayed paying vendor invoices for delivered water and filter supplies until it reconciles the invoices with its receiving records. The vendor invoices date back to January 13, 2016. We subsequently noted that on June 27, 2016, MDHHS initiated payments to the vendor.

Current Audit: We determined that all expenditures were properly supported by signed receiving documents and agency-approved invoices. We did not identify any errors. We also determined that the purchases were made in accordance with the emergency purchasing provisions of Public Act 431

of 1984, as amended, and other State procurement guidance, as appropriate. The Act allows for purchases without competitive solicitation when items are needed because of imminent threat to public health or safety or declared states of emergency, both of which were applicable at the time of these purchases. In addition, we determined that the State received a volume purchase discount for the water purchases and was eligible for an additional 3% rebate from the vendor.

Observations

None

(2) Lead Abatement:

Audit Methodology and Results

We reviewed 10 randomly selected expenditures totaling \$88,150 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(3) Epidemiologist Services:

Audit Methodology and Results

We reviewed 6 expenditures totaling \$68,802 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(4) Nutrition Education:

Audit Methodology and Results

We verified that all of the expenditures were appropriately supported by MDHHS-approved financial status reports. Documentation supporting the reported expenditures is maintained by the grantee. We did not identify any errors.

Observations

None

(5) Lactation Consultant:

Audit Methodology and Results

We verified that all of the expenditures were appropriately supported by MDHHS-approved financial status reports. Documentation supporting the reported expenditures is maintained by the grantee. We did not identify any errors.

Observations

None

(6) Children's Healthcare Access Project:

Audit Methodology and Results

We reviewed two randomly selected expenditures totaling \$59,874 and determined that they were appropriately supported, approved, and charged to the contract. We did not identify any errors.

Observations

None

(7) Child and Adolescent Health Centers:

Audit Methodology and Results

We determined that the expenditures were appropriately supported, approved, and charged to the grant. We did not identify any errors.

Observations

None

(8) Pathways to Potential Expansion:

Audit Methodology and Results

We reviewed 10 randomly selected transactions totaling \$34,926 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any significant errors.

Observations

None

Public Act 268 of 2016

Appropriated: \$29,928,100

Authorized Uses: Sections 601, 602, and 603
Various

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Various (see following schedule for authorized uses)	\$29,928,100	\$133,831	\$0	\$0
Total	\$29,928,100	\$133,831	\$0	\$0

Note: The \$133,831 in total expenditures was incurred in the Childhood Lead Poisoning Prevention Program authorized use category.

Schedule of MDHHS Authorized Use Categories for Public Act 268 of 2016
As of November 18, 2016

Authorized Use Category	Allocation Amount
Mobile Food Bank (Fiscal Year 2016)	\$ 440,000
Nutrition Programs	1,300,000
Legionella and Water Linkage Assessment	2,950,000
Childhood Lead Poisoning Prevention Program	1,250,000
Community Mental Health Services (Fiscal Year 2016)	1,490,000
Parents As Teachers Program (Fiscal Year 2016)	260,000
Federal TANF Reserve	6,100,000
Child and Adolescent Health Center Funding	500,000
Interpretation Services	500,000
Nutrition Assistance	3,500,000
Mobile Food Bank (Fiscal Year 2017)	1,006,000
Nutrition Services 5-10 Year Olds	257,100
Adult Blood Lead Epidemiology and Surveillance	44,400
Child and Adolescent Health Centers	472,500
Lead Programming for Children/Homes/Outreach	1,304,800
Epidemiologist Services	212,000
Nurse Care Management and Public Health Assessments	471,300
Community Education	120,000
Community Mental Health Services (Fiscal Year 2017)	6,135,000
Parents As Teachers Program (Fiscal Year 2017)	260,000
Double Up Food Bucks	380,000
Food Safety Inspections	300,000
Pathways to Potential	300,000
Children's Healthcare Access Project (CHAP)	375,000
Total	<u>\$29,928,100</u>

Schedule source: Flint Water Emergency - Financial and Activities Tracking and Reporting Document, posted November 28, 2016.

Exhibit Source: The Office of the Auditor General prepared this exhibit based on the specified Public Acts and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Michigan Department of Education (MDE)
As of November 18, 2016

Public Act 3 of 2016

Appropriated: \$2,685,000

Authorized Uses: Section 301

MDE shall allocate funds to address needs related to the declaration of emergency issued on January 5, 2016. These funds shall be used to support the following activities:

- (a) Hiring additional school nurses.
- (b) In the intermediate school district in which the declaration of emergency has been made, providing Early On and special education services, monitoring children from age 0 to 3 for symptoms of potential lead exposure, coordinating wraparound services, providing nutritional snacks to elementary students, and providing and coordinating communications for parents, educators, and the community.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Nurses (1)	\$ 320,000	\$ 273,574	\$ 79,968	\$ 193,606
EO/Special Education Services, Lead Exposure Monitoring, Wraparound Services Coordination, Communications (2)	2,225,000	1,619,211	480,230	1,138,981
Food and Nutrition (3)	140,000	140,000	95,229	0
Total	\$2,685,000	\$2,032,785	\$655,426	\$1,332,588

(1) Nurses:

Audit Methodology and Results

Prior Audit: MDE granted \$320,000 to the School District of the City of Flint to place nurses in 9 Flint schools. The District subsequently contracted with a staffing agency for the nurses. The District draws down funds each month using MDE's electronic grant/cash management system. The District provided MDE with an updated budget each month that reported the District's expenditures. We verified that the drawdowns matched the expenditures recorded in these documents. Documentation supporting the reported expenditures is maintained at the District.

Current Audit: We verified that the additional drawdowns matched the expenditures recorded in the budgets. Also, we reviewed the supporting documentation for 10 judgmentally selected expenditures totaling \$95,655 from the \$273,574 expenditure population. We determined that the expenditures were appropriately approved, supported, and charged to the grant. We did not identify any errors.

Observations

None

- (2) EO/Special Education Services, Lead Exposure Monitoring, Wraparound Services Coordination, Communications:

Audit Methodology and Results

Prior Audit: MDE granted and immediately advanced the Genesee Intermediate School District (GISD) \$2,225,000 for EO services, wraparound services coordination, and communication services. MDE retroactively requested and received the required State Budget Office (SBO) approval to advance the funding to GISD. MDE records expenditures against the advance when GISD submits required biweekly expenditure reports. We verified that the expenditures were supported by biweekly expenditure reports submitted by GISD.

Current Audit: We verified that GISD's reported expenditures were supported by biweekly expenditure reports submitted by GISD and that these reports reconciled with GISD's general ledger. We reviewed the appropriateness of 40 judgmentally selected expenditures totaling \$791,164 from the entire population of grant expenditures and noted that, except for GISD's allocation of salary and wage costs of existing EO workers (see Finding #1), the expenditures were appropriately approved, supported, and charged to the grant.

Observations

None

- (3) Food and Nutrition:

Audit Methodology and Results

Prior Audit: MDE granted and immediately advanced GISD \$140,000 for Food and Nutrition. MDE retroactively requested and received the required SBO approval to advance the funding to GISD. We determined that GISD's methodology for identifying all children eligible for supplemental nutrition was comprehensive and appeared to achieve its intended purpose. Also, we determined the GISD's controls over the ordering, receipt, delivery, and inventory of food items were sound. In addition, we determined that the expenditures were appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Current Audit: We did not test additional expenditure transactions because the dollar amount of new expenditures was not significant.

Observations

None

Public Act 249 of 2016

Appropriated: \$19,342,500

Authorized Uses: Sections 11o. and 11s.
Various

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Various (see following schedule for authorized uses)	\$19,342,500	\$900,000	\$0	\$0
Total	\$19,342,500	\$900,000	\$0	\$0

Note: The \$900,000 in total expenditures was incurred in the Early Intervention and Great Start Readiness Program Services 0 - 4 (Fiscal Year 2016) authorized use category.

Schedule of MDE Authorized Use Categories for Public Act 249 of 2016
As of November 18, 2016

Authorized Use Category	Allocation Amount
Early Intervention and Great Start Readiness Program Services 0 - 4 (Fiscal Year 2016)	\$ 9,200,000
GISD Services to School Aged Children	812,500
GISD Fresh Fruits and Vegetables	382,500
School Nurses for Flint Public Schools	317,500
School Social Workers for Flint Public Schools	975,000
Early Intervention Services 0 - 3 (Fiscal Year 2017)	6,155,000
Great Start Readiness Program (Fiscal Year 2017)	1,500,000
Total	\$19,342,500

Schedule Source: Flint Water Emergency - Financial and Activities Tracking and Reporting Document, posted November 28, 2016, and discussions with MDE.

Public Act 268 of 2016

Appropriated: \$33,650,100

Authorized Uses: Sections 401 and 402
Various

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Various (see following schedule for authorized uses)	\$33,650,100	\$6,639	\$0	\$0
Total	\$33,650,100	\$6,639	\$0	\$0

Note: The \$6,639 in total expenditures was incurred in the Nutrition Assistance authorized use category.

Schedule of MDE Authorized Use Categories for Public Act 268 of 2016
As of November 18, 2016

Authorized Use Category	Allocation Amount
Nutrition Assistance	\$ 9,500,000
Child Care Assistance (0-3) Fiscal Year 2016	8,100,000
Child Care Development Fund Reserve for Flint Day Care Needs	8,000,000
Child Care Assistance (0-3) Fiscal Year 2017	8,050,100
Total	\$33,650,100

Schedule Source: Flint Water Emergency - Financial and Activities Tracking and Reporting Document, posted November 28, 2016.

Exhibit Source: The Office of the Auditor General prepared this exhibit based on the specified Public Acts and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Department of Military and Veterans Affairs (DMVA)
As of November 18, 2016

Public Act 3 of 2016

Appropriated: \$2,000,000

Authorized Uses: Section 701

DMVA shall allocate funds to address needs related to the declaration of emergency issued on January 5, 2016. These funds shall be used to support the Michigan National Guard water support efforts.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Michigan National Guard Water Support Efforts	\$2,000,000	\$2,000,000	\$1,962,031	\$0
Total	\$2,000,000	\$2,000,000	\$1,962,031	\$0

Michigan National Guard Water Support Efforts:

Audit Methodology and Results

Prior Audit: We reviewed 17 randomly selected expenditures totaling \$767,078 and determined that they were appropriately approved, supported, and charged to the appropriation. We did not identify any significant errors.

Current Audit: We did not test additional expenditure transactions because the dollar amount of new expenditures was not significant.

Observations

None

Source: The Office of the Auditor General prepared this exhibit based on the specified Public Act and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Michigan Department of State Police (MSP)
As of November 18, 2016

Public Act 3 of 2016

Appropriated: \$100,000

Authorized Uses: Section 801

MSP shall allocate funds to address needs related to the declaration of emergency issued on January 5, 2016. These funds shall be used to support operational funding for the Flint Water Interagency Coordinating Committee.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Flint Water Interagency Coordinating Committee	\$100,000	\$7,043	\$3,700	\$3,343
Total	\$100,000	\$7,043	\$3,700	\$3,343

Flint Water Interagency Coordinating Committee:

Audit Methodology and Results

We determined that the expenditures were low risk and chose not to apply any audit procedures to them.

Observations

None

Public Act 268 of 2016

Appropriated: \$6,000,000

Authorized Uses: Section 801

MSP shall allocate funds to address needs related to the declaration of emergency issued on January 5, 2016. These funds may support, but are not limited to, purchases of water and replacement filter cartridges.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Water and Filter Cartridges	\$6,000,000	\$2,292,069	\$0	\$2,292,069
Total	\$6,000,000	\$2,292,069	\$0	\$2,292,069

Water and Filter Cartridges:

Audit Methodology and Results

We reviewed 21 randomly selected expenditures totaling \$1,035,189. We determined that the expenditures were appropriately approved, supported, and charged to the appropriation. We did not identify any errors. We also determined that the purchases were made in accordance with applicable State procurement guidance.

Observations

None

**Flint Emergency Expenditures Paid from the Disaster and Emergency Contingency Fund
Public Act 268 of 2016**

Appropriated: \$10,000,000

Authorized Uses:

The Disaster and Emergency Contingency Fund (DECF) was established by the Emergency Management Act (Public Act 390 of 1976). The Act authorizes the MSP Director to expend money from DECF for needs required for the mitigation of the effects of, or in response to, a disaster or emergency and to pay necessary and reasonable overtime, travel, and subsistence expenses incurred by an employee of the State acting at the direction of the Director. The Legislature, in Public Act 268 of 2016, appropriated \$10 million to DECF. DECF had a balance of \$3.87 million immediately prior to the \$10 million appropriation.

Reimbursed Expenditures

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Emergency Response	\$10,000,000	\$10,106,675	\$0	\$3,650,772
Total	\$10,000,000	\$10,106,675	\$0	\$3,650,772

Emergency Response:

Audit Methodology and Results

We judgmentally selected and reviewed various transactions supporting the \$3.65 million in reimbursements paid for from DECF. We determined that the expenditures were approved, supported, and related to the Flint declaration of emergency.

Observations

None

Source: The Office of the Auditor General prepared this exhibit based on the specified Public Acts and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Department of Treasury (Treasury)
As of November 18, 2016

Public Act 24 of 2016

Appropriated: \$30,000,000

Authorized Uses: Section 301

Treasury shall allocate up to \$30,000,000 to reimburse the water enterprise fund of the City of Flint in an amount equal to credits posted to its customers' accounts in accordance with Section 302.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Water Credit Reimbursements	\$30,000,000	\$30,000,000	\$15,000,000	\$15,000,000
Total	\$30,000,000	\$30,000,000	\$15,000,000	\$15,000,000

Water Credit Reimbursements:

Audit Methodology and Results

Prior Audit: The City of Flint contracted with a public accounting firm to assess the accuracy and completeness of credits applied to residential and other water customer accounts for the period May 2014 through February 2016 for compliance with Public Act 24 of 2016 requirements. Upon receiving preliminary confirmation that the credits were materially compliant with Act 24 requirements, Treasury released \$15,000,000 to the City of Flint and plans to release the remaining balance, up to the total amount of credits, upon receiving the firm's final report. We reviewed the engagement letter describing the purpose of the review, discussed the detailed review procedures with the firm, reviewed supporting working papers, and reviewed the firm's draft report. We concluded that the review appeared sufficient to ensure that, materially, the credits were applied to the correct residential and other water customer accounts and in the correct amount as specified in Public Act 24 of 2016.

Current Audit: Treasury released \$14,020,837 and \$979,163 to the City of Flint upon receiving the public accounting firm's final report on the accuracy and completeness of the water bill credits for May 2014 through February 2016 and a similar report for March 2016 through April 2016 (see Audit Methodology and Results under Public Act 268 of 2016), respectively. We reviewed supporting schedules of the individual credits applied to each water customer's account and verified that the total credits equaled Treasury's payment amounts.

Observations

Observation #1

Treasury reimbursed the City of Flint \$841,637 for water bill credits issued for late fees assessed to water customer accounts from May 2014 through February 2016. Public Act 24 of 2016 provides for the reimbursement of credits issued for amounts billed for water; however, it does not specifically provide for the reimbursement of late payment fees. The City of Flint informed us that it considered the late payment fees to be part of its water charges and, therefore, eligible for reimbursement. To ensure that State funds are used as intended, Treasury should seek clarification from the Legislature as to the appropriateness of reimbursing the City of Flint for credits issued for late fees.

Observation #2

The City of Flint reported that 386, 253, and 176 active water customer accounts had not had an actual water meter reading in 12, 24, and 36 consecutive months, respectively, as of September 13, 2016. The City of Flint also reported that 145 active water customer accounts had meter readings showing zero water usage for at least the last 12 consecutive months. The City of Flint informed us that its billing system automatically calculated the estimated water usage and related monthly billings for accounts without an actual meter reading based on prior actual water usage. Also, City of Flint staff manually estimated the water usage each month for accounts with zero-usage readings because the readings are generally inaccurate and caused by malfunctioning water meters. We verified that the accounts making up the reported totals were unduplicated. Also, we reviewed the account details for 5 judgmentally selected accounts from each of the aforementioned report totals and verified that the reports correctly captured the number of each account's consecutive estimated or zero-usage readings.

When the City of Flint obtains an actual meter reading for a customer's water account with prior consecutive estimated water meter readings or an accurate meter reading for accounts with prior consecutive water meter readings showing zero water usage, the resulting adjustment to the amount owed by the customer can significantly increase or decrease. This directly affects the amount of credit that the customer is entitled to receive and the corresponding liability of the State. Consequently, to ensure the correct application of the water bill credits, the City of Flint should ensure that water customers receive at least one actual or accurate meter reading at or near the end of the State's water billing reimbursement program. As of January 10, 2017, the program is scheduled to end March 31, 2017.

This observation is also applicable to the Water Credit Reimbursements reported under Public Act 268 of 2016.

Public Act 268 of 2016

Appropriated: \$14,130,000

Authorized Uses: Sections 1001 and 1003

Section 1001: Treasury shall allocate up to \$12,750,000 to reimburse the water enterprise fund of the City of Flint in an amount equal to credits posted to its customers' accounts in accordance with Section 1002.

Section 1003: Treasury shall allocate funds for purposes related to the drinking water declaration of emergency. These funds may support, but are not limited to, Mission Flint costs.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to	
			Prior Six-Month Audit	Current Six-Month Audit
Water Credit Reimbursements	\$12,750,000	\$1,080,157	\$0	\$1,080,157
Mission Flint Program Management	1,380,000	51,090	0	0
Total	\$14,130,000	\$1,131,247	\$0	\$1,080,157

Water Credit Reimbursements:

Audit Methodology and Results

The City of Flint contracted with a public accounting firm to assess the accuracy and completeness of credits applied to residential and other water customer accounts for the period March 2016 through April 2016 for compliance with Public Act 268 of 2016 requirements. Upon receiving confirmation that the credits were materially compliant, Treasury released \$1,080,157 to the City of Flint.

We reviewed the engagement letter, summary of procedures performed, and the firm's final report. We obtained the water customer account list detailing the applied credit amounts from the City of Flint and concluded that, materially, the credits were applied to the correct residential and other water customer accounts and in the correct amount as specified in Public Act 268 of 2016. We reviewed supporting schedules with the individual credits applied to each water customer's account and verified that the total credits equaled Treasury's payment amounts.

Observations

None

Source: The Office of the Auditor General prepared this exhibit based on the specified Public Acts and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Department of Attorney General (AG)
As of November 18, 2016

Public Act 268 of 2016

Appropriated: \$3,900,000

Authorized Uses: Sections 301 and 314

Section 301: The AG may spend the funds for the costs of all associated expenses related to the declaration of emergency issued on January 5, 2016 due to drinking water contamination up to \$1,300,000.

Section 314: From the lawsuit settlement proceeds fund appropriated in part 1, the AG may spend the funds for the costs of all associated expenses related to the declaration of emergency due to drinking water contamination up to \$2,600,000.

Expenditures By Authorized Use Category

	<u>Funding Allocation</u>	<u>Total Expenditures</u>	<u>Expenditures Subject to</u>	
			<u>Prior Six-Month Audit</u>	<u>Current Six-Month Audit</u>
Drinking Water Declaration of Emergency Legal Services	<u>\$3,900,000</u>	<u>\$1,531,333</u>	<u>\$0</u>	<u>\$0</u>
Total	<u>\$3,900,000</u>	<u>\$1,531,333</u>	<u>\$0</u>	<u>\$0</u>

Drinking Water Declaration of Emergency Legal Services:

Audit Methodology and Results

We did not audit AG expenditures because the criminal investigation into the Flint water crisis is ongoing.

Observations

None

Source: The Office of the Auditor General prepared this exhibit based on the specified Public Act and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Department of Natural Resources (DNR)
As of November 18, 2016

Public Act 268 of 2016

Appropriated: \$250,000

Authorized Uses: Section 701

DNR shall allocate funds to address needs related to the declaration of emergency issued on January 5, 2016. These funds shall support a limited summer youth employment program.

Expenditures By Authorized Use Category

	<u>Funding Allocation</u>	<u>Total Expenditures</u>	<u>Expenditures Subject to</u>	
			<u>Prior Six-Month Audit</u>	<u>Current Six-Month Audit</u>
Summer Youth Employment Program	<u>\$250,000</u>	<u>\$250,000</u>	<u>\$0</u>	<u>\$0</u>
Total	<u><u>\$250,000</u></u>	<u><u>\$250,000</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

Source: The Office of the Auditor General prepared this exhibit based on the specified Public Act and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Department of Technology, Management, and Budget (DTMB)
As of November 18, 2016

Public Act 268 of 2016

Appropriated: \$18,900,000

Authorized Uses: Sections 901 and 902

Section 901: The drinking water declaration of emergency reserve fund is created within the State treasury. Funds may only be spent from the drinking water declaration of emergency reserve fund upon appropriation or legislative transfer.

Section 902: DTMB may contract with an integrity oversight monitor to ensure legal compliance, detect misconduct, and promote best practices in the expenditure of the funds appropriated under part 1 as determined by DTMB. The integrity oversight monitor shall supplement this State's existing compliance control mechanisms to prevent the inefficient expenditure of State funds.

Expenditures By Authorized Use Category

	<u>Funding Allocation</u>	<u>Total Expenditures</u>	<u>Expenditures Subject to</u>	
			<u>Prior Six-Month Audit</u>	<u>Current Six-Month Audit</u>
Drinking Water Declaration of Emergency Reserve Fund	<u>\$18,900,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total	<u>\$18,900,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Note: On November 1, 2016, DTMB contracted with a public accounting firm to be the integrity oversight monitor.

Source: The Office of the Auditor General prepared this exhibit based on the specified Public Act and information obtained from SBO.

DESCRIPTION

On January 5, 2016, Governor Rick Snyder declared a state of emergency for Genesee County (referred to as the Flint declaration of emergency) due to the ongoing health and safety issues caused by elevated lead levels in the City of Flint's drinking water. The state of emergency expired August 14, 2016.

The Legislature enacted numerous appropriations to address this situation, both as supplemental appropriations to and transfers within the fiscal year 2016 budget and spending authorization provided in the fiscal year 2017 budget. As noted below, ten State departments had received appropriations totaling \$242.2 million as of November 18, 2016, the end of the audit period for this report:

<u>Appropriations Act/Department</u>	<u>Amount Appropriated</u>
Public Act 143 of 2015 - October 15, 2015	
Environmental Quality	\$ 7,300,000
Health and Human Services	1,850,000
Licensing and Regulatory Affairs	200,000
Subtotal	<u>\$ 9,350,000</u>
Public Act 3 of 2016 - January 29, 2016	
Education	\$ 2,685,000
Environmental Quality	5,786,500
Health and Human Services	15,457,000
Licensing and Regulatory Affairs	2,000,000
Military and Veteran Affairs	2,000,000
State Police	100,000
Subtotal	<u>\$ 28,028,500</u>
Public Act 24 of 2016 - February 26, 2016	
Treasury	\$ 30,000,000
Subtotal	<u>\$ 30,000,000</u>
Public Act 249 of 2016 - June 27, 2016	
Education	\$ 19,342,500
Subtotal	<u>\$ 19,342,500</u>
Public Act 268 of 2016 - June 29, 2016	
Attorney General	\$ 3,900,000
Education	33,650,100
Environmental Quality	38,750,100
Health and Human Services	29,928,100
Natural Resources	250,000
State Police	6,000,000
Disaster and Emergency Contingency Fund	10,000,000
Technology, Management, and Budget	18,900,000
Treasury	14,130,000
Subtotal	<u>\$ 155,508,300</u>
Total	<u>\$ 242,229,300</u>

Public Act 3 of 2016 requires the Office of the Auditor General to audit the use of the funds appropriated for this emergency and report at a minimum of every six months until the funds are expended. This is our second report on the expenditure of these funds.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To determine if the expenditures charged to Flint declaration of emergency appropriations were appropriate and to report those expenditures. Our audit was limited to expenditures reported by November 18, 2016 and funded by Public Act 143 of 2015 and Public Acts 3, 24, 249, and 268 of 2016. Due to the ongoing nature of the audit, not all reported expenditures were audited by the end of our fieldwork. Reported expenditures not subject to audit during the prior or current audit will be considered for audit during our next audit of the Flint Emergency Expenditures, unless otherwise noted. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our objectives.

PERIOD

Our audit procedures, which included audit planning, audit fieldwork, report preparation, and quality assurance, generally covered June 4, 2016 through November 18, 2016.

METHODOLOGY

We conducted various audit planning activities during our first audit to develop a basis for defining our audit objectives and scope. Because this audit was a continuation of the first audit, we utilized the same objectives and scope. During this audit, we:

- Reviewed additional appropriation acts enacted prior to November 18, 2016 that contained appropriations to assist with the Flint declaration of emergency along with related Senate and House Fiscal Agencies' analyses.
- Continued to meet with SBO Office of Financial Management and Office of Internal Audit Services staff to enhance our understanding of the controls established over expenditures and reporting.
- Communicated with DTMB Office of Purchasing personnel and reviewed purchasing policies.

OBJECTIVE #1

To determine the appropriateness of State agencies' expenditure of the Flint declaration of emergency appropriations as of November 18, 2016.

* See glossary at end of report for definition.

To accomplish this objective, we

- Interviewed management and staff from State departments appropriated Flint emergency funding along with staff from local agencies to obtain an understanding of their expenditures and related purchasing processes, payment mechanisms, and monitoring activities.
- Reviewed selected contracts, grant agreements, memorandums of understanding, and purchase orders.
- Reviewed source documentation supporting selected expenditures.
- Analyzed an independent third-party review of the process for determining water usage credits and the supporting schedules of the individual water credits.

OBJECTIVE #2

To report State agencies' expenditures of the Flint declaration of emergency appropriations.

To accomplish this objective, we:

- Obtained the account coding used by ten State departments for expenditure of appropriations.
- Extracted the expenditures charged to the appropriations from MAIN.
- Obtained selected expenditure data from SBO.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions*, reportable conditions, or observations.

**AGENCY
RESPONSES**

Our audit report contains 1 finding and 1 corresponding recommendation. MDE's preliminary response indicates that it agrees with the recommendation.

The agency preliminary response that follows the recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal

* See glossary at end of report for definition.

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 agency to take additional steps to finalize the plan.

**SUPPLEMENTAL
INFORMATION**

Our audit report includes supplemental information presented as Exhibits #1 through #10.

GLOSSARY OF ABBREVIATIONS AND TERMS

AG	Department of Attorney General.
DECF	Disaster and Emergency Contingency Fund.
DEQ	Department of Environmental Quality.
DMVA	Department of Military and Veterans Affairs.
DNR	Department of Natural Resources.
DTMB	Department of Technology, Management, and Budget.
EO	Early On.
GISD	Genesee Intermediate School District.
LARA	Department of Licensing and Regulatory Affairs.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MDE	Michigan Department of Education.
MDHHS	Michigan Department of Health and Human Services.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
MSP	Michigan Department of State Police.
observation	A commentary that highlights certain details or events that may be of interest to users of the report. An observation differs from an audit finding in that it may not include the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.

performance audit An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

SBO State Budget Office.

TANF Temporary Assistance for Needy Families.

