



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF THE

CHILD ABUSE AND NEGLECT PREVENTION BOARD
(CHILDREN'S TRUST FUND)

DEPARTMENT OF HUMAN SERVICES

January 2015



Doug A. Ringler, CPA, CIA
AUDITOR GENERAL

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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Report Summary

Performance Audit

Child Abuse and Neglect Prevention Board (Children's Trust Fund)

Department of Human Services

Report Number:
431-0178-14

Released:
January 2015

The Child Abuse and Neglect Prevention Act (Act 250, P.A. 1982) created the Child Abuse and Neglect Prevention Board as an autonomous agency, currently residing within the Department of Human Services. Today, the Board is referred to as the Children's Trust Fund (CTF). In addition, Act 249, P.A. 1982, created a Children's Trust Fund (Trust Fund) as a charitable and educational endowment fund. This Trust Fund is used to advance CTF's mission to serve as a voice for Michigan's children and families and promote their health, safety, and welfare by funding effective local programs and services that prevent child abuse and neglect. The primary sources of Trust Fund revenues are a federal grant, proceeds from an annual fund-raising auction, and earnings on investments. Trust Fund revenues for fiscal year 2013 totaled \$2.5 million and expenditures totaled \$2.8 million. This performance audit was required by Section 722.612 of the *Michigan Compiled Laws*.

Audit Objective			Audit Conclusion
Objective 1: To assess CTF's compliance with selected child abuse and neglect prevention laws, regulations, rules, and procedures.			Generally complied
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
CTF did not formally develop and implement a procedure for an annual internal evaluation of its functions, responsibilities, and performance. An annual internal evaluation would help CTF ensure that it is conducting its operations in accordance with its mission to promote the health, safety, and welfare of children and families (Finding 1).		X	Agrees
CTF did not provide the Legislature biennial State plans for future Trust Fund distributions. The plan requires that all geographic areas within the State have an equal opportunity to establish prevention programs and receive funds (Finding 2).		X	Agrees
CTF did not post public notices of CTF meetings or document the members absent from CTF meetings within the meeting minutes. Posting these notices could help facilitate public participation and foster transparency of CTF decision making (Finding 3).		X	Agrees

Audit Objective		Audit Conclusion	
Objective 2: To assess the effectiveness of CTF's internal control to safeguard the Pam Posthumus Signature Auction Event (Auction Event) inventory and proceeds.		Effective	
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
CTF needs to improve its reconciliation procedures over Auction Event revenue to help ensure that annual revenue of approximately \$390,000 is properly accounted for and safeguarded. Reconciliations are needed between the auction software and the Trust Fund's accounting system and for revenue collected from cash and checks to purchase receipts (<u>Finding 4</u>).		X	Agrees

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January 27, 2015

Mr. Nick Lyon, Interim Director
Department of Human Services
Capitol View Building
Lansing, Michigan
and
Ms. Lorinda M. Wortz, Chair
Child Abuse and Neglect Prevention Board
Children's Trust Fund
Grand Tower
Lansing, Michigan

Dear Mr. Lyon and Ms. Wortz:

This is our report on the performance audit of the Child Abuse and Neglect Prevention Board (Children's Trust Fund), Department of Human Services.

This report is issued pursuant to Section 722.612 of the *Michigan Compiled Laws*, which requires the Auditor General to review the functions, responsibilities, and performance of the Child Abuse and Neglect Prevention Board (Children's Trust Fund) every three years.

This report contains our report summary; a description of agency; our audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of abbreviations and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's response at the end of our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report 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 agency 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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Description of Agency

The Child Abuse and Neglect Prevention Act (Act 250, P.A. 1982) created the Child Abuse and Neglect Prevention Board as an autonomous agency, currently residing within the Department of Human Services (DHS). Today, the Board is referred to as the Children's Trust Fund (CTF*). The Children's Trust Fund Unit within DHS administers the functions and responsibilities of CTF. As used predominantly in this report, CTF collectively refers to the Child Abuse and Neglect Prevention Board and the Children's Trust Fund Unit within DHS.

In addition, Act 249, P.A. 1982, created a Children's Trust Fund (Trust Fund*) as a charitable and educational endowment fund in the Department of Treasury. The Trust Fund accounts for revenue from direct donations and campaigns (including a specialty license plate), State income tax contributions, investment income, federal revenue, and fund-raising events received for the prevention of child abuse and neglect.

CTF is the Michigan Chapter of Prevent Child Abuse America. CTF's mission* is to serve as a voice for Michigan's children and families and promote their health, safety, and welfare by funding effective local programs and services that prevent child abuse and neglect.

The CTF Board consists of 15 members, including the Superintendent of Public Instruction; the directors of DHS, the Department of Community Health, and the Michigan Department of State Police or their designees; and 11 public members appointed by the Governor with the advice and consent of the Senate. The Governor designates the chairperson of the CTF Board from among the public members. The CTF Board appoints the executive director and approves the number of CTF Unit staff hired and their job descriptions. As of September 30, 2014, the CTF Unit included the executive director and 5 professional staff.

CTF duties include developing a plan and criteria for the distribution of funds from the Trust Fund; reviewing, approving, and monitoring the expenditures for grants to local councils* and direct service* prevention programs*; providing and coordinating education, public information, and awareness about child abuse and neglect; and

* See glossary at end of report for definition.

evaluating its functions, responsibilities, and performance. The primary sources of Trust Fund revenues are the federal Community-Based Child Abuse Prevention grant*, fund-raising proceeds from the Pam Posthumus Signature Auction Event, and earnings on Trust Fund investments. CTF may expend funds from the Trust Fund for only direct service prevention programs, grants to local councils, and CTF administrative costs.

Trust Fund revenues for fiscal year 2013 totaled \$2.5 million and expenditures totaled \$2.8 million. As of September 30, 2013, the balance of the Trust Fund was \$24.5 million.

** See glossary at end of report for definition.*

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Child Abuse and Neglect Prevention Board (Children's Trust Fund [CTF]), Department of Human Services (DHS), had the following objectives:

1. To assess CTF's compliance with selected child abuse and neglect prevention laws, regulations, rules, and procedures.
2. To assess the effectiveness* of CTF's internal control* to safeguard the Pam Posthumus Signature Auction Event (Auction Event) inventory and proceeds.

Audit Scope

Our audit scope was to examine the program and other records of the Child Abuse and Neglect Prevention Board and the Children's Trust Fund Unit as well as the Children's Trust Fund (Trust Fund). Our audit scope did not include the records of the Foster Care Trust Fund*, a subaccount of the Trust Fund. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2011 through September 30, 2014.

Audit Methodology

We conducted a preliminary survey to gain an understanding of CTF's operations and internal control and to establish our audit objectives and methodology. Our preliminary survey included:

- Interviews with key staff regarding CTF functions and responsibilities.
- Reviews of applicable laws, regulations, rules, and procedures.

* See glossary at end of report for definition.

- A review of select CTF Auction Event processes.
- A review of CTF's local council and direct service grant processes.
- An analysis of Trust Fund revenues and expenditures for the period October 1, 2011 through July 31, 2014.
- A review of CTF's October 2013 Biennial Report and State Plan covering fiscal years 2011 and 2012.

To accomplish our first objective, we:

- Interviewed key staff and reviewed CTF procedures related to compliance with selected laws, regulations, rules, and procedures for planning, funding, internal evaluation, and other CTF duties and responsibilities.
- Reviewed Trust Fund revenues and expenditures during the audit period to determine if CTF complied with selected laws, rules, and procedures.
- Randomly selected and tested 10 of 219 local council grants that CTF awarded during the audit period to determine whether CTF properly reviewed and approved the grants, monitored grant activities and expenditures, and complied with selected laws and rules.
- Randomly selected and tested 5 of 62 direct service grants that CTF awarded during the audit period to determine whether CTF properly reviewed and approved the grants, monitored grant activities and expenditures, and complied with selected laws and rules.
- Reviewed CTF's grant awarding process for direct service grants for fiscal year 2012.

To accomplish our second objective, we:

- Interviewed key CTF staff and reviewed CTF's procedures related to the Auction Event.
- Identified and tested selected CTF controls over Auction Event inventory and proceeds.
- Performed a reconciliation of Auction Event revenue recorded in the Trust Fund's accounting system and Auction Event revenue recorded in CTF's auction management inventory program for fiscal years 2012 through 2014.

- Conducted on-site observation of CTF's inventory and revenue processes at the May 2014 Auction Event.

We based our audit conclusions on our audit efforts as described in the preceding paragraphs and the resulting reportable conditions* noted in the comments, findings, recommendations, and agency preliminary responses section. The reportable conditions are less severe than a material condition* but represent deficiencies in internal control or opportunities for improvement.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 4 findings and 4 corresponding recommendations. DHS's preliminary response indicates that it agrees with all 4 of the recommendations.

The agency preliminary response that follows each 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 DHS to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report 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 agency to take additional steps to finalize the plan.

We released our prior financial audit, including the provisions of the Single Audit Act, of the Department of Human Services (431-0100-11), in June 2011. Within the scope of this audit, we followed up 1 prior audit recommendation for CTF. CTF complied with the prior audit recommendation.

* See glossary at end of report for definition.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

COMPLIANCE WITH SELECTED CHILD ABUSE AND NEGLECT PREVENTION LAWS, REGULATIONS, RULES, AND PROCEDURES

COMMENT

Audit Objective: To assess the Children's Trust Fund's (CTF's) compliance with selected child abuse and neglect prevention laws, regulations, rules, and procedures.

Audit Conclusion: Generally complied.

Factors leading to this conclusion included:

- CTF's review, approval, and monitoring of local council and direct service grant activities and expenditures and compliance with selected laws and rules.
- CTF's use of a competitive process for awarding direct service grants.
- CTF's maximizing of federal revenue and conducting a profitable Pam Posthumus Signature Auction Event.
- CTF's authorization of disbursements from the Trust Fund in compliance with its spending requirements.
- The limited number of reportable conditions related to CTF's compliance with selected child abuse and neglect prevention laws, regulations, rules, and procedures.

FINDING

1. Annual Internal Evaluation

CTF did not formally develop and implement a procedure for an annual internal evaluation of its functions, responsibilities, and performance. An annual internal evaluation would help CTF ensure that it is conducting its operations in accordance with its mission to promote the health, safety, and welfare of children and families.

Section 722.606(1)(g) of the *Michigan Compiled Laws* requires CTF to establish a procedure for an annual internal evaluation of its functions, responsibilities, and performance.

CTF informed us that, historically, it informally evaluated the past year's activities at the final CTF meeting of each fiscal year; however, CTF did not document these discussions. In addition, CTF is currently in the process of developing a procedure for a more formal self-evaluation. CTF informed us that not all members were aware of the requirement for an annual internal evaluation of CTF functions, responsibilities, and performance.

RECOMMENDATION

We recommend that CTF formally develop and implement a procedure for an annual internal evaluation of its functions, responsibilities, and performance.

AGENCY PRELIMINARY RESPONSE

DHS provided us with the following response:

DHS agrees with the finding.

CTF will document its annual internal evaluation procedures of its functions, responsibilities, and performance. The process will be established by April 1, 2015 and will be used annually to ensure that CTF is conducting its operations in accordance with its mission to promote the health, safety, and welfare of children and families.

FINDING

2. Biennial State Plan

CTF did not provide the Legislature with biennial State plans for future Trust Fund distributions. As a result, the Legislature did not have an opportunity to review plans for future Trust Fund distributions for local programs and services intended to prevent child abuse and neglect throughout the State.

Section 722.606(1)(b) of the *Michigan Compiled Laws* requires CTF to develop a biennial State plan for the distribution of funds from the Trust Fund and transmit the plan to the Legislature. In developing the plan, CTF shall review already existing prevention programs. A biennial State plan requires that all geographic areas within the State have an equal opportunity to establish prevention programs and receive funds.

Historically, CTF provided the Legislature with a report of the funds that CTF distributed from the Trust Fund during the previous two-year period rather than providing a plan for the distribution of funds in the future two-year period. CTF developed a plan within its annual application for the federal Community-Based Child Abuse Prevention grant, which included details of funding, existing prevention programs, and geographic dispersion. CTF could use the information within this grant application for the biennial State plan.

RECOMMENDATION

We recommend that CTF provide the Legislature with biennial State plans for future Trust Fund distributions.

AGENCY PRELIMINARY RESPONSE

DHS provided us with the following response:

DHS agrees with the finding.

As noted in the finding, CTF does comprehensive planning on an annual basis as part of its federal Community-Based Child Abuse Prevention grant application. CTF will use those planning efforts as a basis for developing a plan to transmit to the Legislature as required by Section 722.606(1)(b) of the Michigan Compiled Laws.

FINDING

3. CTF Meetings

CTF did not post public notices of CTF meetings or document the members absent from CTF meetings within the meeting minutes. Posting these notices and documenting absent members within the meeting minutes would help CTF ensure that it fully complies with the Open Meetings Act, facilitates public participation, and fosters transparency of CTF decision making.

Section 722.605(1) of the *Michigan Compiled Laws* requires CTF to comply with the requirements of the Open Meetings Act (Sections 15.261 - 15.275 of the *Michigan Compiled Laws*). Section 15.264(b) of the Open Meetings Act requires CTF to post public notices of CTF meetings in its principal office. In addition,

Section 15.269(1) of the Open Meetings Act requires CTF meeting minutes to document members absent from the meeting.

CTF informed us that it posted CTF meeting information on its Web site events calendar and believed that was sufficient public notice to comply with the Open Meetings Act. However, our review determined that, as of September 2014, CTF's Web site did not include a 2014 events calendar with CTF meeting information. CTF also did not post public notices of CTF meetings in CTF's principal location at the Grand Tower Building in Lansing.

In addition, CTF informed us that because it documented members present in the CTF meeting minutes, it believed that was sufficient to comply with the Open Meetings Act requirement to document the members absent from the meetings.

RECOMMENDATION

We recommend that CTF post public notices of CTF meetings and document the members absent from CTF meetings within the meeting minutes.

AGENCY PRELIMINARY RESPONSE

DHS provided us with the following response:

DHS agrees with the finding.

CTF will post notices of meetings in the Grand Tower when the 2015 meeting calendar is finalized and minutes will reflect the board members absent from the meeting.

EFFECTIVENESS OF INTERNAL CONTROL TO SAFEGUARD AUCTION INVENTORY AND PROCEEDS

COMMENT

Audit Objective: To assess the effectiveness of CTF's internal control to safeguard the Pam Posthumus Signature Auction Event (Auction Event) inventory and proceeds.

Audit Conclusion: **Effective.**

Factors leading to this conclusion included:

- CTF's reconciliations of proceeds from credit card receipts at the Auction Event.
- CTF's effective processes for safeguarding inventory at the Auction Event.
- CTF's effective processes for safeguarding inventory received, stored, and transported prior to and after the Auction Event.
- The immaterial differences noted in our reconciliations of Auction Event revenue recorded in the Trust Fund's accounting system to the Auction Event revenue recorded in the auction management inventory program.
- The reportable condition related to an opportunity for improvement of CTF's Auction Event revenue reconciliation procedures.

FINDING

4. Auction Event Revenue Reconciliations

CTF needs to improve its reconciliation procedures over Auction Event revenue to help ensure that all revenue is properly accounted for and safeguarded.

Section 18.1485 of the *Michigan Compiled Laws* requires that CTF establish and maintain recordkeeping procedures to control assets and revenues and that CTF develop internal control techniques that are effective and efficient.

Annually, CTF conducts the Auction Event, and it collected an average of \$390,000 in revenue per year for fiscal years 2012 through 2014. Our review of CTF's Auction Event revenue reconciliation procedures disclosed:

- a. CTF did not reconcile the Auction Event revenue recorded in the Trust Fund's accounting system to the Auction Event revenue recorded in the auction management inventory program. We performed these reconciliations and determined that an additional \$7,170 of Auction Event revenue did not

reconcile to the auction management inventory program for fiscal years 2012 through 2014, as detailed in the following table:

Reconciliation of Auction Event Revenue

Fiscal Year	Accounting System	Auction Management Inventory Program	Difference
2012	\$388,099	\$383,597	\$ 4,502
2013	\$398,228	\$400,640	\$ (2,412)
2014	\$382,978	\$377,898	\$ 5,080

- b. CTF did not reconcile total revenue collected from cash and checks at the Auction Event to the associated auction purchase receipts.

CTF's written Auction Event procedures include reconciling a summary of cash, checks, and credit card payments to the total of the associated auction purchase receipts. CTF completed a reconciliation of credit card payments but did not complete a reconciliation of cash or checks to the auction purchase receipts.

CTF informed us that it did not perform the reconciliations because it believed that the Auction Event procedures completed were sufficient.

RECOMMENDATION

We recommend that CTF improve its reconciliation procedures over Auction Event revenue to help ensure that all revenue is properly accounted for and safeguarded.

AGENCY PRELIMINARY RESPONSE

DHS provided us with the following response:

DHS agrees with the finding.

Regarding part a., corrective action has been implemented. Beginning with fiscal year 2015, CTF now performs monthly revenue reconciliations between the accounting system and the auction software.

Regarding part b., the CTF Auction Event procedures will be updated to include a process that revenue collected from cash and checks will be reconciled at the Auction Event with the associated auction purchase receipts.

GLOSSARY

Glossary of Abbreviations and Terms

Auction Event	Pam Posthumus Signature Auction Event.
Community-Based Child Abuse Prevention grant	The federal Community-Based Child Abuse Prevention grant (Section 201-210 of Title II of the Child Abuse Prevention and Treatment Act).
CTF	The Child Abuse and Neglect Prevention Board and the Children's Trust Fund Unit within DHS.
DHS	Department of Human Services.
direct service	Help or benefits provided to children or their families on a person-to-person basis.
effectiveness	Success in achieving mission and goals.
Foster Care Trust Fund	A fund established under Section 722.1023 of the <i>Michigan Compiled Laws</i> and transferred to the Child Abuse and Neglect Prevention Board by Executive Order No. 2010 - 17. The Children's Trust Fund is used to account for the Foster Care Trust Fund, the funds of which are not expendable until the balance reaches \$800,000.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.

local council	An organization whose primary purpose is the development and facilitation of a collaborative community prevention program.
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.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
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.
prevention program	A system of direct provision of child abuse and neglect prevention services to a child, parent, or guardian, and may include research programs related to prevention of child abuse and neglect.
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.

Trust Fund

The Children's Trust Fund created in the Department of Treasury by Act 249, P.A. 1982.

