

PERFORMANCE AUDIT
OF THE
CHILDREN'S TRUST FUND
FAMILY INDEPENDENCE AGENCY

May 1998

EXECUTIVE DIGEST

CHILDREN'S TRUST FUND

INTRODUCTION

This report, issued in May 1998, contains the results of our performance audit* of the Children's Trust Fund (CTF), Family Independence Agency (FIA).

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and pursuant to Section 722.612 of the *Michigan Compiled Laws*, which requires a performance audit of CTF. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency* or as required by law.

BACKGROUND

CTF was created by Act 249, P.A. 1982 (Sections 21.171 and 21.172 of the *Michigan Compiled Laws*), to receive funds for the prevention of child abuse* and neglect*. The State Child Abuse and Neglect Prevention Board was created by Act 250, P.A. 1982 (Sections 722.601 - 722.613 of the *Michigan Compiled Laws*), to administer CTF and to help prevent child abuse and neglect. The Board consists of 15 members. Hereafter, "CTF" will be used to mean the Fund, the Board, and operations.

CTF's enabling legislation provides that one half of taxpayer designations* deposited in the Fund are not available for disbursement. When the Fund assets exceed

* See glossary on page 18 for definition.

\$20,000,000, interest earnings will be used to fund CTF and the authorization for taxpayer designations on State income tax returns will expire. As of September 30, 1997, CTF had total assets of \$6,975,346.

In addition to taxpayer designations, amounts received as donations, grants, and interest can also be distributed. Expenditures and operating transfers out totaled \$1,605,260 and \$1,392,796 during fiscal years 1996-97 and 1995-96, respectively. A large percentage of the expenditures were grants to child abuse and neglect prevention programs and local child abuse and neglect prevention councils. As of November 30, 1997, CTF staff included the executive director, 4 full-time employees, and 1 part-time employee.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess the effectiveness of CTF in supporting and funding programs and services that prevent child abuse and neglect.

Conclusion: We concluded that CTF was effective in supporting and funding programs and services that prevent child abuse and neglect.

Noteworthy Accomplishments: CTF has developed a mission* statement, strategic plan, and action plan. CTF has reviewed its operations and sought stakeholder input in order to improve its effectiveness. The mission statement and the strategic plan have assisted CTF in focusing its efforts and evaluating its effectiveness on an ongoing basis.

Audit Objective: To assess the effectiveness of CTF in awarding grants and monitoring grant recipients.

* See glossary on page 18 for definition.

Conclusion: We concluded that CTF was generally effective in awarding grants and monitoring grant recipients. Our assessment disclosed reportable conditions* regarding documentation of the direct service grant award process and local council matching funds (Findings 1 and 2).

Audit Objective: To assess CTF's compliance with applicable laws, the *Michigan Administrative Code*, and State policies and procedures.

Conclusion: We concluded that CTF was generally in compliance with applicable laws, the *Michigan Administrative Code*, and State policies and procedures. We noted one reportable condition related to State Plan development (Finding 3).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Children's Trust Fund. Our audit was conducted in accordance with *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.

The financial statements of the Children's Trust Fund are audited biennially and reported separately in the financial audit, including the provisions of the Single Audit Act, of the Family Independence Agency.

Our audit methodology included examination of CTF's records and activities for the period October 1, 1995 through November 30, 1997.

* See glossary on page 18 for definition.

We reviewed applicable State statutes and administrative rules, discussed CTF program goals* and objectives* with program personnel, and analyzed direct service grants.

We evaluated the direct service grant award, reporting, and monitoring processes. Also, we reviewed local council grants and evaluated the reporting process.

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

Our audit includes 3 findings and recommendations. CTF agreed with all the recommendations and informed us that it has initiated corrective action.

CTF complied with 5 of the 6 prior audit recommendations included within the scope of our current audit. We rewrote 1 prior audit recommendation for inclusion in this report.

* See glossary on page 18 for definition.

Mrs. Marva Livingston Hammons, Director
Family Independence Agency
and
Ms. Candace Sorenson, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Hammons and Ms. Sorenson:

This is our report on the performance audit of the Children's Trust Fund, Family Independence Agency.

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

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

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

AUDITOR GENERAL

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Description of Agency

The Children's Trust Fund (CTF) was created by Act 249, P.A. 1982 (Sections 21.171 and 21.172 of the *Michigan Compiled Laws*), to receive funds for the prevention of child abuse and neglect. The State Child Abuse and Neglect Prevention Board was created by Act 250, P.A. 1982 (Sections 722.601 - 722.613 of the *Michigan Compiled Laws*), to administer CTF and to prevent child abuse and neglect. Hereafter, "CTF" will be used to mean the Fund, the Board, and operations.

CTF was transferred from the Department of Management and Budget to the Family Independence Agency (FIA) by Executive Order 1992-15, effective August 31, 1992. FIA provides budgeting, procurement, and administrative support to CTF.

The State Child Abuse and Neglect Prevention Board consists of 15 members. Ten public members are appointed by the Governor with the advice and consent of the Senate. Other members include the Superintendent of Public Instruction and the directors of the Family Independence Agency (formerly Department of Social Services), Community Mental Health (formerly Departments of Mental Health and Public Health), and the Michigan Department of State Police or their designees. The Governor designates the chairperson of the Board from among the public members.

Taxpayer contributions are the major source of funding for CTF. The contributions are made through taxpayer designations on State income tax returns as provided for by Sections 206.440 and 206.475 of the *Michigan Compiled Laws*. One half of the taxpayer designations deposited in the Fund are not available for disbursement. When the Fund assets exceed \$20,000,000, interest earnings will be used to fund CTF and the authorization for taxpayer designations on State income tax returns will expire. As of September 30, 1997, CTF had total assets of \$6,975,346. CTF is also authorized to receive and distribute other donations, grants, and interest earnings from Fund investments.

CTF funds may only be used to fund programs for the prevention of child abuse, to fund local child abuse prevention councils, or to fund administrative costs of the Board. Expenditures and operating transfers out totaled \$1,605,260 and \$1,392,796 during

fiscal years 1996-97 and 1995-96, respectively. A large percentage of the expenditures were grants to child abuse and neglect prevention programs and local child abuse prevention councils.

The Board appoints the executive director and approves the number of staff members hired and their job descriptions. As of November 30, 1997, CTF staff included the executive director, 4 full-time employees, and 1 part-time employee.

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

Audit Objectives

Our performance audit of the Children's Trust Fund (CTF), Family Independence Agency (FIA), had the following objectives:

1. To assess the effectiveness of CTF in supporting and funding programs and services that prevent child abuse and neglect.
2. To assess the effectiveness of CTF in awarding grants and monitoring grant recipients.
3. To assess CTF's compliance with applicable laws, the *Michigan Administrative Code*, and State policies and procedures.

Audit Scope

Our audit scope was to examine the program and other records of the Children's Trust Fund. Our audit was conducted in accordance with *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.

The financial statements of the Children's Trust Fund are audited biennially and reported separately in the financial audit, including the provisions of the Single Audit Act, of the Family Independence Agency.

Audit Methodology

Our audit procedures were performed between August and November 1997 and included examination of CTF's records and activities for the period October 1, 1995 through November 30, 1997.

To accomplish our objectives, we reviewed applicable State statutes and administrative rules.

In connection with our first objective, we discussed CTF program goals and objectives with program personnel. Also, we surveyed local councils and FIA child abuse prevention and protective services personnel to obtain feedback on CTF programs and collaborative efforts. Further, we analyzed direct service grant types and their geographic distribution.

In connection with our second objective, we reviewed a random sample of direct service grant applications and evaluated the grant award process. We also evaluated the direct service grant reporting and monitoring processes. Further, we reviewed a random sample of local council grants and evaluated the reporting process.

In connection with our third objective, we examined CTF board minutes, education conference materials, public relations materials, State plans, and other related program documentation.

Agency Responses and Prior Audit Follow-Up

Our audit includes 3 findings and recommendations. CTF agreed with all the recommendations and informed us that it has initiated corrective action.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork.

CTF complied with 5 of the 6 prior audit recommendations included within the scope of our current audit. We rewrote 1 prior audit recommendation for inclusion in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

PROGRAM EFFECTIVENESS

COMMENT

Background: Section 722.609 of the *Michigan Compiled Laws* requires the State Child Abuse and Neglect Prevention Board to distribute trust fund money for the development and operation of direct service prevention programs and local councils.

Direct service prevention programs are designed to prevent child abuse and neglect through the delivery of primary and secondary prevention services to Michigan families.

Primary prevention services are available to all members of the general population and seek to promote wellness. Secondary prevention focuses on the early identification and support of individuals with risk factors for a specific problem or disorder.

The Children's Trust Fund (CTF) funds 69 local child abuse and neglect prevention councils that serve 78 counties. Three of the 5 unrepresented counties have sought technical assistance from CTF and are developing local council representation. Local councils are community-based organizations that identify needs and facilitate collaborative prevention programs in their community.

Audit Objective: To assess the effectiveness of CTF in supporting and funding programs and services that prevent child abuse and neglect.

Conclusion: We concluded that CTF was effective in supporting and funding programs and services that prevent child abuse and neglect.

Noteworthy Accomplishments: CTF has developed a mission statement, strategic plan, and action plan. CTF has reviewed its operations and sought stakeholder input in order to improve its effectiveness. The mission statement and the strategic plan have assisted CTF in focusing its efforts and evaluating its effectiveness on an ongoing basis.

GRANT AWARDING AND MONITORING

COMMENT

Background: In fiscal years 1996-97 and 1995-96, CTF awarded grants of approximately \$498,000 and \$462,000, respectively, to local councils and \$713,000 and \$555,000, respectively, to direct service prevention programs located in most counties within the State. These grant recipients submit financial and program reports to CTF, and CTF monitors the recipients through desk reviews and on-site visits.

Audit Objective: To assess the effectiveness of CTF in awarding grants and monitoring grant recipients.

Conclusion: We concluded that CTF was generally effective in awarding grants and monitoring grant recipients. Our assessment disclosed reportable conditions regarding documentation of the direct service grant award process and local council matching funds.

FINDING

1. Documentation of the Direct Service Grant Award Process

CTF had not established effective controls to help ensure that the award process for direct service grants was properly documented.

CTF's two-stage award process for direct service grants to child abuse and neglect prevention programs includes a preapplication and a full application. CTF communicates the grant criteria to applicants through the request for proposal and application forms. Several review teams, comprised of three individuals (CTF Board members and staff), review and evaluate the preapplications. If the preapplication is approved, the applicant may submit a full application. Several review teams, comprised of three individuals (CTF Board members and staff), then review and evaluate the full applications. Subsequently, the review teams collectively discuss the applications recommended for funding by each team and make final funding recommendations to the State Child Abuse and Neglect Prevention Board. During both the preapplication and full application reviews, team members are instructed to document their evaluation of the applications' compliance with the grant criteria and to indicate their funding recommendation on a review sheet. A CTF staff member is responsible for accumulating all of the

review sheets and preparing a cover sheet summarizing this information based on the individual review sheets.

Our review of the award process for fiscal years 1997-98 and 1996-97 for direct service grants to prevention programs disclosed:

- a. Three of the 8 preapplication files reviewed did not contain any review sheets, and 5 of the 8 files reviewed did not contain review sheets for all three reviewers. Three of the 6 full application files reviewed did not contain any review sheets, and 3 of the 6 files reviewed did not contain review sheets for all three reviewers.
- b. None of the 8 preapplication review sheets and only 3 of the 6 full application review sheets found in the files contained reviewer signatures. Reviewers are to sign the review sheets to attest that the document represents their evaluation of the application.
- c. Five of the 6 full application files reviewed did not contain review cover sheets. Three of the 6 files did not contain any documentation of the review team's collective recommendation to approve or deny the application (2 of the 3 applications were approved and 1 was denied).

Because of the lack of documentation, we frequently could not determine who reviewed the applications, what scores were assigned to the individual grant criteria, and/or if the review team recommended approving or denying the application. Maintaining documentation of the award process is necessary to help ensure the propriety of the direct service grants.

RECOMMENDATION

We recommend that CTF establish effective controls to help ensure that the award process for direct service grants is properly documented.

AGENCY PRELIMINARY RESPONSE

CTF agrees with the recommendation and has informed us that it has complied.

FINDING

2. Local Council Matching Funds

CTF did not ensure that local councils submitted budgets that demonstrated their ability to match 50% of the CTF grant funds to be received.

Section 722.610(e) of the *Michigan Compiled Laws* requires a local council to demonstrate an ability to match 50% of the CTF grant funds to be received. *Michigan Administrative Code R 722.754(3)* allows local councils to use in-kind services to meet their match. CTF calculates and notifies each local council of its grant award amount and requires that the local council submit a designation agreement including a budget reflecting the council's ability to match 50% of the CTF grant to be received.

We reviewed grant files for six grants made to local councils in fiscal year 1996-97. We noted that two local councils had submitted budgets that did not demonstrate their ability to match 50% of the CTF grant funds to be received:

- a. In the first case, we were informed that CTF staff noted the deficient match in the budget and verbally contacted the local council. We were further informed that the local council verbally indicated that it had adequate match but did not submit a revised budget reflecting the 50% match. At the time of our audit, the local council had not submitted its annual financial report so we could not determine if the council had met its match requirement.
- b. In the second case, CTF staff did not note the deficient match and approved the budget without any follow up with the local council. We reviewed the annual financial report submitted by the local council and determined that the council had met its match requirements.

Resolution of match requirement prior to finalizing grant awards and distributing grant funds helps to ensure that councils have the resources to operate planned programs.

RECOMMENDATION

We recommend that CTF ensure that local councils submit budgets, prior to the distribution of grant funds, that demonstrate their ability to match 50% of the CTF grant funds to be received.

AGENCY PRELIMINARY RESPONSE

CTF agrees with the recommendation and has informed us that it has complied.

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess CTF's compliance with applicable laws, the *Michigan Administrative Code*, and State policies and procedures.

Conclusion: We concluded that CTF was generally in compliance with applicable laws, the *Michigan Administrative Code*, and State policies and procedures. We noted one reportable condition related to State Plan development.

FINDING

3. State Plan Development

CTF did not develop, on a timely basis, a fiscal year 1996-97 State Plan for the distribution of funds as required by statute.

Section 722.606(b) of the *Michigan Compiled Laws* requires that CTF biennially develop a State Plan for the distribution of funds from CTF. CTF had developed State Plans on the original biennial cycle through fiscal year 1995-96. In December 1997, CTF developed and issued a State Plan for the biennial period covering fiscal years 1996-97 and 1997-98. In the absence of a State Plan during fiscal year 1996-97, CTF used the previous State Plan and the strategic plan to make grant awards.

RECOMMENDATION

We recommend that CTF develop, on a timely basis, State Plans for the distribution of funds as required by statute.

AGENCY PRELIMINARY RESPONSE

CTF agrees with the recommendation and has informed us that it has complied.

Glossary of Acronyms and Terms

child abuse	Harm or threatened harm to a child's health or welfare by a parent, legal guardian, or any other person responsible for the child's health or welfare or by a teacher or teacher's aide that occurs through nonaccidental physical or mental injury; sexual abuse; sexual exploitation; or maltreatment.
child neglect	Harm or threatened harm to a child's health or welfare by a parent, legal guardian, or any other person responsible for the child's health or welfare that occurs through either of the following: (i) Negligent treatment, including the failure to provide adequate food, clothing, shelter, or medical care, or (ii) Placing a child at an unreasonable risk to the child's health or welfare by failure of the parent, legal guardian, or any other person responsible for the child's health or welfare to intervene to eliminate the risk when that person is able to do so and has, or should have, knowledge of the risk.
CTF	Children's Trust Fund.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
FIA	Family Independence Agency.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
mission	The agency's main purpose or the reason the agency was established.

objectives	Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
taxpayer designation	The amount of tax refund that a taxpayer designates, on the front page of the State individual income tax return, to be credited to the Children's Trust Fund.