

Office of the Auditor General
Performance Audit Report

Flint Emergency Expenditures
State of Michigan

July 2017

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

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



OAG

Office of the Auditor General

Report Summary

Performance Audit

Flint Emergency Expenditures

State of Michigan

Report Number:

000-2017-17

Released:

July 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 May 31, 2017, appropriations totaled \$255.0 million and nine State departments had expended a total of \$145.0 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 third 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 May 31, 2017.			Appropriate
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Michigan Department of Agriculture and Rural Development (MDARD) did not provide sufficient oversight of the food and water lead safety inspections, resulting in \$3,875 in unsupported expenditures (Finding #1).		X	Agrees

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	
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			

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Doug A. Ringler, CPA, CIA
Auditor General

July 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 as appropriated in Public Act 143 of 2015 and Public Acts 3, 24, 249, and 268 of 2016 expended through May 31, 2017. This is the third 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 MAY 31, 2017

AUDIT OBJECTIVE

To determine the appropriateness of State agencies' expenditure of the Flint declaration of emergency appropriations as of May 31, 2017.

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 inspection oversight (Finding #1).

* See glossary at end of report for definition.

FINDING #1

Inspection oversight should be improved.

MDARD did not provide sufficient oversight of the food and water lead safety inspections, resulting in \$3,875 in unsupported expenditures.

Public Act 3 of 2016 appropriated \$200,000 to the Michigan Department of Health and Human Services (MDHHS) for food and water lead safety inspections conducted from February 1, 2016 through September 30, 2016. MDHHS transferred this funding to MDARD, who provided funding to Genesee County Health Department (GCHD) to conduct these inspections at food service establishments using the City of Flint water supply. GCHD conducted most of these inspections during its regular inspections at the food service establishments. Section 289.3123 of the *Michigan Compiled Laws* requires regular inspections of each food service establishment at least once every 6 months.

We randomly sampled 22 of 226 food service establishments for which GCHD inspectors had completed 26 food and water lead safety inspections between February 29, 2016 and September 21, 2016. GCHD could not provide supporting documentation for 9 (35%) of the 26 inspections. MDARD subsequently provided documentation of a water test conducted on the same day as 1 of the 9 undocumented inspections.

We also noted:

- Public Act 268 of 2016 appropriated \$300,000 for food and water lead safety inspections conducted from October 1, 2016 through September 30, 2017. On October 8, 2016, GCHD hired a water compliance inspector to conduct these inspections quarterly, separate from the regular food service establishment inspections.
- The agreement with MDHHS required GCHD to conduct the food and water lead safety inspections with special attention to areas identified with a medium to high lead in water risk. While both MDARD and GCHD initially assessed the risk of each food service establishment, they later decided that all food service establishments would receive regular food and water lead safety inspections, regardless of the level of assessed risk.
- We analyzed the passage of time between inspections for 25 randomly sampled food service establishments from January 21, 2016 through March 3, 2017. During this transition period, we noted an increase in the time frames between the food and water lead safety inspections. Also, 11 (46%) of the 24 inspections with 3 months or more between inspections post-October 1, 2016 were

conducted at food service establishments that were initially assessed as medium or high risk.

Months Between Inspections	<u>Inspection Time Line</u>		Initial Assessment of Medium or High
	Inspections		
	Pre-October 1, 2016	Post-October 1, 2016	
9 - 12 Months	0	3	3
6 - 9 Months	4	10	4
3 - 6 Months	12	11	4
0 - 3 Months	11	11	not reviewed
Total Inspections	27	35	

In addition, 4 (80%) of the 5 inspections with the largest time periods between the inspections conducted post-October 1, 2016 were conducted at food service establishments that were initially assessed as medium or high risk.

Five Longest Time Periods Between Inspections

	Pre-October 1, 2016		Post-October 1, 2016		Initial Assessment
	Days	Months	Days	Months	
1	209	7.0	346	11.5	Medium
2	203	6.8	280	9.3	Medium
3	190	6.3	273	9.1	High
4	183	6.1	268	8.9	Medium
5	177	5.9	267	8.9	Low

None of the randomly sampled post-October 1, 2016 food and water lead safety inspections identified any significant issues. Compliance with the quarterly food and water lead safety inspections, separate from the regular food service establishment inspections, should shorten the length of time between inspections.

RECOMMENDATION

We recommend that MDARD continue to improve its oversight of the food and water lead safety inspections.

AGENCY PRELIMINARY RESPONSE

MDARD provided us with the following response:

MDARD agrees with this recommendation and has worked with Genesee County Health Department to establish a separate water safety inspection protocol with higher frequency than regular food inspections. Additionally, MDARD has established a quarterly audit of these inspections to ensure established safety standards are in place and properly documented.

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 audits 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 May 31, 2017.

SUPPLEMENTAL INFORMATION, INCLUDING OBSERVATIONS

Exhibit #1

FLINT EMERGENCY EXPENDITURES

Department of Licensing and Regulatory Affairs (LARA)
As of May 31, 2017

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 Review</u>	
			<u>Prior Audits</u>	<u>Current Audit</u>
Construction Codes	<u>\$200,000</u>	<u>\$199,606</u>	<u>\$197,620</u>	<u>\$0</u>
Total	<u><u>\$200,000</u></u>	<u><u>\$199,606</u></u>	<u><u>\$197,620</u></u>	<u><u>\$0</u></u>

Public Act 3 of 2016

Appropriated: \$1,660,000

Public Act 340 of 2016 reduced the original appropriation of \$2,000,000 to \$1,660,000. LARA informed us that the \$340,000 was not needed.

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		Expenditures Subject to Review	
	Funding Allocation	Total Expenditures	Prior Audits	Current Audit
Plumbing Fixture Replacements	\$1,660,000	\$1,546,088	\$870,961	\$659,969
Total	\$1,660,000	\$1,546,088	\$870,961	\$659,969

Plumbing Fixture Replacements:

Audit Methodology and Results

July 2016 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.

January 2017 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.

Current Audit: We reviewed 15 randomly selected expenditures totaling \$90,461. The expenditures were appropriately approved, supported, and charged to the appropriation. We did not identify any significant errors.

Observations

None

Source: The OAG 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 May 31, 2017

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 Review	
			Prior Audits	Current 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	300,000	299,586	291,735	0
Remediation and Development Division				
Laboratory Services - Water Sample Testing	1,000,000	1,000,000	1,000,000	0
Total	\$7,300,000	\$7,299,586	\$7,291,735	\$0

Drinking Water and Environmental Health - Technical Assistance and Coordination:

Audit Methodology and Results

January 2017 Audit: 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.

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

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 Review	
			Prior Audits	Current Audit
Flint Declaration of Emergency				
Water System Needs (1)	\$4,553,000	\$2,218,115	\$1,668,423	\$548,656
Utility Issues	0	0	0	0
Lab and Testing (2)	774,000	628,052	609,359	0
Corrosion Control	36,500	0	0	0
Infrastructure Study	423,000	222,172	107,174	0
Total	\$5,786,500	\$3,068,338	\$2,384,956	\$548,656

(1) Water System Needs:

Audit Methodology and Results

July 2016 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.

January 2017 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 significant errors.

Current Audit: We reviewed 1 judgmentally selected expenditure totaling \$528,618 and determined that it was appropriately approved, supported, and charged to the appropriation. We did not identify any significant errors.

Observations

None

(2) Lab and Testing:

Audit Methodology and Results

January 2017 Audit: 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.

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

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 Review	
			Prior Audits	Current Audit
ReConnection Services (July 2016 - September 2016)	\$ 3,900,000	\$ 3,900,000	\$3,900,000	\$ 0
Water System Needs	2,200,000	0	0	0
Drinking Water Emergency Response Team (Fiscal Year 2016) (1)	2,250,000	2,050,599	0	994,686
ReConnection Services (October 2016 - December 2016)	3,900,000	3,900,000	3,900,000	0
Drinking Water Emergency Response Team (Fiscal Year 2017)	1,500,100	761,503	0	0
Replacement of Lead Service Lines (2)	25,000,000	0	0	0
Total	\$38,750,100	\$10,612,102	\$7,800,000	\$ 994,686

(1) Drinking Water Emergency Response Team (Fiscal Year 2016):

Audit Methodology and Results

We reviewed 10 randomly selected expenditures totaling \$408,625 and determined that they were appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

(2) Replacement of Lead Service Lines:

Audit Methodology and Results

The appropriations 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 OAG 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 May 31, 2017

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 Review	
			Prior Audits	Current Audit
Emergency Services Local Office Allocations	\$1,000,000	\$1,000,000	\$ 964,681	\$ 0
Childhood Lead Program (1)				
Environmental Blood Lead Investigations (2)	165,000	165,000	148,889	16,111
Epidemiologist Services	249,100	249,129	179,478	0
Nurse Case Management (3)	435,900	435,871	298,855	136,872
Total	<u>\$1,850,000</u>	<u>\$1,850,000</u>	<u>\$1,591,903</u>	<u>\$152,983</u>

(1) MDHHS reallocated funding for the Childhood Lead Program between the January 2017 audit and the current audit. The total amount appropriated for this program did not change.

(2) Environmental Blood Lead Investigations:

Audit Methodology and Results

January 2017 Audit: 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.

Current Audit: We reviewed 1 randomly selected expenditure totaling \$8,477 and determined that it was appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

(3) Nurse Case Management:

Audit Methodology and Results

January 2017 Audit: 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.

Current Audit: We reviewed 2 judgmentally selected expenditures totaling \$26,407 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 Review	
			Prior Audits	Current Audit
Bottled Water, Water Filters, and Cartridges	\$ 4,612,800	\$4,612,800	\$4,612,800	\$ 0
Department Field Operations				
Lead Abatement (1)	1,510,000	674,837	434,994	213,871
Epidemiological and Case Management				
Environmental Blood Lead Investigations (2)	90,000	67,714	0	34,034
Epidemiologist Services (3)	126,500	90,447	70,510	19,937
Nurse Case Management	70,000	45,000	0	0
Adult Blood Lead Epidemiology and Surveillance (4)	18,500	18,500	0	18,500
Nutrition Support, Food Banks, and Community Education				
Nutrition Education (5)	120,000	88,562	38,958	21,053
Food Bank Resources (6)	1,037,200	1,037,200	0	1,037,200
Childhood Nutritional Education (7)	872,000	503,869	0	503,869
Lactation Consultant (8)	85,000	63,173	6,509	10,652
Double Up Food Bucks Flint Expansion Project	380,000	85,835	0	0
Child and Adolescent Health Centers and Children's Health Care Access				
Children's Healthcare Access Project (9)	200,000	150,692	144,524	6,168
Child and Adolescent Health Centers	650,000	620,000	13,851	0
Pathways to Potential Expansion (10)	720,000	440,158	217,945	222,213
Linkages to Other Diseases (11)	275,000	258,592	0	235,084
Food Inspections (12)	200,000	200,000	0	200,000
Crisis Counseling and Behavioral Health Services				
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	43,135	0	0
Nurse Services	500,000	173,134	0	0
Total	\$15,457,000	\$9,673,647	\$6,040,091	\$2,522,581

(1) Lead Abatement:

Audit Methodology and Results

January 2017 Audit: 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.

Current Audit: We reviewed 1 judgmentally and 5 randomly selected expenditures totaling \$76,644 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(2) Environmental Blood Lead Investigations:

Audit Methodology and Results

We reviewed 2 judgmentally selected expenditures totaling \$6,084 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

January 2017 Audit: 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.

Current Audit: MDHHS contracted for professional assistance to track external data requests and prepare reports. We reviewed 1 judgmentally selected monthly expenditure report for the contracted services totaling \$19,937 and determined that the expenditures were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(4) Adult Blood Lead Epidemiology and Surveillance:

Audit Methodology and Results

MDHHS contracted for professional assistance to survey adults in Flint identified with elevated blood lead levels. We reviewed 1 judgmentally selected monthly expenditure report totaling \$7,484 and determined that the expenditures were appropriately supported, approved, and charged to the appropriation. We did not identify any significant errors.

Observations

None

(5) Nutrition Education:

Audit Methodology and Results

January 2017 Audit: 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.

Current Audit: We verified that the expenditures reviewed were appropriately supported by MDHHS-approved financial status reports and grantee general ledgers. Documentation supporting the reported expenditures is maintained by the grantee. We did not identify any significant errors.

Observations

None

(6) Food Bank Resources:

Audit Methodology and Results

We reviewed 8 judgmentally selected expenditures totaling \$232,993 and determined that the expenditures were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(7) Childhood Nutritional Education:

Audit Methodology and Results

We reviewed all expenditures totaling \$503,687 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any significant errors.

Observations

None

(8) Lactation Consultant:

Audit Methodology and Results

January 2017 Audit: 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.

Current Audit: We verified that the expenditures reviewed were appropriately supported by MDHHS-approved financial status reports and grantee general ledgers. Documentation supporting the reported expenditures is maintained by the grantee. We did not identify any errors.

Observations

None

(9) Children's Healthcare Access Project:

Audit Methodology and Results

January 2017 Audit: We reviewed 2 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.

Current Audit: We reviewed 2 expenditures totaling \$6,168. We determined that they were appropriately supported, approved, and charged to the contract. We did not identify any errors.

Observations

None

(10) Pathways to Potential Expansion:

Audit Methodology and Results

January 2017 Audit: 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.

Current Audit: We reviewed 10 randomly selected transactions totaling \$35,780 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(11) Linkages to Other Diseases:

Audit Methodology and Results

We reviewed 4 randomly selected transactions and 1 judgmentally selected transaction totaling \$65,594 and payroll expenditures totaling \$44,625 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any significant errors.

Observations

None

(12) Food Inspections:

Audit Methodology and Results

We randomly selected 22 food service establishments for which grantee inspectors completed 26 inspections. The grantee could not provide supporting documentation for 9 (35%) of the 26 inspections (see Finding #1).

Observations

None

Public Act 268 of 2016

Appropriated: \$29,928,100

Authorized Uses: Sections 601, 602, 603, and 1910

MDHHS shall allocate funds to address needs related to the declaration of emergency issued on January 5, 2016. Of the appropriated funds, \$14.8 million shall be used to support the following activities:

- (a) Nutrition support, food banks, and community education.
- (b) Intensive services and outreach for children, including evidence-based home visiting programs.
- (c) Assessment of potential linkages between the drinking water declaration of emergency and diseases in Flint residents.
- (d) Support for child and adolescent health centers and the children's healthcare access program.
- (e) Interpretation services.
- (f) Childhood lead poisoning prevention program.
- (g) \$6.1 million in federal temporary assistance for needy families for emergency needs.
- (h) \$321,000 distributed to licensed private child welfare agencies.

Of the appropriated funds, \$15.1 million shall be used to support, but are not limited to, the following activities:

- (i) Emergency nutrition assistance, nutritional and community education, food bank resources, and food inspections.

- (j) Epidemiological analysis and case management of individuals at risk of elevated blood lead levels.
- (k) Support for child and adolescent health centers, children's healthcare access program, and pathways to potential programming.
- (l) Nursing services, evidence-based home visiting programs, intensive services, and outreach for children exposed to lead coordinated through local community mental health organizations.
- (m) Department field operations costs.
- (n) Assessment of potential linkages to other diseases.

Expenditures By Authorized Use Category

	Funding Allocation (1)	Total Expenditures	Expenditures Subject to Review	
			Prior Audits	Current Audit
Mobile Food Bank (Fiscal Year 2016)	\$ 440,000	\$ 0	\$0	\$ 0
Nutrition Programs	1,300,000	300,747	0	0
Linkages to Other Diseases (2)	3,200,000 (1)	937,235	0	824,815
Childhood Lead Poisoning Prevention Program (3)	1,250,000	257,737	0	141,148
Community Mental Health Services (Fiscal Year 2016)	704,000 (1)	0	0	0
Parents As Teachers Program	260,000	40,823	0	0
Federal TANF Reserve	6,100,000	0	0	0
Child and Adolescent Health Center Funding (Fiscal Year 2016)	500,000	82,718	0	0
Interpretation Services	100,000 (1)	3,763	0	0
Nutrition Assistance	3,500,000	476,798	0	0
Mobile Food Bank (Fiscal Year 2017)	1,006,000	0	0	0
Nutrition Services 5-10 Year Olds	257,100 (1)	0	0	0
Adult Blood Lead Epidemiology and Surveillance (4)	44,400	16,653	0	14,113
Child and Adolescent Health Centers (Fiscal Year 2017)	372,500 (1)	0	0	0
Lead Programming for Children/Homes/Outreach (5)	204,800 (1)	81,908	0	60,829
Epidemiologist Services (6)	212,000	97,466	0	81,347
Nurse Care Management and Public Health Assessments (7)	471,300	70,235	0	59,814
Community Education	120,000	0	0	0
Community Mental Health Services (Fiscal Year 2017)	4,135,000 (1)	18,651	0	0
Parents As Teachers Program (Fiscal Year 2017)	260,000	0	0	0
Double Up Food Bucks	380,000	76,951	0	0
Food Safety Inspections (8)	300,000	59,898	0	59,898
Pathways to Potential	300,000	0	0	0
Children's Healthcare Access Project (CHAP) (9)	375,000	113,171	0	113,171
Flint Hospital Monitor	79,000 (1)	16,700	0	0
Flint Hospital Lab	160,000 (1)	17,990	0	0
Service Homebound, Frail Seniors	200,000 (1)	0	0	0
Lead Abatement GF Match for SCHIP	100,000 (1)	203	0	0
DEQ IAG Faucets and Fixtures (10)	3,000,000 (1)	772,911	0	772,911
Addressing Household Needs in Flint (11)	100,000 (1)	100,000	0	100,000
Rides to Wellness	497,000 (1)	171,270	0	0
Total	\$29,928,100	\$3,713,828	\$0	\$2,228,046

(1) MDHHS reallocated funding between the January 2017 audit and the current audit. The total amount appropriated did not change.

(2) Linkages to Other Diseases:

Audit Methodology and Results

We reviewed 4 randomly selected transactions and 2 judgmentally selected transactions totaling \$143,924 and payroll expenditures totaling \$47,596 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(3) Childhood Lead Poisoning Prevention Program:

Audit Methodology and Results

We reviewed 3 judgmentally selected expenditures totaling \$89,046 and payroll expenditures totaling \$3,776 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(4) Adult Blood Lead Epidemiology and Surveillance:

Audit Methodology and Results

We reviewed 2 judgmentally selected expenditures totaling \$4,756 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(5) Lead Programming for Children/Homes/Outreach:

Audit Methodology and Results

We reviewed payroll transactions for 14 pay periods totaling \$60,829 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(6) Epidemiologist Services:

Audit Methodology and Results

We reviewed 2 judgmentally selected expenditures totaling \$30,468 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(7) Nurse Care Management and Public Health Assessments:

Audit Methodology and Results

We reviewed 2 judgmentally selected expenditures totaling \$34,837 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(8) Food Safety Inspections:

Audit Methodology and Results

We verified that the expenditures reviewed were appropriately supported by MDHHS-approved financial status reports and grantee general ledgers. We did not identify any significant errors.

Observations

None

(9) Children's Healthcare Access Project (CHAP):

Audit Methodology and Results

We reviewed 2 judgmentally selected expenditures totaling \$41,693 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(10) DEQ IAG Faucets and Fixtures:

Audit Methodology and Results

We judgmentally selected 1 expenditure and randomly selected 5 additional expenditures totaling \$164,413 and determined that they were appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

(11) Addressing Household Needs in Flint:

Audit Methodology and Results

We reviewed the only expenditure and determined that it was appropriately supported, approved, and charged to the appropriation. We did not identify any errors.

Observations

None

Source: The OAG prepared this exhibit based on the specified Public Acts and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Michigan Department of Education (MDE)
As of May 31, 2017

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 Review	
			Prior Audits	Current Audit
Nurses (1)	\$ 320,000	\$ 320,000	\$ 273,574	\$ 46,426
EO/Special Education Services, Lead Exposure Monitoring, Wraparound Services Coordination, Communications	2,225,000	2,125,001	1,917,335	0
Food and Nutrition (2)	140,000	140,000	95,229	0
Total	\$2,685,000	\$2,585,001	\$2,286,138	\$46,426

(1) Nurses:

Audit Methodology and Results

July 2016 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.

January 2017 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.

Current Audit: We verified that the additional drawdowns matched the expenditures recorded in the budgets. Also, we reviewed the supporting documentation for 4 judgmentally selected expenditures totaling \$38,752 from the \$46,426 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) Food and Nutrition:

Audit Methodology and Results

July 2016 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.

January 2017 and 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: \$21,830,000

Authorized Uses: Sections 11o. and 11s.

MDE shall allocate funds to needs related to the declaration of emergency issued on January 5, 2016. These funds shall be used to support the following activities to children that reside within the boundaries of a district with a majority of its territory located within the boundaries of a city for which an executive proclamation of emergency is issued:

- (a) \$9.2 million to provide State early childhood services to children.
- (b) An amount not to exceed \$1.3 million for the purpose of employing school nurses and school social workers.
- (c) An amount not to exceed \$1.2 million to augment staff for the purpose of providing additional early childhood services and for nutritional services to children.
- (d) An amount not to exceed \$6.2 million to provide State early intervention services for children who are less than 4 years of age as of September 1, 2016.
- (e) An amount not to exceed \$1.5 million to enroll children in school-day Great Start Readiness Programs.

Also, Legislative Transfer 2017-5 transferred \$2.5 million to the appropriation under Section 11s for services to the children of Flint. These funds should be used to support the following activities:

- (f) \$1.3 million for school nurses and school social workers within Flint Community Schools.
- (g) \$1.2 million for early intervention and early literacy services, as well as nutritional services.

Expenditures By Authorized Use Category

	Funding Allocation	Total Actual Expenditures	Expenditures Subject to Review	
			Prior Audits	Current Audit
Early Intervention and Great Start Readiness Program Services 0 - 4 (Fiscal Year 2016) (1)	\$ 9,200,000	\$ 514,634	\$0	\$ 404,910
GISD Services to School Aged Children	812,500	0	0	0
GISD Fresh Fruits and Vegetables	382,500	55,135	0	0
School Nurses for Flint Public Schools	317,500	0	0	0
School Social Workers for Flint Public Schools	975,000	0	0	0
Early Intervention Services 0 - 3 (Fiscal Year 2017) (2)	6,155,000	2,861,146	0	762,060
Great Start Readiness Program (Fiscal Year 2017)	1,500,000	295,669	0	0
School Nurses and Social Workers for Flint Public Schools	1,292,500	0	0	0
Early Intervention Services, Early Literacy, and Nutritional Services	1,195,000	0	0	0
Total	\$21,830,000	\$3,726,584	\$0	\$1,166,970

(1) Early Intervention and Great Start Readiness Program Services 0 - 4 (Fiscal Year 2016):

Audit Methodology and Results

We reviewed 3 judgmentally and 6 randomly selected expenditures totaling \$102,034 and determined that the expenditures were appropriately approved, supported, and charged to the grant. We did not identify any errors.

Observations

None

(2) Early Intervention Services 0 - 3 (Fiscal Year 2017):

Audit Methodology and Results

We reviewed 20 judgmentally selected expenditures totaling \$85,195 and determined that the expenditures were appropriately approved, supported, and charged to the grant. We did not identify any errors.

Observations

None

Public Act 268 of 2016

Appropriated: \$33,650,100

Authorized Uses: Sections 401 and 402

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

- (a) To address child care and nutrition needs.
- (b) \$8.0 million for child care and development funds for emergency needs.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to Review	
			Prior Audits	Current Audit
Nutrition Assistance	\$ 9,500,000	\$ 495,695	\$0	\$0
Child Care Assistance (0 - 3) Fiscal Year 2016	8,100,000	1,099,086	0	0
Child Care and Development Fund Reserve for Flint Day Care Needs	8,000,000	0	0	0
Child Care Assistance (0 - 3) Fiscal Year 2017	8,050,100	470	0	0
Total	\$33,650,100	\$1,595,251	\$0	\$0

Source: The OAG prepared this exhibit based on the specified Public Act and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Department of Military and Veterans Affairs (DMVA)
As of May 31, 2017

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 Review	
			Prior Audits	Current 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

Source: The OAG 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 May 31, 2017

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 Review	
			Prior Audits	Current Audit
Flint Water Interagency Coordinating Committee	\$100,000	\$8,403	\$0	\$0
Total	\$100,000	\$8,403	\$0	\$0

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 Review	
			Prior Audits	Current Audit
Water and Filter Cartridges	\$6,000,000	\$5,999,303	\$2,292,069	\$2,651,425
Total	\$6,000,000	\$5,999,303	\$2,292,069	\$2,651,425

Water and Filter Cartridges:

Audit Methodology and Results

January 2017 Audit: 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.

Current Audit: We reviewed 20 randomly sampled expenditures totaling \$177,073. We determined that the expenditures were appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

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 Review	
			Prior Audits	Current Audit
Emergency Response	\$10,000,000	\$12,108,429	\$3,650,772	\$4,060,024
Total	\$10,000,000	\$12,108,429	\$3,650,772	\$4,060,024

Emergency Response:

Audit Methodology and Results

January 2017 Audit: 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.

Current Audit: We randomly sampled and judgmentally selected and reviewed various transactions supporting the \$4.06 million in reimbursements paid for from DECF. We determined that the expenditures were approved, supported, and related to the Flint declaration of emergency. We did not identify any significant errors.

Observations

None

Source: The OAG prepared this exhibit based on the specified Public Acts and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Department of Treasury (Treasury)
As of May 31, 2017

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 Review	
			Prior Audits	Current Audit
Water Credit Reimbursements	\$30,000,000	\$30,000,000	\$30,000,000	\$0
Total	\$30,000,000	\$30,000,000	\$30,000,000	\$0

Observations from January 2017 Report

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 the 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.

Follow-Up

Treasury did not seek clarification from the Legislature regarding the appropriateness of reimbursing the City of Flint for credits issued for late fees. Treasury informed us that the SBO was aware that late fees would be included in the calculation of water credits and that clarification from the Legislature was not necessary.

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 were 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.

Follow-Up

The City of Flint did not obtain accurate meter readings for each water account before the program ended on February 28, 2017. However, based on our review of an Office of Internal Audit Services analysis, it appears that the water credits were not materially affected by the estimated water usage amounts. Our review of 20 estimated water billings concluded that the difference in water credits as a result of estimated water usage was not material.

Public Act 268 of 2016

Appropriated: \$16,830,000

Authorized Uses: Sections 1001 and 1003 and Legislative Transfers 2017-1 and 2017-5

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.

Legislative Transfer 2017-1: A transfer from the Drinking Water Declaration of Emergency Reserve Fund (DTMB) to provide for contractual services of an integrity oversight monitor.

Legislative Transfer 2017-5: A transfer from the Drinking Water Declaration of Emergency Reserve Fund (DTMB) to provide for continued purchases of bottled water for MSP.

Expenditures By Authorized Use Category

	Funding Allocation	Total Expenditures	Expenditures Subject to Review	
			Prior Audits	Current Audit
Water Credit Reimbursements (1)	\$12,750,000	\$11,737,844	\$1,080,157	\$10,657,687
Mission Flint Program Management (2)	1,380,000	1,328,220	0	897,901
Integrity Oversight Monitor	300,000	0	0	0
Bottle Water Purchases	2,400,000	0	0	0
Total	\$16,830,000	\$13,066,064	\$1,080,157	\$11,555,588

(1) Water Credit Reimbursements:

Audit Methodology and Results

January 2017 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 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.

Current Audit: We reviewed the summary of procedures performed and the public accounting firm's reports for the 4 remaining payments for the period May 2016 through February 2017. We determined that the payments were appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Observations

None

(2) Mission Flint Program Management:

Audit Methodology and Results

We reviewed the request for reimbursement from MSP for bottled water purchases dated May 31, 2017. We determined that the request was appropriately approved, supported, and charged to the appropriation. We did not identify any errors.

Source: The OAG prepared this exhibit based on the specified Public Acts and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Department of Attorney General (AG)
As of May 31, 2017

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 Review</u>	
			<u>Prior Audits</u>	<u>Current Audit</u>
Drinking Water Declaration of Emergency Legal Services	<u>\$3,900,000</u>	<u>\$2,982,752</u>	<u>\$0</u>	<u>\$0</u>
Total	<u>\$3,900,000</u>	<u>\$2,982,752</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 OAG prepared this exhibit based on the specified Public Acts and information obtained from MAIN.

FLINT EMERGENCY EXPENDITURES

Department of Natural Resources (DNR)
As of May 31, 2017

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 Review</u>	
			<u>Prior Audits</u>	<u>Current Audit</u>
Summer Youth Employment Program	<u>\$250,000</u>	<u>\$250,000</u>	<u>\$0</u>	<u>\$250,000</u>
Total	<u>\$250,000</u>	<u>\$250,000</u>	<u>\$0</u>	<u>\$250,000</u>

Summer Youth Employment Program

Audit Methodology and Results

We reviewed 21 random and 1 judgmentally selected expenditures totaling \$34,557. We determined that the expenditures were appropriately approved, supported, and charged to the appropriation. We did not identify any significant errors.

Observations

None

Source: The OAG 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 May 31, 2017

Public Act 268 of 2016

Appropriated: \$28,900,000

Public Act 340 of 2016 increased the appropriation an additional \$10.0 million.

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.

	Fund Activity		
	<u>Funding Allocation</u>	<u>Total Transfers</u>	<u>Remaining Allocation</u>
Drinking Water Declaration of Emergency Reserve Fund	<u>\$28,900,000</u>	<u>\$7,628,900</u>	<u>\$21,271,100</u>
Total	<u>\$28,900,000</u>	<u>\$7,628,900</u>	<u>\$21,271,100</u>

Drinking Water Declaration of Emergency Reserve Fund:

Schedule of Funding Transfers to Other State Departments
As of May 31, 2017

<u>Transfer Type</u>	<u>Transferred To</u>	<u>Fund Usage</u>	<u>Amount</u>
Legislative Transfer (2017-1)	Treasury	Integrity Oversight Monitor	\$ 300,000
Legislative Transfer (2017-5)	Treasury	Bottled Water Purchases	2,400,000
Legislative Transfer (2017-5)	MDE	Nurses and Social Workers	1,292,500
Legislative Transfer (2017-5)	MDE	Early Intervention, Early Literacy and Nutritional Services	1,195,000
Public Act 340 of 2016	DEQ	Water Distribution System Optimization Analysis	477,000
Public Act 340 of 2016	DEQ	Water Plant Analysis & Technical Assistance and Training	1,464,400
Public Act 340 of 2016	DMVA	National Guard Deployment	<u>500,000</u>
Total Transfers			<u>\$7,628,900</u>

Note: Expenditures associated with these transfers will be included in our review of expenditures for the specified departments.

Schedule and Exhibit Source: The OAG prepared the schedule and exhibit based on legislative transfer documents, specified Public Acts, 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 \$255.0 million as of May 31, 2017, 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>
Public Act 340 of 2016 - December 14, 2016	
Environmental Quality	\$ 2,617,000
Military and Veteran Affairs	500,000
Licensing and Regulatory Affairs	(340,000)
Technology, Management, and Budget	10,000,000
Subtotal	<u>\$ 12,777,000</u>
Total	<u>\$255,006,300</u>

Public Act 3 of 2016 requires the Office of the Auditor General (OAG) 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 third 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 May 31, 2017 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 audits 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, analysis of agency response, and quality assurance, generally covered November 19, 2016 through May 31, 2017.

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 two audits, we utilized the same objectives and scope. During this audit, we:

- Reviewed additional appropriations acts enacted prior to May 31, 2017 that contained appropriations to assist with the Flint declaration of emergency along with related Senate and House Fiscal Agencies' analyses.
- Continued to meet with Office of Internal Audit Services and department staff to enhance our understanding of the controls established over expenditures and reporting.
- Reviewed SBO reports to gain an understanding of expenditures reported by State departments.

OBJECTIVE #1

To determine the appropriateness of State agencies' expenditure of the Flint declaration of emergency appropriations as of May 31, 2017.

* 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, and interagency agreements.
- Reviewed source documentation supporting selected expenditures.
- Reviewed the engagement letters and reports from the independent third-party review of the process for determining water usage credits.

OBJECTIVE #2

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

To accomplish this objective, we:

- Updated 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. MDARDS'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 Audit Services, State Budget Office. Within 30 days of receipt,

* See glossary at end of report for definition.

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.

**PRIOR AUDIT
FOLLOW-UP**

Following is the status of the reported finding from our January 2017 performance audit of the Flint Emergency Expenditures, State of Michigan (000-2016-17):

MDE implemented corrective action in April 2017. MDE updated its Allowable Cost Guide which became effective in April 2017. The Allowable Cost Guide continues to require the use of Personal Activity Reports (PARs) when an employee's salaries and benefits are funded by more than one source. We verified that MDE was requiring the use of PARs for payroll expenditures beginning in April 2017. An audit of these expenditures, including the use of PARs, will be completed in a subsequent report.

**SUPPLEMENTAL
INFORMATION**

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

Occasionally, amounts appropriated, funding allocations, total expenditures, or expenditures subject to review may change between reports. In most instances, this is a result of agency coding changes, expenditure transfers, or errors identified during our review of expenditures. Exhibits are adjusted as we become aware of these changes.

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.
GCHD	Genesee County Health Department.
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.

OAG	Office of the Auditor General.
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.
OFM	Office of Financial Management.
PAR	Personal Activity Report.
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.



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