

Office of the Auditor General
Follow-Up Report on Prior Audit Recommendations

Michigan Youth Challenge Academy
Department of Military and Veterans Affairs

July 2017

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

Article IV, Section 53 of the Michigan Constitution



Follow-Up Report

Michigan Youth Challenge Academy (MYCA)

Department of Military and Veterans Affairs

Report Number:
511-0300-14F

Released:
July 2017

We conducted this follow-up to determine whether MYCA had taken appropriate corrective measures in response to the four material conditions noted in our May 2015 audit report.

Prior Audit Information	Follow-Up Results		
	Conclusion	Finding	Agency Preliminary Response
Finding #1 - Material condition Comprehensive evaluation of program effectiveness needed. Agency agreed.	Complied	Not applicable	Not applicable
Finding #2 - Material condition Safeguarding and accounting for cash received needed. Agency agreed.	Complied	Not applicable	Not applicable
Finding #6 - Material condition MYCA not effectively staffed. Agency agreed.	Partially complied	Reportable condition exists. See Finding #6 .	Agrees
Finding #7 - Material condition Lack of required training for MYCA staff. Agency agreed.	Substantially complied	Not applicable	Not applicable

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Doug A. Ringler, CPA, CIA
Auditor General

July 25, 2017

Major General Gregory J. Vadnais, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan

Dear General Vadnais:

I am pleased to provide this follow-up report on the four material conditions (Findings #1, #2, #6, and #7) and four corresponding recommendations reported in the performance audit of the Michigan Youth Challenge Academy, Department of Military and Veterans Affairs. That audit report was issued and distributed in May 2015. Additional copies are available on request or at audgen.michigan.gov.

Your agency provided the preliminary response to the follow-up recommendation included in this report. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during our follow-up. If you have any questions, please call me or Laura J. Hirst, CPA, Deputy Auditor General.

Sincerely,

Doug Ringler
Auditor General

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INTRODUCTION, PURPOSE OF FOLLOW-UP, AND PROGRAM DESCRIPTION

INTRODUCTION

This report contains the results of our follow-up of the four material conditions* (Findings #1, #2, #6, and #7) and four corresponding recommendations reported in our performance audit* of the Michigan Youth Challenge Academy (MYCA), Department of Military and Veterans Affairs, issued in May 2015.

PURPOSE OF FOLLOW-UP

To determine whether MYCA had taken appropriate corrective measures to address our corresponding recommendations.

PROGRAM DESCRIPTION

MYCA provides military-based training, education, and supervised working experience through community service to produce program graduates with the values, skills, education, and self-discipline to succeed as adults. Sixteen- to eighteen-year-old male and female high school dropouts are eligible to apply for the 17-month program, which includes a 5-month residential phase followed by a 12-month mentoring phase.

As of April 30, 2017, the program had 43 full-time equated employees.

* See glossary at end of report for definition.

PRIOR AUDIT FINDINGS AND RECOMMENDATIONS; AGENCY PLAN TO COMPLY; AND FOLLOW-UP CONCLUSIONS, RECOMMENDATION, AND AGENCY RESPONSE

FINDING #1

Audit Finding Classification: Material condition.

Summary of the May 2015 Finding:

MYCA needed to establish a comprehensive process to monitor and evaluate program effectiveness*. MYCA lacked documentation for 64% of core component tasks reviewed and lacked tracking and documentation of individual cadet and total class progress at key intervals.

Recommendation Reported in May 2015:

We recommended that MYCA establish a comprehensive process to monitor and evaluate the effectiveness of its operations.

AGENCY PLAN TO COMPLY*

On October 12, 2015, MYCA indicated that it had implemented the following processes and management systems to ensure effective program monitoring and evaluation:

- Established the National Guard Bureau (NGB) Annual Report metrics as the MYCA Scorecard.
- Implemented a Cadet Data Management System.
- Established a routine cycle of inspections and evaluations.

FOLLOW-UP CONCLUSION

Complied.

Our follow-up noted that MYCA documented that cadets performed required core component tasks and implemented a data management system to collect, track, and evaluate cadet performance. Our follow-up of 443 tasks noted that 423 (95%) of the tasks were completed and properly documented in the data management system. Also, to assist in scheduling, tracking, and evaluating cadet activity, MYCA dedicated one staff person to facilitate operations and help ensure that activities are performed on a routine basis.

* See glossary at end of report for definition.

FINDING #2

Audit Finding Classification: Material condition.

Summary of the May 2015 Finding:

MYCA had not safeguarded or properly accounted for cash received from cadets' families and various fund-raising activities. MYCA lacked documentation for the disposition of \$86,250.

Recommendation Reported in May 2015:

We recommended that MYCA safeguard and properly account for cash received from cadets' families and various fund-raising activities.

AGENCY PLAN TO COMPLY

On October 12, 2015, MYCA reported that it returned all cash on hand to the parents of Class 31 and had established cash management procedures to safeguard and account for cash. Also, it established a petty cash account and an operating procedure that required quarterly audits. In addition, MYCA indicated that cash and donations received by MYCA are logged and sent to the Department of Military and Veterans Affairs' central budget operations and deposited into an account for MYCA.

FOLLOW-UP CONCLUSION

Complied.

Our follow-up noted that MYCA discontinued receiving cash from cadets' families and conducting fund-raising activities.

Also, MYCA now requests families to establish a prescription account with a local pharmacy to cover cadet medical prescriptions and copayments and utilizes a procurement card for other necessary medical prescriptions and incidental items for cadets. As of April 13, 2017, MYCA's procurement card purchases for cycle #35 (July 2016 through December 2016) and cycle #36 (January 2017 through June 2017) were only \$24 and \$144, respectively.

In addition, MYCA received \$1,789 in gift cards between March 9, 2015 and April 1, 2017. The balance of the gift cards on hand as of April 1, 2017 was \$327, and we determined that MYCA had proper controls in place to document, safeguard, and use the gift cards received.

FINDING #6

Audit Finding Classification: Material condition.

Summary of the May 2015 Finding:

MYCA was not staffed to effectively administer the program, fulfill the mandates of the cooperative agreement, and protect the safety of cadets and staff. MYCA employed staff at only 67% of the minimum required staffing level.

Recommendation Reported in May 2015:

We recommended that MYCA comply with the cooperative agreement by providing proper staffing levels and effectively overseeing staff.

AGENCY PLAN TO COMPLY

On October 12, 2015, MYCA indicated that it had requested additional funding from NGB for the 2016 budget to allow MYCA to hire staff to achieve the minimum staffing model in accordance with NGB policy.

FOLLOW-UP CONCLUSION

Partially complied. A reportable condition* exists.

Our follow-up noted:

- a. Partially complied. As of March 25, 2017, MYCA met the required minimum staffing levels for instructors and cadre team leaders but not for counselors and case managers as follows:

Positions	Required Staff	Actual Staff
Instructors	6	8
Counselors	5	1
Case managers	8	3
Cadre team leaders	26	27

- b. Complied. MYCA increased its cadre team leaders by 11 (69%) employees. We reviewed staffing coverage for the second and third shifts of one pay period in each of the three class cycles from January 2016 through March 2017. We noted that 95% of the second and third shifts were staffed at or above minimum staffing levels compared with 90% and 45% of second and third shifts, respectively, in the prior audit.
- c. Complied. Our review of the hiring process for the three vacant positions that we reviewed indicated that MYCA

* See glossary at end of report for definition.

properly posted and filled these positions through the Civil Service Commission hiring process.

- d. Partially complied. Our review noted that MYCA increased its staffing levels, improved its training process, decreased platoon sizes, and improved its hiring practices. As a result, MYCA's employee turnover rate decreased from 60% reported in the prior audit to 43% from January 1, 2016 through March 25, 2017.
- e. Partially complied. We reviewed employees' immediate supervisors and payroll activity in the Data Collection and Distribution System* (DCDS) for 12 employees charging time during 6 pay periods from January 1, 2016 through March 25, 2017, or a total of 72 time sheets. Although all employees documented their time manually and had an immediate supervisor on record in DCDS, we noted:
 - Twenty-five (35%) time sheets did not have supervisory approval.
 - Twenty (28%) time sheets were approved three or more weeks after the end of the pay period.

**FOLLOW-UP
RECOMMENDATION**

We again recommend that MYCA comply with the cooperative agreement by providing proper staffing levels and effectively overseeing staff.

**AGENCY
PRELIMINARY
RESPONSE**

MYCA provided us with the following response:

MYCA agrees and has taken steps to comply.

The Director has increased 2016 staffing levels by 4-Cadre, 1-Departmental Analyst, 1-Counselor, and 1-Case Manager to increase staffing towards NGB directed manning levels. In addition, Cadet platoon sizes have been decreased to lessen the Cadre to Cadet ratio, improving supervision and training effectiveness. All of these efforts have reduced the employee turnover rate from 67% in 2015 to the current rate of 40% in 2017.

The additional staff have been added through an increase in program annual funding and continuous process improvement efforts in staff hiring. The Director will continue to pursue additional federal funding in the future to further increase academy staffing levels.

MYCA has implemented processes to improve time sheet data collection and approval procedures (DCDS). Through a series of reminders, individual counseling, and supervisory oversight,

* See glossary at end of report for definition.

staff compliance with time-keeping procedures has significantly improved to an acceptable level. MYCA will transition to the SIGMA system in October of 2017 and expects that this will further decrease time-keeping input errors to a negligible level.

FINDING #7

Audit Finding Classification: Material condition.

Summary of the May 2015 Finding:

MYCA did not provide required staff training. MYCA employees lacked first-year training, function-specific training, position-specific training, and Red Cross cardiopulmonary resuscitation (CPR) training.

Recommendation Reported in May 2015:

We recommended that MYCA provide the required training to its staff to help ensure that risks to the program, as well as to the cadets, are minimized.

AGENCY PLAN TO COMPLY

On October 12, 2015, MYCA indicated that it had established a training program in partnership with NGB. Also, MYCA stated that it had implemented an interim training program and budgeted travel dollars in 2016 to start the process of training staff on all mandatory requirements.

FOLLOW-UP CONCLUSION

Substantially complied.

Our review of training records for 12 employees noted:

- a. 11 (92%) of the 12 records documented the completion of the required first-year training.
- b. 10 (100%) of the 10 records documented the completion of the required function-specific training.
- c. 3 (75%) of the 4 supervisors' records documented the completion of the required supervisory training.
- d. 12 (100%) of the 12 records documented the completion of the required CPR training and that the employees were CPR certified.

FOLLOW-UP METHODOLOGY, PERIOD, AND AGENCY RESPONSES

METHODOLOGY

We obtained MYCA's corrective action plan, obtained new and updated MYCA policies and procedures, and interviewed MYCA personnel. Specifically, for:

- a. Finding #1, we reviewed supporting documentation for 20 judgmentally selected cadets in MYCA cycles #35 and #36 totaling 443 tasks from July 17, 2016 through April 30, 2017. We reconciled these tasks to MYCA's data management system to ensure that core component tasks were conducted and documented.
- b. Finding #2, we reviewed MYCA's petty cash process and reviewed its reconciliation of petty cash beginning in March 30, 2016, including the final reconciliation on August 17, 2016. We also reviewed the procurement card activity, which replaced the petty cash process, and reconciled the activity to supporting documentation from December 9, 2016 through April 13, 2017. We reviewed the gift card log and process for securing gift cards received by MYCA.
- c. Finding #6, we obtained a listing of all employees who worked for MYCA between January 1, 2016 and March 25, 2017 to calculate the turnover rate and evaluate the length of employment for any staff who were no longer employed. We obtained documentation to support that any positions that were filled by currently employed staff went through the proper Civil Service Commission procedures. We reviewed the DCDS data to ensure that all shifts had proper coverage and that time was submitted and approved properly and in a timely manner.
- d. Finding #7, we reviewed personnel training files for 12 judgmentally selected employees to verify whether the employees had completed their required training and were up to date on their CPR certification.

PERIOD

Our follow-up generally covered January 1, 2016 through April 30, 2017.

AGENCY RESPONSES

Our follow-up report contains 1 recommendation. MYCA's preliminary response indicates that it agrees with the recommendation.

The agency preliminary response that follows the follow-up recommendation in our report was taken from the agency's written comments and oral discussion at the end of our 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, 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.

GLOSSARY OF ABBREVIATIONS AND TERMS

agency plan to comply	The response required by Section 18.1462 of the <i>Michigan Compiled Laws</i> and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100). The audited agency is required to develop a plan to comply with Office of the Auditor General audit recommendations and submit the plan within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.
CPR	cardiopulmonary resuscitation.
Data Collection and Distribution System (DCDS)	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system.
effectiveness	Success in achieving mission and goals.
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.
MYCA	Michigan Youth Challenge Academy.
NGB	National Guard Bureau.
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.



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