The Office of the Auditor General (OAG) is the independent oversight arm of the Michigan Legislature. The OAG's mission is to improve the accountability for public funds and improve State government operations for the benefit of Michigan's citizens. We accomplish our mission by adhering to professional auditing standards and by promoting an atmosphere of independence, objectivity, and transparency among OAG staff and the people we serve.

The OAG consists of 154 highly trained staff, with 129 of those professionals directly involved in program evaluations and/or performance audits 43% of the time, on average. The OAG places great importance on its employees being licensed as certified public accountants (CPAs) and encourages other certifications. Among the program evaluation and performance audit staff are 46 licensed CPAs, 8 certified information systems auditors, 12 certified fraud examiners, and 2 certified internal auditors. Also, 22 staff hold advanced degrees. See Attachment A for the OAG organizational chart, performance auditor positions, certifications, and expenditures.

Body of Work

Reports and Certifications

The OAG annually produces an extensive body of work. Between January 1, 2018 and December 31, 2021, we issued 100 performance audit reports, an average of 25 reports a year. We issued a total of 310 audit recommendations. Our audits cover a variety of important topics including children's protective services, elections, Medicaid, network and cyber security, and transportation spending. We also issued 18 follow-up reports (assess compliance with prior recommendations), 12 preliminary survey summaries (audit discontinued for lack of perceived risk), 4 legislative letters, and 4 investigative reports. These reports encompassed the State's 17 executive branch departments. See Attachment B for a complete list of issued reports.

Calendar Year	Number of	
	Reports Issued	Recommendations Made to Auditees
2021	24	64
2020	21	65
2019	27	84
2018	28	97

Unique Circumstances That Impacted the Selection of Topics

Because of potential budget constraints related to the COVID-19 pandemic, in 2020, we conducted several financial audits in-house rather than contracting with CPA firms. This resulted in the decrease in the number of performance audits conducted in 2020 and 2021. Also, the State Legislature requested we conduct ongoing audits of COVID-19 expenditures, which impacted our ability to conduct other performance audits.

Series of Reports on a Specific Topic Area

Between 2018 and 2021, at the request of the State Legislature, we conducted a series of 12 audits related to $321 million and $95 million of emergency expenditures and water line replacement expenditures, respectively, for the City of Flint. In 2019, we conducted an audit of the Grand Rapids Home for Veterans and 3 follow-up reviews to evaluate corrective measures taken to address our recommendations. We also conducted a series of audits on $5.1 billion of COVID-19 expenditures, issuing reports in June and September 2020, and January, June, and October 2021. Further, we issued a 3-part series of reports on virtual learning in Michigan. These were the Michigan Virtual University report in April 2018, Virtual Learning in Traditional Public Schools in August 2020, and Virtual Learning in Cyber Schools in September 2021. At the Legislature's request, in 2020, we began a series of 5 audits on the Unemployment Insurance Agency including Pandemic Unemployment Assistance Eligibility Criteria, issued in November 2021, Personnel Management, and forthcoming projects on the IT system, MIDAS; claims processing; and fraud procedures.

Clear and Effective Communication to Legislators and Other Readers

During the award period, we made numerous changes to the format and style of our audit reports. We changed to a 2-column format to improve the appearance, readability, and messaging of our reports. We began using a more direct and concise writing style for our audit findings. We added a table format to our Report Summary (first page of each report) to allow readers to quickly and easily identify key findings and the impact of those findings. We also added an explanation of the factors impacting our overall conclusion for each audit objective to inform readers how we reached our conclusions, including both positive and negative factors. Within each material finding, we now include an explanation of why we classified the finding as material. This helps readers understand the significance of the finding and why we made our determination. See Attachment C to view our new report format.

Further, we created a new "Report Highlights" document to provide at Legislative hearings. This 2-page document provides a quick, visually appealing, and easy-to-read synopsis of an audit. We first used this document for our audit of Children's Protective Services Investigations. Legislators expressed their appreciation for the Report Highlights. See Attachment D.

Audit Selection Method

Our audit selection process consists of an annual risk assessment to rank potential audit topics by qualitative, quantitative, and program level risks. Risk assessment factors include impact to the public's health, safety, and security; value of major State assets; amount of revenue and expenditures; and program considerations such as risk to citizens if the program fails, confidentiality of information, and the program environment. See Attachment E. Additional audit projects are selected based upon legislative requests and legislative mandates.

Use of Unique and Innovative Methodologies to Conduct Audits

The OAG uses creative and innovative methodologies to conduct audit testing. During our Network and Cyber Security audit, we conducted a phishing exercise on a sample of 5,000 State employees. A phishing attack is a cyber security threat that deceives e-mail recipients by posing as a legitimate entity. The exercise resulted in 32% of the employees opening the e-mail, 25% clicking on the link within the e-mail, and 19% entering their credentials. Other innovative procedures included a survey of 12,500 State employees to assess their awareness of cyber security threats and the use of software to assess whether firewall rules were in place or overly permissible.

During our audit of the Michigan Automated Prescription System (MAPS), we obtained data for 41 million controlled substance prescriptions dispensed between October 2017 and December 2019. We used data analytics software to perform complex layered data matches to identify potential abuse, diversion, and overprescribing of controlled substances including high-volume prescribers and "doctor shopping" by patients. We evaluated compliance with State law requiring prescribers to use MAPS to check patients' prescription history reports, noting over 4 million controlled substance prescriptions written in 2019 without review of the patients' history report. The auditee had not established a systematic process to assess compliance with the law and agreed with our recommendation to analyze the use of MAPS by all prescribers and initiate follow-up or disciplinary action as appropriate.

During our audits of the Grand Rapids Home for Veterans, the Huron Valley Correctional Facility, and the Special Alternative Incarceration Program, we obtained and watched video footage as a means of confirming care was not being sufficiently provided (contrary to staff indications in daily logs) and security procedures were not being conducted. For our review of a no-bid contract awarded for COVID-19 contact tracing, our auditors obtained downloads of thousands of e-mails and Microsoft Teams conversations of 10 State employees. The auditors used keyword searches to determine who authorized the solicitation of the no-bid contract.

During our fraud investigative audit of the BioWatch Unit, auditors developed innovative tests to track the movement of 4 employees' State vehicles by placing GPS devices on the vehicles and observing the employees at their work site, homes, parking garages, and other non-work-related locations. The auditors determined the employees overstated their work hours, falsified time reports, and misused the vehicles, resulting in disciplinary action for the employees.

To test the physical security of devices on our audit of IT Equipment Surplus and Salvage, auditors used a unique procedure of sending other OAG staff into the surplus area, where employees were working, to attempt to "steal" smart phones and other devices from open bins and place them in their pockets or backpacks. The auditee agreed with our recommendation and began storing smart phones and hard drives in locked bins.

Noteworthy Accomplishments and Extraordinary Actions Taken by the OAG

Mentoring Program
Between 2018 and 2021, the OAG continued to maximize our mentoring program. The program focuses on building relationships with each new staff auditor to share the OAG culture and values and to teach and reinforce expected work competencies to ensure intentional and deliberate growth. We selected a Mentoring Program Administrator who has outstanding people skills, easily relates to others, and has the vision and passion to connect with all staff and make them feel empowered. Our Administrator meets with each staff auditor throughout their first year to discuss progress, answer questions, and provide direction related to the work competencies and key auditing concepts.

In 2018, we created a new mentoring tool, the "Auditor Passport," to identify each job competency and document each entry-level auditor's progress toward achieving them. This tool ensures all new audit staff receive similar exposure to work-related activities. As the Passport's benefits were realized, staff at other levels expressed interest in the creation of a similar tool. The mentoring program expanded in 2019 with the creation of an "Auditor Bridge" document. This tool identifies and communicates the skills needed to be successful at the senior auditor level and, ultimately, the supervisory level. See Attachment F.

In 2020, growth continued with the creation of a peer mentoring component, pairing new auditors with staff having 1 to 2 years of experience. Peer mentors serve as an additional, relatable resource and provide an opportunity for auditors to discuss the challenges and experiences unique to new auditors. The success and popularity of this program expanded to include coaching of new audit supervisors to ensure their successful transition to the supervisory role. Since initiating the mentoring program, 67 new auditors and 22 new audit supervisors have been successfully mentored.

<u>Fraud Investigative Services Team</u>
The OAG established a fraud hotline and online reporting capability to give State employees and citizens an avenue to anonymously report fraud, waste, and abuse within State government. The OAG received 250 complaints and allegations for which we opened 13 investigations, referred 45 to our Bureau of Audit Operations for audit consideration, and referred 79 to the appropriate State agency or law enforcement. See Attachment G for an example of an investigative audit report.

Raising Awareness of Our Work to Stakeholders

The Michigan Legislature has term limits. Therefore, after each election cycle, the Auditor General and Deputy Auditor General make a presentation to the new legislators to make them aware of the OAG's work and the services we provide.

In keeping with our mission, and in the spirit of transparency in State government, we are pleased to share information regarding our upcoming audit operations. In January and July of each year, we provide our 6-month audit plans to the Legislature and Executive Office. We distribute our department plans to the respective department directors. We also inform key stakeholders about the status of our audit reports, including audits in the planning, fieldwork, and report preparation phases, as well as audits issued or terminated. We send these monthly reports to the Governor, senators and representatives, State Budget Office, and Senate and House Business Offices.

We issue an annual report to the Legislature detailing aspects of our operations and listing the audit reports issued in the past fiscal year. See Attachment H for our 2021 Annual Report. The OAG Web site provides up-to-date information about the status of our audit projects. Further, we utilize Twitter, Facebook, and LinkedIn to inform the public and interested parties of newly started projects, audits in progress, and released reports.

In 2018, the Levin Center at Wayne State University conducted research on states' legislative oversight resulting in a 24-page summary titled Legislative Oversight in Michigan (Attachment I). The summary noted "*Michigan possesses extensive resources to facilitate legislative oversight of the executive branch, especially its highly professional, well-funded Office of the Auditor General.*" The Center opined that the OAG is a major actor in legislative oversight in Michigan and is responsive to areas of public and legislative concern and the OAG being award winning and one of the more stellar Auditor General offices. Levin Center representatives presented its research results to the Michigan Senate Committee on Oversight in January 2020.

Making an Impact

Our performance audits make a positive impact on State government operations and policies and improve the safety and welfare of the State's citizens. Attachment C contains 3 recent performance audit reports (related to unemployment insurance eligibility, virtual education, and children's protective services) that exemplify the quality and content of our work. They showcase the timeliness, relevancy, and impact of our reports and our use of illustrative examples and charts. Additional reports can be found under the Completed Projects tab on the OAG Website at <u>audgen.michigan.gov</u>.

Examples of Impactful Audits

<u>Performance Audit of Establishing Pandemic Unemployment Assistance (PUA) Eligibility (November 2021)</u>

From March 2020 through September 2021, the Michigan Unemployment Insurance Agency (UIA) paid $38.9 billion in unemployment claims to 3.4 million unique claimants. The audit was conducted to assess the effectiveness of UIA's actions to establish federally compliant claimant eligibility criteria for the PUA program. The audit report contains 2 material findings and recommendations. Both findings relate to lack of internal control, including poor tone at the top and the use of unauthorized eligibility criteria, resulting in at least $3.9 billion in overpayments to nearly 350,000 claimants. Our report was the first public disclosure of the magnitude of UIA's errors. The report includes a detailed timeline of communications between UIA and the U.S. Department of Labor and a comparison between the CARES Act and USDOL guidance for PUA eligibility criteria and the criteria implemented by UIA.

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Oversight Committees Grill UIA On $3.9B In Overpayments

The OAG's audit discovered the agency paid 347,437 claimants who were later deemed ineligible. It was revealed the application had four unauthorized criteria for individuals to check when self-certifying for benefits. The audit claims the agency knew the criteria were inaccurate and the U.S. Department of Labor communicated the criteria needed to be fixed immediately. However, the agency kept the unauthorized criteria on the application for nine months.

Performance Audit of Virtual Learning in Traditional Public Schools (August 2020)

Our 6 recommendations and 1 observation focused on improving the Michigan Department of Education's (MDE's) monitoring and evaluation of virtual learning. We noted 20 of 26 school districts sampled had at least 5 teachers who lacked proper certifications in the subjects they were teaching online, and MDE did not have documentation of proof that 14% of virtual learners reviewed met State graduation requirements. We also reported MDE did not collect certain student-level data required by State law. After the Michigan Attorney General agreed with our finding, MDE took corrective action and issued a Statewide memorandum informing school districts it would resume collection of the data for the spring 2021 period. We also provided report readers with informative data about the program in the form of a map, pie and bar charts, and photographs. See report in Attachment C. This audit received the 2021 NLPES Certificate of Impact.

Virtual school audit: Michigan's education department needs to improve the way it monitors district programs

Just when many students across Michigan are set to begin the school year online, a new audit has criticized how the state education department evaluates the quality and effectiveness of virtual schools run by traditional public school districts. The audit also has found MDE's own auditing procedures fail to catch students who graduated from virtual programs without actually complying with state graduation requirements.

https://detroit.chalkbeat.org
August 13, 2020

Performance Audit of Children's Protective Services (CPS) Investigations (September 2018)

The audit assessed the Michigan Department of Health and Human Services' (MDHHS's) compliance with CPS investigation requirements. The report contains 24 findings and 32 recommendations. We reported deficiencies in 159 (99%) of 160 CPS investigations reviewed. As a result of our audit, the Governor created a task force to conduct an operational review and improvement process of CPS. After several hearings, the Legislature amended the Child Protection Law and MDHHS received a $13.8 million supplemental appropriation to hire 175 additional caseworkers. The report contains a summary of our survey of 986 caseworkers who voiced concerns regarding their safety when conducting investigations, which resulted in MDHHS implementing a mobile app to improve caseworker safety. This audit received the NSAA 2019 Excellence in Accountability Award and the 2019 NLPES Certificate of Impact.

Audit finds major deficiencies in Michigan's Child Protective Services

Governor Rick Snyder released the following statement about the audit results:
"We take the result of every audit seriously, but especially those involving programs designed to protect our most vulnerable populations. The findings in the CPS audit are unacceptable and we must do more to accelerate the needed corrective actions. While it is encouraging to see MDHHS working to correct many of the audit findings, we must do more and quickly."

https://www.uppermichiganssource.com/
September 6, 2018

Other Examples of Impactful Audits

Our April 2019 performance audit of the Office of Children's Ombudsman (OCO) was an impactful audit containing 3 findings and 1 observation related to the safety of children. The audit resulted in the passage of two new laws modifying the powers and duties of OCO and remediating our findings regarding the limited information available to the public related to OCO investigations and OCO's limited ability to investigate child welfare complaints.

Our March 2018 IT performance audit of Network and Cyber Security contained 15 impactful audit recommendations. Auditors determined 745 (19%) of the State's network devices were no longer supported by the vendor; 1,756 (45%) devices were not approved for use on the network; and 100% of devices reviewed had security configuration exceptions. This audit was the recipient of the 2020 NSAA Excellence in Accountability Award.

Fiscal Impacts

Our performance audits identified over $4.2 billion in potential improper payments, actual and projected cost savings, and revenue generation over the 4-year period. In addition to the $3.9 billion in overpayments identified in our PUA audit, our audit of Oversight and Encounter Claim Integrity of the Comprehensive Health Care Program identified $228.1 million of potential provider overpayments because medical records were not provided or did not support 14% of encounter claims reviewed. Also, system edits did not reject improper and duplicate overpayments of $87.8 million. Our audit of the Establishment of Child Support Cases and Orders identified $2.3 million in unnecessary public assistance payments caused by untimely determinations. Further, our audit of the Medicaid Home Help Program identified more than $650,000 in provider overpayments resulting from unsupported, unapproved, or inaccurate invoices, with projected overpayments totaling $39.4 million.
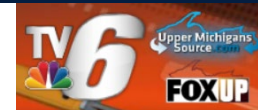
Providing Information to Improve Legislative Decision-Making

The OAG welcomes the opportunity to brief legislative committees and meet personally with legislators to provide audit report testimony, discuss specific issues identified in our reports, respond to requests for our audit services, and provide information related to government operations to assist in their decision-making. During the award period, OAG staff made 49 presentations at legislative hearings and met with legislators in their offices 61 times. During the award period, the legislature enacted 17 laws as a result of our audits. See Attachment B for a list of fiscal impacts, legislative hearings and meetings, and laws enacted as a result of our performance audits. Further, our reports are often cited by the media. See Attachment J for examples of news articles resulting from our audit reports.

Furthering the Field of Legislative Evaluation

The OAG advances the field of legislative program evaluation and performance auditing through active involvement and leadership in the accountability community. The OAG is active in National Legislative Program Evaluation Society (NLPES), National State Auditors Association (NSAA), Association of Certified Fraud Examiners (ACFE), Association of Government Accountants (AGA), Information Systems Audit and Control Association (ISACA), State Association of Accountants, Auditors, and Business Administrators (SAAABA), and other audit organizations. See Attachment K for a complete list of OAG leadership in audit organizations.

Committees: Melinda Hamilton, audit division administrator (ADA), served on the NLPES Executive Committee in 2018 and 2019, serving as secretary in 2018. She oversaw the NLPES awards program and was the Awards Subcommittee chair. Mary Jo Koschay, ADA, has served on the Executive Committee since 2019 and chairs the Awards Subcommittee.

Professional Development Seminars: The OAG actively participates in PDS as presenters and moderators. OAG staff made presentations and moderated sessions in 2018.

NLPES Awards: The OAG received Certificate of Impact Awards each year between 2018 and 2021. The award-winning audits addressed virtual learning in public schools (2021), network and cyber security (2020), children's protective services investigations (2019), and unemployment claimant services and the IT system (2018).

Executive Committee: Our Auditor General has served on the Executive Committee since July 2020.

Peer Reviews: Members of our Office of Professional Practice served as NSAA Peer Review team members in Arizona and Connecticut (2019) and Arkansas (2021).

Emerging Issues: Our Auditor General and Deputy Auditor General participate in NSAA Emerging Issues meetings to collaborate and share best practices on topics such as Medicaid, data analytics, and education.

Conferences: Our Office hosted the 2019 NSAA IT Workshop and Conference in Grand Rapids. Our IT auditors gave presentations at the 2019 and 2021 conferences. We also regularly attend the Emerging Leaders Conference.

Awards Judging

Mary Jo Koschay, ADA, and Jessica Armstrong, audit supervisor, served as lead judges for the 2020 and 2018 NLPES Certificate of Impact Awards, respectively. Shelly Jensen, audit manager, served as judge for the 2018, 2019, and 2020 NSAA Excellence in Accountability performance audit awards.

Presentations

OAG staff provide training on various auditing topics to the Michigan Association of Certified Public Accountants, the NSAA IT Conference, AGA, and SAAABA. Most recently, Deputy Auditor General, Laura Hirst, presented at the 2021 NASACT Annual Conference on the topic of Creating a Culture of Security: Cybersecurity Trends. Locally, OAG staff spoke to accounting students at several Michigan universities to encourage interest in a career in governmental auditing. OAG staff presented 14 times to university classrooms and interested organizations.

Working with Other States

As a service to the auditing industry, the OAG served on the TeamMate Client Advisory Board (CAB) for 24 years, providing input on future software features and various auditing issues. We demonstrated our use of TeamMate to other states, including hosting Indiana State Auditor staff in 2018 to discuss TeamMate Plus. In June 2021, 3 OAG staff members provided training to 70 employees from the Illinois Auditor General's Office, including an overview of our employee mentoring program, insights on SOC reports, and a comparison of our audit organizations.