

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

**Select Licensing and Monitoring Activities of
Child Placing Agencies**

Michigan Department of Health and Human Services

October 2025

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Report Summary

Follow-Up Report

Select Licensing and Monitoring Activities of Child Placing Agencies

Michigan Department of Health and Human Services (MDHHS)

Report Number:
491-2780-16F

Released:
October 2025

We conducted this follow-up to determine whether MDHHS had taken appropriate corrective measures in response to the material condition noted in our December 2021 audit report.

Prior Audit Information	Follow-Up Results		
	Conclusion	Finding	Agency Preliminary Response
Finding 1 - Material condition Improvement needed in MDHHS's monitoring of finalized adoption records. Agency agreed.	Partially complied	Material condition still exists. See <u>Finding 1</u> .	Agrees

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October 29, 2025

Elizabeth Hertel, Director
Michigan Department of Health and Human Services
South Grand Building
Lansing, Michigan

Director Hertel:

This is our follow-up report on the material condition (Finding 1) and corresponding recommendation reported in the performance audit of Select Licensing and Monitoring Activities of Child Placing Agencies, Michigan Department of Health and Human Services. That audit report was issued and distributed in December 2021. 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 to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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 AGENCY DESCRIPTION

INTRODUCTION

This report contains the results of our follow-up of the material condition* (Finding 1) and corresponding recommendation reported in our performance audit* of the Select Licensing and Monitoring Activities of Child Placing Agencies, Michigan Department of Health and Human Services (MDHHS), issued in December 2021.

PURPOSE OF FOLLOW-UP

To determine whether MDHHS had taken appropriate corrective measures to address our corresponding recommendation.

AGENCY DESCRIPTION

MDHHS licenses and monitors child placing agencies* (CPAs) in accordance with the Child Care Organizations Act (Sections 722.111 - 722.128 of the *Michigan Compiled Laws*) to help protect foster care and adoptive children. MDHHS's Division of Child Welfare Licensing* (DCWL) carries out these responsibilities by conducting annual on-site licensing inspections of CPAs to determine compliance with State law and licensing rules, providing technical assistance and consultation to improve the quality of CPA services, and investigating complaints alleging a CPA's violations of licensing rules or law.

Licensed CPAs monitored by MDHHS are MDHHS local county offices or private nonprofit organizations that receive children* for placement in private family homes for foster care* or adoption*. Only the private nonprofit CPAs provide adoption services.

MDHHS's DCWL was appropriated \$7.6 million in fiscal year 2025 for 59 full-time equated positions to carry out its licensing and monitoring functions. As of June 2025, there were approximately 160 licensed CPAs.

* See glossary at end of report for definition.

PRIOR AUDIT FINDING AND RECOMMENDATION; AGENCY PLAN TO COMPLY; AND FOLLOW-UP CONCLUSION, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

FINDING 1

Audit Finding Classification: Material condition.

Summary of the December 2021 Finding:

MDHHS needs to improve its monitoring of CPA finalized adoption records to help ensure these records are appropriately secured and stored. Improved monitoring would help MDHHS ensure compliance with State law and MDHHS policies, which are designed to help prevent unauthorized access to highly sensitive records and ensure appropriate storage and retention for response to requests involving, but not limited to, court orders or investigations conducted by the Office of the Child Advocate*, formerly known as the Office of the Children's Ombudsman.

- *Michigan Compiled Laws* require:
 - 21 days following a final order of adoption, an adoption record shall not be copied or inspected without a court order or request for inspection by the Office of the Child Advocate.
 - Adoption records are to be kept in separate locked files.
- MDHHS policy requires CPAs to restrict access to adoption records after the final order of adoption unless they receive a court order to copy or inspect the records or a request from the Office of the Child Advocate to inspect the records. This includes restricting access to the electronic Michigan Statewide Automated Child Welfare Information System (MiSACWIS) records and storing hard-copy records in separate locked files.
- The *Michigan Administrative Code* and MDHHS policy require CPAs to retain hard-copy adoption records for one year following the final order of adoption and then send them to MDHHS for permanent retention.

We reviewed 35 finalized adoption records in MiSACWIS and observed the physical storage of the related hard-copy records at 11 selected CPAs. We noted:

- a. MDHHS did not always ensure CPAs appropriately restricted access to electronic and/or hard-copy finalized adoption records. Specifically:
 - (1) CPAs did not block access to the electronic MiSACWIS records within 21 days for 32 (91%) of the 35 finalized adoption records.

* See glossary at end of report for definition.

(2) CPAs did not securely store hard-copy finalized adoption records at 4 (36%) of the 11 CPAs.

- b. MDHHS had not implemented a process to ensure CPAs submitted all finalized hard-copy adoption records to MDHHS for permanent retention one year following the final order of adoption, as required by the *Michigan Administrative Code*.

We noted 7 CPAs had not yet submitted 15 (44%) of the 34 adoption records that had been finalized for more than one year to MDHHS for permanent retention at the date of our review.

Recommendation Reported in December 2021:

We recommended MDHHS improve its monitoring of CPA finalized adoption records to help ensure these records are appropriately secured and stored.

AGENCY PLAN TO COMPLY*

MDHHS's September 12, 2022 final corrective action plan (CAP) indicated it complied with the recommendation. Specifically, it:

- Updated the DCWL policy and procedures in December 2021 to ensure consultants are evaluating CPAs' compliance with the 21-day record restriction time frame and the requirement to securely store hard copies of finalized adoption records and would cite CPAs for any noncompliance issues identified as outlined in Adoption Assistance Manual policy 1030.
- Updated the Adoption Case Record Retention policy in July 2019 to provide CPAs with specific time frames for submission of closed adoption records to MDHHS for permanent retention.
- Implemented an inventory protocol in October 2020 for the Adoption and Guardianship Assistance Office (AGAO) to track closed adoption records for permanent retention and updated the protocol as necessary.
- Began reconciling the MiSACWIS monthly data report of finalized adoption cases to the AGAO inventory of cases received for retention to ensure all closed adoption cases are received on a timely basis.
- Resolved the backlog of unprocessed, finalized adoption records.

* See glossary at end of report for definition.

FOLLOW-UP CONCLUSION

Partially complied. A material condition still exists.

Our review of electronic and hard-copy finalized adoption records noted:

- a. MDHHS did not always ensure CPAs appropriately restricted access to electronic and/or hard-copy finalized adoption records. Specifically:
 - (1) CPAs did not block access to the electronic MiSACWIS records within 21 days for 1,548 (81%) of the 1,901 finalized adoption records from our review period. These records remained accessible, on average, for 49 days, ranging from 1 day to 447 days after the 21-day period.
 - (2) CPAs did not securely store hard-copy finalized adoption records. During our site visits to 6 selected CPA offices, we observed hard-copy finalized adoption records at 2 (33%) stored on open shelves in unlocked rooms with the door open and accessible to all CPA employees.

Although MDHHS's CAP indicated it had updated the Adoption Case Record Retention policy in July 2019, the updated policy did not specify CPAs were required to block access to the electronic record within 21 days following the final order of adoption. In addition, we noted MDHHS did not update its procedures to begin annually evaluating CPAs' compliance with the 21-day record restriction time frame and storage requirements for finalized adoption records until February 2025.

- b. MDHHS did not always ensure CPAs timely submitted finalized hard-copy adoption records to MDHHS for permanent retention. Specifically:
 - (1) We reviewed 14 adoptions finalized for more than 13 months and noted 4 (29%) were not timely submitted to MDHHS local offices for permanent retention as outlined in its updated Adoption Case Record Retention policy. This included records from 3 (50%) of 6 CPAs reviewed.
 - (2) MDHHS had not fully implemented its October 2021 inventory protocol for finalized adoption records sent to MDHHS central office. We noted:
 - Although MDHHS had recorded its inventory of finalized adoption records received within Adoption Records Imaging Management System (ARIMS), as outlined in its protocol, a significant number of

records had not been imaged for permanent retention. As of August 20, 2025, MDHHS estimated it had a backlog of approximately 2,500 boxes of paper finalized adoption records awaiting imaging in its central office inventory.

- MDHHS could not support its completion of any monthly reconciliations comparing finalized adoption records received with MiSACWIS finalized adoption cases to help ensure timely receipt of records for permanent retention. Our review of 30 finalized adoption records included 9 which had been finalized for more than 16 months; however, MDHHS central office had not yet received 3 (33%) for permanent retention.

We consider this to be a material condition because of the:

- Highly sensitive nature of adoption records and the existence of law restricting access without a court order.
- Significant risk of loss or destruction of the paper finalized adoption records in MDHHS's central office inventory.
- High percentage of finalized adoption records reviewed remaining accessible beyond 21 days of the final order of adoption.

FOLLOW-UP RECOMMENDATION

We again recommend MDHHS improve its monitoring of CPA finalized adoption records to help ensure these records are appropriately secured and stored.

FOLLOW-UP AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

MDHHS agrees with the need to improve its monitoring of CPA finalized adoption records to help ensure these records are appropriately secured and stored. CPAs are contractually obligated to secure adoption files as outlined in the agreement with MDHHS, which includes provisions for protection, confidentiality, and proper storage of closed adoption records. CPAs must ensure that files are maintained in compliance with applicable laws and regulations, including data privacy standards and record retention policies. Although it was noted that 2 CPAs stored files in rooms that were not individually locked, entry to the building was restricted to CPA staff through locked exterior doors, and procedures were in place to ensure the rooms are locked at the end of each workday.

MDHHS has implemented several improvements to strengthen oversight of CPAs. In December 2021, DCWL revised policies and procedures to ensure consultants evaluate CPA compliance with two key requirements: the 21-day record restriction time frame, and secure storage of finalized adoption records. Additionally, beginning in 2025, the Private Agency Compliance Unit (PACU) began completing annual evaluations to ensure CPAs are in compliance with contract requirements.

To improve CPA compliance with restriction of access to electronic and/or hard-copy finalized adoption records, MDHHS will continue efforts to implement the following actions:

- The adoption program office will coordinate with the child welfare policy office to update the Adoption Case Record Retention Policy (ADM 1030) to directly cite MCL 710.67 regarding the 21-day record restrictions.*
- The foster care program office will coordinate with policy office to update the Foster Care Case Closure Policy (FOM 722-15) to include guidance to foster care workers regarding expedited case closure processes when foster care cases close due to adoption.*
- The adoption program office will issue a memorandum providing guidance and technical assistance to CPAs regarding compliance with updates to policies, including guidance on maintaining compliance with MCL 710.67 regarding 21-day record closure and record access restriction requirements for physical records.*
- The PACU will review a monthly list of open MiSACWIS cases from Division of Continuous Quality Improvement where adoptions have been finalized, but the cases are still open. PACU will provide technical assistance to the adoption agencies to ensure cases are appropriately closed and follow-up with the agency as necessary.*
- The PACU will conduct an annual performance evaluation for each CPA, document compliance within the evaluation, and follow-up with the agency as necessary.*

To improve timeliness of CPA hard-copy adoption record submissions, MDHHS will continue efforts to implement the following actions:

- Adoption program office will issue a memorandum providing reminders of required compliance with the Adoption Case Record Retention policy (ADM 1030) and Michigan Administrative Code Rule 400.12713 related to Adoption placement records.*

- *PACU will update procedures to ensure review of compliance with the Adoption Case Record Retention policy (ADM 1030) is included in annual compliance evaluations.*
- *Continued efforts by the adoption program office to image hard-copy closed adoption records at central office.*
- *Continued annual reviews by PACU to ensure that files for cases older than one year are sent to central office for permanent retention.*
- *Adoption program office and PACU will complete periodic reconciliations comparing finalized adoption records received to MiSACWIS finalized adoption cases to ensure timely receipt of records for permanent retention.*

Although MDHHS recognizes the importance of actively preparing hard-copy records received at central office for imaging, this is a preferred method for long-term preservation and is not a requirement. While awaiting imaging, the records are securely stored in a dedicated, locked room with restricted access to authorized personnel only. Each record has been cataloged in the ARIMS system to ensure accurate tracking and accountability. MDHHS has implemented appropriate safeguards to prevent loss, damage, or unauthorized access to these sensitive materials.

FOLLOW-UP METHODOLOGY, PERIOD, AND AGENCY RESPONSES

METHODOLOGY

We reviewed MDHHS's CAP, applicable laws, and MDHHS's policies and procedures related to finalized adoption records. Specifically, we:

- Interviewed MDHHS management and staff to obtain an understanding of MDHHS's efforts to monitor and retain CPAs' finalized adoption records.
- Analyzed MiSACWIS data for the 1,901 finalized adoptions completed between January 1, 2024 and June 30, 2025 to determine whether MDHHS timely restricted MiSACWIS access to the adoption records.
- Randomly and judgmentally selected 6 of 59 CPAs that completed MiSACWIS adoptions from January 1, 2024 through June 30, 2025 and randomly selected 30 of the 221 finalized adoption records completed by these selected CPAs to assess MDHHS's processes to ensure the records were adequately secured. Specifically, we:
 - Observed physical storage of finalized adoption records at MDHHS central office and on site at the 6 selected CPAs.
 - Analyzed MiSACWIS data to determine whether the CPAs timely submitted hard-copy adoption records to MDHHS central office for permanent retention.
- Haphazardly selected 10 hard-copy finalized adoption records located at MDHHS's central office to determine whether MDHHS recorded its inventory of finalized adoption records received within ARIMS.

PERIOD

Our follow-up generally covered January 1, 2024 through June 30, 2025.

AGENCY RESPONSES

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

The agency preliminary response to 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 3, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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

ADM	Adoption Services Manual.
adoption	The permanent placement of a child.
AGAO	Adoption and Guardianship Assistance Office.
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 3, Section 100). The audited agency is required to develop a plan to comply with Office of the Auditor General audit recommendations and to submit the plan to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.
ARIMS	Adoption Records Imaging Management System.
CAP	corrective action plan.
child(ren)	A person(s) under 18 years of age.
child placing agency (CPA)	A governmental organization or private nonprofit agency organized for the purpose of receiving children for their placement in private family homes for foster care or for adoption. The function of a child placing agency may include investigating applicants for adoption and investigating and certifying foster family homes and foster family group homes. The function of a child placing agency may also include the supervision of children who are 16 to 21 years of age and who are living in unlicensed residences.
Division of Child Welfare Licensing (DCWL)	Licenses and monitors child caring institutions, court-operated facilities and CPAs, including foster family homes and foster family group homes.
FOM	Children's Foster Care Manual.
foster care	24-hour substitute care for children placed away from their parents or guardians and for whom MDHHS has placement and care responsibility. This includes, but is not limited to, placements by a licensed private CPA under contract with MDHHS; placements in

foster family homes, relative homes, group homes, emergency shelters, residential facilities, and child care institutions; and pre-adoptive placements. A child is in foster care regardless of whether the foster facility is licensed and payments are being made for the care of the child, whether adoption assistance payments are being made prior to the finalization of an adoption, or whether there is federal matching of any payments.

material condition

A matter, in the auditor's judgment, which 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. Our assessment of materiality is in relation to the respective audit objective.

MCL

Michigan Compiled Laws.

MDHHS

Michigan Department of Health and Human Services.

MiSACWIS

Michigan Statewide Automated Child Welfare Information System.

Office of the Child Advocate (OCA)

An independent State agency, formerly known as the Office of the Children's Ombudsman, that receives and investigates complaints concerning the administrative actions of agencies within the child welfare system and recommends ways to improve the child welfare system. OCA investigates situations where it is believed MDHHS, a private child placing agency, and/or facilities providing residential or juvenile justice services are not in compliance with laws, rules, and MDHHS policies or if they are not acting in the best interest of the child.

PACU

Private Agency Compliance Unit.

performance audit

An audit which 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.



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