
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
MICHIGAN DEPARTMENT OF
HUMAN SERVICES
FOR THE 2-YEAR PERIOD ENDED
SEPTEMBER 30, 2004**

March 2006

A-77-06-00010

**MANAGEMENT
ADVISORY REPORT**



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.



SOCIAL SECURITY

MEMORANDUM

Date: March 27, 2006

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Michigan Department of Human Services for the 2-Year Period Ended September 30, 2004 (A-77-06-00010)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Michigan Department of Human Services (DHS), for the 2-year period ended September 30, 2004. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Michigan Auditor General performed the audit. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the Auditor General. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

For single audit purposes, the Office of Management and Budget assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The Michigan Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. DHS is the Michigan DDS' parent agency.

The single audit reported:

- DHS did not follow State laws, policies, and procedures for procuring goods or services for the administration of Federal awards. Specifically, DHS did not maintain documentation to support the opportunity to review and comment on contracts when applicable (Attachment A, Page 4, item e). Further, DHS did not maintain documentation that direct human and medical services procurement procedures received proper approval (Attachment A, page 5, item f). The corrective action plan indicated that DHS is in the process of reengineering the contracting process to improve efficiency and address contract training issues (Attachment A, page 20).
- DHS's internal controls over financial reporting were not sufficient to ensure the Schedule of Expenditures of Federal Awards (SEFA) was reliable, complete, and accurate (Attachment A, pages 10 through 12). The corrective action indicated that DHS is developing a new tracking/payment system that will automate the reconciliation of expenditures with the Michigan Administrative Information Network (Attachment A, page 19).
- DHS did not ensure a formal contingency plan for several of its critical automated information systems was established and implemented. As a result, DHS could not ensure business would not be interrupted or critical financial and client data would not be lost in the event of a disaster (Attachment A, pages 16 through 18). The corrective action plan indicated that the Department of Information Technology and DHS will coordinate their efforts to comply with disaster recovery plan requirements (Attachment A, pages 19 and 20).

We recommend that SSA:

1. Ensure that DHS establishes sufficient procedures to obtain and document the review of DDS-related contracts and procurements.
2. Verify that the State took appropriate actions to ensure the SEFA is accurately prepared.
3. Ensure DHS establishes and implements a formal disaster recovery plan to follow in the event of a disaster that impacts DDS operations.

The single audit also identified that internal controls were not in place to ensure that cash draws for Federal programs were made in accordance with the Cash Management Improvement Act (CMIA) agreement, and that complete and accurate information was submitted in the annual CMIA report (Attachment B, pages 1 through 4). Although this finding was not specifically identified to SSA, it may have an impact on DDS operations. I am bringing this matter to your attention as it represents a potentially serious service delivery and financial control problem for the Agency.

Page 3 – Candace Skurnik

Please send copies of the final Audit Clearance Document to Shannon Agee and Rona Lawson. If you have questions contact Shannon Agee at (816) 936-5590.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachments

FINDING 430517

17. Procurement and Suspension and Debarment

U.S. Department of Agriculture	Food Stamp Cluster: <i>CFDA</i> 10.551 Food Stamps; <i>CFDA</i> 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: 2MI400100	Award Period: 10/01/2001 - 09/30/2004
	Questioned costs of \$4,999,065 were included in Finding 430505.

U.S. Department of Justice	<i>CFDA</i> 16.588: Violence Against Women Formula Grants
Award Number: 2001-WF-BX-0041 2002-WF-BX-0038	Award Period: 06/01/2001 - 05/31/2003 01/01/2002 - 12/31/2003
	Questioned costs of \$12,313 were included in Finding 430508.

U.S. Department of Health and Human Services	<i>CFDA</i> 93.558: Temporary Assistance for Needy Families
Award Number: G 02 01 MI TANF G 03 01 MI TANF G 04 01 MI TANF	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned costs of \$2,517,040 were included in Finding 430509.

U.S. Department of Health and Human Services	<i>CFDA</i> 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 03 AA MI 5100 G 04 AA MI 5100	Award Period: 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned costs of \$8,030,288 were included in Finding 430511.

U.S. Department of Health and Human Services	CFDA 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA G 04 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned costs of \$73,321 were included in Finding 430512.

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care: Title IV-E
Award Number: 03 01 MI 1401 04 01 MI 1401	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned costs of \$632,250 were included in Finding 430514.

Social Security Administration	Disability Insurance/SSI Cluster: CFDA 96.001 Social Security - Disability Insurance
Award Number: 03-04-MIDI-00	Award Period: 10/01/2002 - 09/30/2003
	Questioned costs: \$2,990

DHS, in coordination with DMB, needs to improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations related to DHS's procurement and suspension and debarment practices for REAP.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of federal awards. We questioned costs totaling \$16,267,267.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award. The *Michigan Compiled Laws* and the DMB Administrative Guide, policies 500 and 600, establish

policies and procedures for all executive branch departments for procuring goods and services. DMB provides acquisition services for some DHS procurements.

We reviewed 43 DHS federal program contracts and procurement expenditure items for compliance with procurement and suspension and debarment requirements for the two-year period ended September 30, 2004. Our review of DHS's procurement, suspension, and debarment practices disclosed:

a. DHS did not enter into written contracts for 3 (7%) of 43 procurements that required a contractual relationship. As a result, we questioned costs totaling \$8,726,776. Our audit tests disclosed:

(1) DHS did not enter into written contracts with 2 REAP subrecipients that provided foster care services for refugee minors under UMP.

We reported this same condition in our prior audits. DHS amended the existing contracts it had with these subrecipients for other services to include REAP's UMP services that had already been provided. However, the amendments were not effective until August 5, 2004. DHS reimbursed the subrecipient \$8,028,290 during the audit period.

(2) DHS did not enter into a written contract with a vendor of the Foster Care Program that provided general and specialized foster care services to children during the audit period. DHS paid the vendor \$631,486.

(3) DHS did not enter into a written contract with a vendor of LIHEAP that provided third-party evaluation services for the 2001 Residential Energy Assistance Challenge Program during our audit period. DHS paid the vendor \$67,000.

DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

- b. DHS, in coordination with DMB, did not obtain supporting documentation of State Administrative Board approval for 1 (3%) of 34 contracts that required the approval. As a result, we questioned costs for the VAW Program, in the amount of \$12,313.

DMB Administrative Guide procedure 0620.01 requires State Administrative Board approval for all grants and contractual agreements of \$250,000 or more prior to the grant or contract initiation date. The amount of the VAW Program contract was \$1,670,938.

- c. DHS, in coordination with DMB, did not maintain supporting documentation of a signed lobbying certification for 3 (9%) of 34 contracts requiring the certification. As a result, we questioned costs for the Food Stamps Program, TANF, LIHEAP, and REAP in the amounts of \$4,999,065, \$2,517,040, \$6,321, and \$1,998, respectively. Questioned costs related to the VAW Program are included in item b. of this finding.

Federal law 31 *USC* 1352 requires that any person who requests or receives a subcontract or contract under a federal grant to certify that they have not made, and will not make, any prohibited payments.

- d. DHS, in coordination with DMB, did not maintain supporting documentation that 3 (8%) of 38 contracts were awarded to vendors who were not suspended or debarred. The questioned costs for the Food Stamps Program, TANF, LIHEAP, and REAP are included in item c. of this finding and questioned costs for the VAW Program are included in item b. of this finding.

Federal regulation 45 *CFR* 92.35 prohibits DHS and its subgrantees from contracting with or making subawards to any party that is suspended or debarred.

- e. DHS did not maintain supporting documentation of county DHS boards' opportunity to review and comment on 2 (6%) of 36 contracts when the opportunity to review and comment was applicable. As a result, we questioned costs for the Disability Insurance/SSI Cluster and the Foster Care Program in the amounts of \$2,990 and \$764, respectively. ¹

¹ According to the auditor, although the review of the contracts was not properly documented, the costs of consultative examination services provided through the contract were allowable. Therefore, the \$2,990 in questioned costs identified in the finding do not need to be returned to SSA.

Section 400.45(2)(e) of the *Michigan Compiled Laws* provides that DHS shall not enter into a contract with a public or private agency within a county until the DHS board within that county has been provided an opportunity for review of the contract.

- f. DHS did not maintain documentation that its direct human and medical services procurement procedures were approved by DMB.

DMB Administrative Guide procedure 0510.15 states that all departments' procurement procedures for these services must be approved by the director of DMB Acquisition Services.

RECOMMENDATIONS

We recommend that DHS, in coordination with DMB, improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations.

FOR THE THIRD CONSECUTIVE AUDIT, WE ALSO RECOMMEND THAT DHS COMPLY WITH ITS PRESCRIBED INTERNAL CONTROL FOR ISSUING CONTRACTS TO OBTAIN SERVICES RENDERED UNDER REAP.

FOR THE SECOND CONSECUTIVE AUDIT, WE FURTHER RECOMMEND THAT DHS, IN COORDINATION WITH DMB, ESTABLISH INTERNAL CONTROL TO ENSURE THAT IT DOES NOT CONTRACT WITH OR MAKE GRANT AWARDS TO PARTIES THAT HAVE BEEN SUSPENDED OR DEBARRED.

FINDING 430522

22. Schedule of Expenditures of Federal Awards (SEFA)

U.S. Department of Agriculture	Food Stamp Cluster: <i>CFDA</i> 10.551 Food Stamps; <i>CFDA</i> 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: LOC 22646 99 LOC 22646 01 8MI400067 2MI400100 2MI420122 EBT-02 EBT-03 EBT-04	Award Period: 10/01/1998 - 09/30/1999 10/01/2000 - 09/30/2001 09/27/2001 - 10/30/2004 10/01/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Justice	<i>CFDA</i> 16.523: Juvenile Accountability Incentive Block Grants
Award Number: 1999-JB-VX-0026 2000-JB-VX-0026 2001-JB-BX-0026 2002-JB-BX-0050 2003-JB-BX-0043	Award Period: 04/01/2000 - 03/31/2002 11/03/2000 - 11/02/2003 12/03/2001 - 12/02/2004 06/14/2002 - 10/06/2005 11/21/2003 - 11/20/2006

	Questioned Costs: \$0
U.S. Department of Justice	<i>CFDA</i> 16.540: Juvenile Justice and Delinquency Prevention: Allocation to States
Award Number: 2001-JF-FX-0026 2002-JF-FX-0026 2003-JF-FX-0017	Award Period: 10/30/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005
	Questioned Costs: \$0

U.S. Department of Justice	<i>CFDA</i> 16.588: Violence Against Women Formula Grants
Award Number: 2001-WF-BX-0041 2002-WF-BX-0038 2003-WF-BX-0193	Award Period: 06/01/2001 - 05/31/2003 01/01/2002 - 12/31/2003 04/01/2003 - 03/31/2005
	Questioned Costs: \$0

U.S. Department of Energy	CFDA 81.042: Weatherization Assistance for Low-Income Persons
Award Number: DE-FG45-97R530352 DE-FG45-04R530681	Award Period: 04/01/1997 - 03/31/2004 04/01/2004 - 03/31/2009
	Questioned Costs: \$0

U.S. Department of Education	CFDA 84.126: Rehabilitation Services: Vocational Rehabilitation Grants to States
Award Number: H-126A-02-0031 H-126A-03-0031	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.558: Temporary Assistance for Needy Families
Award Number: G 02-01-MI-TANF G 03-01-MI-TANF G 04-01-MI-TANF	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.563: Child Support Enforcement
Award Number: G 03 04 MI 4004 G 04 04 MI 4004	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 01 AA MI 5110 G 02 AA MI 5110 G 03 AA MI 5100 G 03 AA MI 5110 G 04 AA MI 5100	Award Period: 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2005
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA G 04 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: \$0

U.S. Department of Health and Human Services	Child Care Cluster: CFDA 93.575 Child Care and Development Block Grant; CFDA 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 00 01 MI CCD2 G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF	Award Period: 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.585: Social Services in Empowerment Zones and Enterprise Communities
Award Number: G 95 01 MI ECUR G 95 02 MI ECUR G 96 01 MI EZUR	Award Period: 12/21/1994 - 12/31/2009 12/21/1994 - 12/21/2005 10/01/1995 - 12/21/2005
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care: Title IV-E
Award Number: 03 01 MI 1401 04 01 MI 1401	Award Period: 10/01/02 - 09/30/03 10/01/03 - 09/30/04
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.659: Adoption Assistance
Award Number: G 03 01 MI 1407 G 04 01 MI 1407	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.674: Chafee Foster Care Independent Living
Award Number: G 02 01 MI 1420 G 03 01 MI 1420	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Health and Human Services	Medicaid Cluster: CFDA 93.778 Medical Assistance Program (Medicaid; Title XIX)
Award Number: 05 03 05 MI 5028 05 03 05 MI 5048 05 04 05 MI 5028 05 04 05 MI 5048	Award Period: 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

Social Security Administration	Disability Insurance/SSI Cluster: CFDA 96.001 Social Security - Disability Insurance
Award Number: 01-04-MIDI-00 01-04-MIDI-02 02-04-MIDI-00 02-04-MIDI-02 03-04-MIDI-00 03-04-MIDI-02 04-04-MIDI-00 04-04-MIDI-02	Award Period: 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

This finding is included in Section II of the schedule of findings and questioned costs (430501).

Section II: Findings Related to the Financial Schedules and Financial Statements

FINDING 430501

1. Schedule of Expenditures of Federal Awards (SEFA)

The Department of Human Services' (DHS's) internal control over financial reporting continued to be unable to ensure that its SEFA preparation process resulted in a reliable, complete, and accurate presentation of its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State financial management policies. As a result, DHS overstated total SEFA expenditures by \$23.6 million and \$37.2 million and understated amounts "Distributed to Subrecipients" by \$79.5 million and \$38.9 million when it released the SEFA to State agencies for the fiscal years ended September 30, 2003 and September 30, 2004, respectively. These inaccuracies required DHS to expend limited resources to correct the SEFA for the Single Audit report.

We reported similar weaknesses in DHS's internal control over its SEFA preparation and reporting in prior audits. DHS's prior audit corrective action plan stated that it would ensure the complete and accurate presentation of its SEFA in accordance with OMB Circular A-133 and State financial management policies.

OMB Circular A-133 requires each recipient of federal awards to prepare a SEFA for the period covered by the recipient's financial schedules and financial statements and to include the SEFA in the recipient's Single Audit* report. Also, OMB Circular A-133 defines internal control as a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of certain objectives, including the reliability of financial reporting. In addition, Section 18.1461 of the *Michigan Compiled Laws* requires

* See glossary at end of report for definition.

DHS to prepare an annual SEFA and submit it to the Department of Management and Budget (DMB), the House and Senate Fiscal Agencies, and the Office of the Auditor General. Chapter 24 of DMB's Financial Management Guide (FMG) sets forth the content and format of the SEFA and requires that the SEFA be reconcilable to the information contained in DHS's financial schedules and financial statements.

Our review of DHS's SEFA preparation process and verification of DHS's SEFA for the two-year period ended September 30, 2004 disclosed:

- a. DHS included expenditures on its SEFA that did not qualify as expenditures of federal awards as defined in OMB Circular A-133. As a result, DHS overstated expenditures of federal awards by \$24.5 million and \$29.4 million on its SEFA for the fiscal years ended September 30, 2003 and September 30, 2004, respectively.

Upon our notification of the misstatements, DHS made the necessary adjustments to provide for an accurate SEFA presentation for this report.

- b. DHS did not prepare the SEFA in accordance with State financial management policies. DHS did not properly account for adjustments that related to prior years' activities and did not reconcile internal information used to determine the classification of federal awards expended to amounts recorded in the Michigan Administrative Information Network* (MAIN). As a result, DHS understated total expenditures of federal awards by \$0.9 million for the fiscal year ended September 30, 2003 and overstated total expenditures of federal awards by \$7.8 million for the fiscal year ended September 30, 2004. In addition, DHS understated amounts "Distributed to Subrecipients" and overstated amounts "Directly Expended" by \$55.9 million and \$37.3 million for the fiscal years ended September 30, 2003 and September 30, 2004, respectively.

Upon our notification of the misstatements, DHS made the necessary adjustments to total expenditures of federal awards and made most of the adjustments for amounts "Distributed to Subrecipients" totaling \$52.8 million

* See glossary at end of report for definition.

and \$32.6 million for the fiscal years ended September 30, 2003 and September 30, 2004, respectively.

- c. DHS did not correctly determine whether payments made to entities constituted expenditures of a federal award by a subrecipient* or payments for goods and services to a vendor. As a result, DHS understated amounts "Distributed to Subrecipients" and overstated amounts "Directly Expended" by \$23.7 million and \$1.6 million for the fiscal years ended September 30, 2003 and September 30, 2004, respectively.

OMB Circular A-133 provides guidance for determining whether payments made to entities constitute expenditures of a federal award by a subrecipient or payments for goods and services to a vendor.

Upon our notification of the misstatements, DHS made most of the adjustments for amounts "Distributed to Subrecipients" totaling \$18.5 million for the fiscal year ended September 30, 2003.

RECOMMENDATION

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS SEFA PREPARATION PROCESS TO ENSURE THE RELIABLE, COMPLETE, AND ACCURATE PRESENTATION OF ITS SEFA IN ACCORDANCE WITH OMB CIRCULAR A-133 AND STATE FINANCIAL MANAGEMENT POLICIES.

FINDING 430523

23. Backup and Disaster Recovery Plans

U.S. Department of Agriculture	Food Stamp Cluster: <i>CFDA</i> 10.551 Food Stamps; <i>CFDA</i> 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: LOC 22646 99 LOC 22646 01 8MI400067 2MI400100 2MI420122 EBT-02 EBT-03 EBT-04	Award Period: 10/01/1998 - 09/30/1999 10/01/2000 - 09/30/2001 09/27/2001 - 10/30/2004 10/01/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
Questioned Costs: \$0	

U.S. Department of Justice	<i>CFDA</i> 16.523: Juvenile Accountability Incentive Block Grants
Award Number: 1999-JB-VX-0026 2000-JB-VX-0026 2001-JB-BX-0026 2002-JB-BX-0050 2003-JB-BX-0043	Award Period: 04/01/2000 - 03/31/2002 11/03/2000 - 11/02/2003 12/03/2001 - 12/02/2004 06/14/2002 - 10/06/2005 11/21/2003 - 11/20/2006
Questioned Costs: \$0	

U.S. Department of Justice	<i>CFDA</i> 16.540: Juvenile Justice and Delinquency Prevention: Allocation to States
Award Number: 2001-JF-FX-0026 2002-JF-FX-0026 2003-JF-FX-0017	Award Period: 10/30/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005
Questioned Costs: \$0	

U.S. Department of Justice	<i>CFDA</i> 16.588: Violence Against Women Formula Grants
Award Number: 2001-WF-BX-0041 2002-WF-BX-0038 2003-WF-BX-0193	Award Period: 06/01/2001 - 05/31/2003 01/01/2002 - 12/31/2003 04/01/2003 - 03/31/2005
Questioned Costs: \$0	

U.S. Department of Energy	CFDA 81.042: Weatherization Assistance for Low-Income Persons
Award Number: DE-FG45-97R530352 DE-FG45-04R530681	Award Period: 04/01/1997 - 03/31/2004 04/01/2004 - 03/31/2009
	Questioned Costs: \$0

U.S. Department of Education	CFDA 84.126: Rehabilitation Services: Vocational Rehabilitation Grants to States
Award Number: H-126A-02-0031 H-126A-03-0031	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.558: Temporary Assistance for Needy Families
Award Number: G 0201MITANF G 0301MITANF G 0401MITANF	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.563: Child Support Enforcement
Award Number: G 03 04 MI 4004 G 04 04 MI 4004	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 01 AA MI 5110 G 02 AA MI 5110 G 03 AA MI 5100 G 03 AA MI 5110 G 04 AA MI 5100	Award Period: 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2005
	Questioned Costs: \$0

U.S. Department of Health and Human Services	CFDA 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA G 04 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
Questioned Costs: \$0	

U.S. Department of Health and Human Services	Child Care Cluster: CFDA 93.575 Child Care and Development Block Grant; CFDA 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 00 01 MI CCD2 G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF	Award Period: 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006
Questioned Costs: \$0	

U.S. Department of Health and Human Services	CFDA 93.585: Social Services in Empowerment Zones and Enterprise Communities
Award Number: G 95 01 MI ECUR G 95 02 MI ECUR G 96 01 MI EZUR	Award Period: 12/21/1994 - 12/31/2009 12/21/1994 - 12/21/2005 10/01/1995 - 12/21/2005
Questioned Costs: \$0	

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care: Title IV-E
Award Number: 03 01 MI 1401 04 01 MI 1401	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
Questioned Costs: \$0	

U.S. Department of Health and Human Services	CFDA 93.659: Adoption Assistance
Award Number: G 03 01 MI 1407 G 04 01 MI 1407	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
Questioned Costs: \$0	

U.S. Department of Health and Human Services	CFDA 93.674: Chafee Foster Care Independent Living
Award Number: G 02 01 MI 1420 G 03 01 MI 1420	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Health and Human Services	Medicaid Cluster: CFDA 93.778 Medical Assistance Program (Medicaid; Title XIX)
Award Number: 05 03 05 MI 5028 05 03 05 MI 5048 05 03 05 MI 5028 05 03 05 MI 5048	Award Period: 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

Social Security Administration	Disability Insurance/SSI Cluster: CFDA 96.001 Social Security - Disability Insurance
Award Number: 01-04-MIDI-00 01-04-MIDI-02 02-04-MIDI-00 02-04-MIDI-02 03-04-MIDI-00 03-04-MIDI-02 04-04-MIDI-00 04-04-MIDI-02	Award Period: 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

This finding is included in Section II of the schedule of findings and questioned costs (430502).

FINDING 430502

2. Backup and Disaster Recovery Plans

DHS, in conjunction with the Department of Information Technology (DIT), did not coordinate efforts to ensure that DHS established and implemented comprehensive, up-to-date, and tested backup and disaster recovery plans for several of its critical automated information systems. As a result, DHS could not ensure uninterrupted business services and the preservation of critical financial and client data in the event of a disaster or other disruption.

Executive Order No. 2001-3 transferred the responsibility for all information technology services to DIT. DIT assists DHS in maintaining its automated information systems, including disaster recovery and business resumption services. DHS, as the business owner, retains responsibility for data processed through its automated systems, including those developed in conjunction with DIT. Our review of the backup and disaster recovery processes of selected DHS automated information systems used to support DHS's financial schedules and/or statement assertions and its compliance with federal laws and regulations disclosed:

- a. DHS and DIT did not have detailed, documented, up-to-date, and tested backup and disaster recovery plans for 7 systems housed in the client/server environment and for 8 systems housed in the mainframe environment. Although DHS had documented plans for 2 of the 7 systems housed in the client/server environment and 6 of the 8 systems housed in the mainframe environment, those plans were not periodically updated or tested to ensure that the plans were sound.
- b. DHS and DIT did not store backup and recovery tapes for two systems at an off-site facility as required by DMB.

DMB Administrative Guide procedure 1310.02 states that off-site storage for backup and recovery tapes must be a minimum of five miles from the main processing site.

- c. DHS did not ensure that business resumption plans for its local offices addressed interruptions in services resulting from disasters at the computer processing site that affected availability of computer services.
- d. DHS and DIT did not ensure that recovery tests were conducted to confirm DHS's ability to resume operations.

Secure Michigan Initiative, a report issued by the DIT Office of Security and Disaster Recovery, recommends the establishment of documented and tested backup and disaster recovery plans to ensure that a department can recover and continue its operations in the event of a disaster. Also, the report indicates that one of the highest security risks in the State relates to a lack of formal disaster

recovery, business resumption, and business continuity planning and implementation.

RECOMMENDATION

We recommend that DHS, in conjunction with DIT, coordinate efforts to ensure that DHS establishes and implements comprehensive, up-to-date, and tested backup and disaster recovery plans for its critical automated information systems.

DEPARTMENT OF HUMAN SERVICES

Corrective Action Plan
As of November 28, 2005

FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Finding Number: 430501
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Management Views: The Department of Human Services (DHS) agrees.

Corrective Action: DHS will continue to footnote its expenditures that are financed by revenues with the federal character of object classification as reflected in the *State of Michigan Comprehensive Annual Financial Report's* schedule of revenue and other financing sources - General Fund. DHS is developing a new contract tracking/payment system that will automate the reconciliation with the Michigan Administrative Information Network (MAIN).

Anticipated Completion Date: October 1, 2007

Responsible Individual: Russell Hecko

Finding Number: 430502
Finding Title: Backup and Disaster Recovery Plans

Management Views: DHS agrees.

Corrective Action: The Department of Information Technology (DIT) will comply with items a. and b. DHS will update local office business resumption plans. As DIT designs enterprise-wide strategies to conduct recovery tests,

DHS and DIT will coordinate efforts to comply with the finding.

Anticipated Completion Date: December 31, 2007

Responsible Individuals: Pratin Trivedi, DHS
Lynn Draschil, DIT

Finding Number: 430517

Finding Title: Procurement and Suspension and Debarment

Management Views: DHS agrees.

Corrective Action: DHS established procedures to comply with suspension and debarment federal regulations in June 2004. DHS is in the process of reengineering the contracting process to improve efficiency and address contract training issues.

Anticipated Completion Date: October 1, 2006

Responsible Individual: Helen Weber

OMB Circular A-133, Section 210, requires DHS to establish requirements to ensure compliance by for-profit subrecipients with federal award requirements.

RECOMMENDATION

We recommend that DHS improve its internal control to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING 430521

21. **Cash Management**

U.S. Department of Agriculture	Food Stamp Cluster: <i>CFDA</i> 10.551 Food Stamps; <i>CFDA</i> 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: 2MI400100 2MI420122	Award Period: 10/01/2002 - 09/30/2003 10/01/2001 - 09/30/2003
	Questioned Costs: \$0

U.S. Department of Education	<i>CFDA</i> 84.126: Rehabilitation Services - Vocational Rehabilitation Grants to States
Award Number: H-126A-02-0031 H-126A-03-0031	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Health and Human Services	<i>CFDA</i> 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA G 04 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: \$0

U.S. Department of Health and Human Services	Child Care Cluster: <i>CFDA</i> 93.575 Child Care and Development Block Grant; <i>CFDA</i> 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number:	Award Period:
G 00 01 MI CCD2	10/01/1999 - 09/30/2002
G 01 01 MI CCD2	10/01/2000 - 09/30/2003
G 02 01 MI CCDF	10/01/2001 - 09/30/2004
G 03 01 MI CCDF	10/01/2002 - 09/30/2005
G 04 01 MI CCDF	10/01/2003 - 09/30/2006
G 02 01 MI CCDF (Matching)	10/01/2001 - 09/30/2002
G 03 01 MI CCDF (Mandatory)	10/01/2002 - 09/30/2003
G 03 01 MI CCDF (Matching)	10/01/2002 - 09/30/2003
G 04 01 MI CCDF (Mandatory)	10/01/2003 - 09/30/2004
G 04 01 MI CCDF (Matching)	10/01/2003 - 09/30/2004
	Questioned Costs: \$0

U.S. Department of Health and Human Services	<i>CFDA</i> 93.659: Adoption Assistance
Award Number:	Award Period:
G 03 01 MI 1407	10/01/2002 - 09/30/2003
G 04 01 MI 1407	10/01/2003 - 09/30/2004
	Questioned Costs: \$0

DHS's internal control did not ensure compliance with federal cash management requirements contained in the federal Cash Management Improvement Act (CMIA) of 1990.

As a result, DHS overdraw cash funds, lost and understated interest due to the State from the U.S. Department of Treasury, and received excess interest from the U.S. Department of Treasury. Noncompliance with CMIA provisions could negatively affect federal program funding, including possible sanctions by federal granting agencies.

The CMIA was enacted to achieve greater efficiency, effectiveness, and equity in the transfer of federal funds. The State has an agreement with the U.S. Department of Treasury to implement the CMIA in accordance with federal regulation 31 *CFR* 205. To comply with the CMIA, the State must annually compare actual and prescribed cash draws and determine if interest is due from or to the U.S. Department of Treasury.

Our review of DHS's compliance with the CMIA disclosed:

a. DHS did not always draw federal funds in accordance with the CMIA agreement:

(1) DHS did not draw the prescribed amounts for the Rehabilitation Services: Vocational Rehabilitation Grants to States Program and the Child Care Cluster. As a result, DHS overdraw approximately \$2.3 million during fiscal year 2003-04.

During the first three quarters of fiscal year 2003-04, DHS made biweekly cash draws for the Rehabilitation Services: Vocational Rehabilitation Grants to States Program that exceeded the prescribed draw amount. DHS attributed the excess draw amounts to human error and reimbursed the U.S. Department of Education for the overdrawn amount.

During December 2003, DHS made three excess draws for the Child Care Cluster because DHS applied a 100% factor rather than the appropriate federal financial participation rate of 55.42% to determine the draw amount. Federal regulation 45 *CFR* 98.53 states that the Child Care Cluster will match DHS Child Care Cluster expenditures at the federal medical assistance rate.

(2) DHS did not adjust cash draw amounts for administrative expenditures for LIHEAP and the Child Care Cluster as required by the CMIA. As a result, the State lost interest of approximately \$6,300 by not drawing the full amount available for LIHEAP administrative expenditures. The interest effect for the Child Care Cluster could not be determined at the time of our audit because DHS had not calculated the appropriate adjustment.

The CMIA requires DHS to calculate and adjust cash draw amounts for administrative expenditures based on cost allocation information from the prior quarter.

b. DHS did not submit complete and accurate information to the Michigan Department of Treasury in its annual CMIA report. As a result, calculations of

interest due to and from the U.S. Department of Treasury were incorrect. Our review disclosed:

- (1) DHS did not include information in its fiscal year 2003-04 annual report to the Michigan Department of Treasury regarding the excess cash draws for the Rehabilitation Services: Vocational Rehabilitation Grant to States and the Child Care Cluster noted in item a.(1) of this finding. As a result, interest due the U.S. Department of Treasury was understated by approximately \$4,500.
- (2) DHS did not include information in its fiscal year 2002-03 annual report to the Michigan Department of Treasury to request reimbursement from the U.S. Department of Treasury for interest due the State for providing State General Fund/general purpose funds to operate the Food Stamp Cluster pending receipt of federal cash draws. As a result, the State lost interest of approximately \$2,400.
- (3) DHS included erroneous information in the fiscal year 2002-03 annual report to the Michigan Department of Treasury related to interest due from the U.S. Department of Treasury for the Adoption Assistance Program. DHS included the State and federal share of payroll costs in the interest due calculation instead of only the federal share. As a result, DHS received approximately \$2,000 of excess interest revenue in fiscal year 2002-03.

RECOMMENDATION

We recommend that DHS improve its internal control to ensure compliance with federal cash management requirements contained in the CMIA.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.