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MICHIGAN HOUSE OF REPRESENTATIVES

**EARL POLESKI**  
STATE REPRESENTATIVE

APPROPRIATIONS  
SUBCOMMITTEES:  
JUDICIARY, C  
GENERAL GOVERNMENT, VC  
HEALTH AND HUMAN SERVICES, VC  
CORRECTIONS  
SCHOOL AID  
FINANCIAL LIABILITY REFORM

TO: Chairman Ed McBroom, House Oversight & Ethics Committee  
CC: Chairman Al Pscholka, Appropriations Committee  
FROM: Earl Poleski, Chairman of the Appropriations Subcommittee on Human Services  
Thomas Hooker, Chairman of Families, Children & Seniors Policy Committee  
DATE: Monday, December 5, 2016  
RE: Recommendations on Performance Audit of the Child Care Fund Department of Health and Human Services June 2016 Report Number: 431-1400-13.

Chairman McBroom:

Pursuant to House Rule 36, on September 21, 2016, the House Oversight & Ethics Committee referred the following Auditor General report for further consideration by the Appropriations Sub-Committee on Human Services and the Policy Committee on Families Children & Seniors.

**Performance Audit of the Child Care Fund Department of Health and Human Services June 2016 Report Number: 431-1400-13.**

We have reviewed the report and offer the following recommendations:

- Due to the nature and severity of the findings listed within, we recommend referring the report to the 2017-18 Appropriations Sub-Committee on Health & Human Services and the Policy Committee on Families Children & Seniors for further review. Additionally, the list of recommendations referred to the Appropriations Sub-Committee on Health & Human Services and the Policy Committee on Families Children & Seniors by the Policy Committee on Oversight and Ethics should be included in the referral.
- The 2017-18 Appropriations Sub-Committee on Health & Human Services and the Policy Committee on Families Children & Seniors should conduct a hearing to allow the OAG to present their findings; the Michigan Department of Health and Human Services (DHHS) to respond to the report and share corrective steps taken to improve CCF program effectiveness; and stakeholders an opportunity to provide testimony.
- Work with the department and stakeholders to determine if legislative action is needed, and develop legislation and/or boilerplate to facilitate the department's ability to achieve audit objectives.
- Any other activities identified by the in-coming members of the committee deemed appropriate.

We thank you for this opportunity to submit our recommendations.

Sincerely,

Earl Poleski  
Chairman, DHS Appropriations Subcommittee

Thomas Hooker  
Chairman, Families, Children & Seniors

## **Auditor General Report Recommendation by the House Oversight and Ethics Committee**

The Committee agrees with the findings in the Auditor General's report on the Child Care Fund. This report indicates a need for improvement and further review. Further review should include, but not be limited to, the following:

1. A full review of the role of the CCF Handbook. The focus should be to determine whether statute or administrative rules should be updated to better serve the courts, counties, and CCF Monitoring Unit. During this review, the focus should be on establishing categories of reimbursable items. The CCF Handbook should be used primarily for guidance in the implementation of statute and rules without becoming a source of rules to the users. If the collaborative process recommended in recommendation #4 were implemented the changes in policy should be enacted through the regular administrative rulemaking process.
2. Seeking further clarification to determine if the 1997 Supreme Court decision in *Oakland Co v Mich*, 456 Mich 144; 566 NW2d 616, prevents the CCF from properly administering certain aspects of the program. This may include requesting an Attorney General Opinion. If it is determined that the case has impaired the CCF from performing its statutory requirements, a secondary review and recommendation should be made to address this issue.
3. Further discussion and review for implementing a full risk-based approval and audit process. The CCF may be best served by moving to an internal methodology that is primarily focused on identifying inherent risks and providing assurances that the risks are being managed and addressed. A more focused approach could result in decreased costs and increased efficiency when auditing court and county reimbursement requests.
4. The establishment of a Partnership-Leadership workgroup. One consistent theme heard during the committee was the lack of quality and meaningful communication between different stakeholders. Whether through statute, boilerplate, or some other means, a collaborative, formal committee should be established. The Office of Child Support has a similar leadership group that brings together numerous stakeholders to address and discuss changes and concerns.

5. Further discussion and consideration of a system that predetermines a set reimbursement amount unique to each entity that is based on the previous five years of payments, approved plans, and potential risk to counties and courts, as well as the State.
6. The review of internal risk controls. Throughout the hearings, the issue of quality internal risk controls was raised, and there was support for determining if an independent consultant would best serve the Child Care Fund. A Request for Proposal (RFP) should be implemented to find such a consultant, who could help with any future reforms and serve as a third party to oversee risk control protocols.
7. A full review of the limitations of the current reimbursement cap. At present, a local unit is generally limited to a \$500 cap for reimbursements. This causes significant issues for any county or court that needs to purchase capital equipment. It would be in the best interests of all parties to consider reforming this strict cap. Proposed ideas should, at a minimum, include discussions on allowing counties to establish a discount amount on the 207 Form, allowing a county or court to depreciate capital equipment over its life to recoup costs without being restrained by the cap, and determining if the \$500 cap should be modified.

Additionally, the House Oversight and Ethics Committee has suggested numerous legislative proposals to address the outstanding concerns surrounding the Child Care Fund. The proposals include, but are not limited to, the following:

1. Honor the existing Annual Plan and Budgets by reimbursing the total, initially approved amounts for counties and courts for Fiscal Years 2016 and 2017. For reimbursements beginning in Fiscal Year 2018, the reimbursements should be based on administrative rules and statute, if implemented. If statute or administrative rules are not sufficient by Fiscal Year 2018, the 2002-2012 CCF Handbook should be used as persuasive guidance when reviewing reimbursements and eligible expenses.
2. Suspend the use of the 2013 CCF Handbook as authoritative guidance. Rather than modifying the current handbook, the focus should instead be on new statutory or administrative rules. The new rules or statutory changes will ensure that all parties have been heard and the changes have been vetted. If the CCF needs additional persuasive

guidance, it should look to the 2002-2012 version of the handbook or a new, less detailed version of the CCF Handbook.

3. The 207 Form required for reimbursements should be updated to address numerous reporting requirements. The changes should include, but not be limited to, allowing the courts and counties to submit reimbursement reports for multiple months simultaneously; requiring that all clarifications and requests for additional information be made within 15 days only; and, once a report is approved, requiring payment to be made to a court or county within 45 days.
4. Establish administrative or statutory rules that allow courts and the counties to make adjustments to their Annual Plan and Budgets. Specifically, since local units of government are unable to deficit spend, they should be afforded the option to amend their annual plans to reflect the cost allocations that are received by the county and filed with the CCF Monitoring Unit. Additionally, courts and counties should have the ability to complete a corrective action plan when CCF expenditures are challenged. This change would allow the local units the ability to correct mistakes or errors in their annual plans without facing a penalty.
5. Limiting the department's ability to look back at expenditures. The department should be limited to a date certain for which they may look back or chargeback for previously approved expenditures. If the CCF Monitoring Unit was limited to 45 days, this would create more certainty for counties and courts, and would allow them to more securely and confidently move forward with programs and their corresponding expenditures.

Following diligent assessment by the Human Services Subcommittee of Health and Human Services Subcommittee of the Standing House Appropriations Committee, the House Oversight and Ethics will request a formal follow-up audit of the Child Care Fund. Committee members agree that the role of the Auditor General is integral to identifying areas of concern and to effectuate accountability measures. The Committee recommends a six month and twelve month follow-up review, as well as a formal audit to be completed by November 2018.

The Oversight and Ethics Committee has diligently performed its duty under House Rule 36 and submits this report to the Human Services Subcommittee of Health and Human Services Subcommittee of the Standing House Appropriations Committee.



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**TO:** Representative Earl Poleski, House Appropriations Subcommittee Chair  
**FROM:** Joy Brewer, Committee Clerk for the House Standing Committee on Oversight and Ethics  
**DATE:** Friday, September 23, 2016  
**SUBJECT:** House Oversight and Ethics Committee Recommendations on the Auditor General's Performance Audit on the Child Care Fund.

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Per request of the Chair, I am attaching the signed letter from the Chair and the committee's recommendations regarding this audit.

On Thursday, September 23, 2016, pursuant to House Rule 36, the House Standing Committee on Oversight and Ethics referred the Performance Audit of the Child Care Fund, Department of Health and Human Services, (Report Number: 431-1400-13 of June 2016), and the House Oversight and Ethics Committee's recommendations on the Auditor General Report on the Child Care Fund to the **House Standing Committee on Families, Children and Seniors** and to the **House Standing Committee on Appropriations** with recommendation to re-refer it to the **Subcommittee on Human Services**.

The motion prevailed by an affirmative vote of a majority of the members appointed to and serving on the committee, voting as follows:

Yeas: Representatives McBroom, Howrylak, Graves, Theis, Robinson, and Pagan. (6/6)

Nays: None. (0)

CC: Representative Al Pscholka, House Appropriations Chair  
Representative Thomas Hooker, Committee Chair of Families, Children and Seniors



**MICHIGAN HOUSE OF REPRESENTATIVES**  
**Oversight & Ethics Committee**

TO: Chairman Earl Poleski  
Members of the Appropriations Sub-Committee on Human Services

Pursuant to House Rule 36, the House Oversight & Ethics Committee hereby refers a report of the Oversight and Ethics Committee and the following Auditor General report for consideration by the Appropriations Sub-Committee on Human Services.

Performance Audit of the Child Care Fund Department of Health and Human Services  
June 2016 Report Number: 431-1400-13.

The Committee shall consider the findings contained in the audit report and, if appropriate, evaluate the departments' corrective action plan for feasibility and effectiveness. The Subcommittee should also consider recommendations for improvement and corrective action, including legislative action. The Oversight & Ethics Committee requests receipt of said recommendations on or before December 5, 2016.

A handwritten signature in black ink, appearing to read "Ed McBroom", written over a horizontal line.

Representative Ed McBroom  
*Chairman, House Oversight & Ethics Committee*

Date: 9/21/16

CC: Chairman Thomas B. Hooker



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**TO:** Representative Thomas Hooker, Chair of House Standing Committee in Families, Children and Seniors

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**DATE:** Friday, September 23, 2016

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Per request of the Chair, I am attaching the signed letter from the Chair, the committee's recommendations regarding this audit, and a copy of the Auditor General's Report.

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Yeas: Representatives McBroom, Howrylak, Graves, Theis, Robinson, and Pagan, (6/6)  
Nays: None. (0)

CC: Representative Al Pscholka, House Appropriations Chair  
Representative Earl Poleski, Appropriations Subcommittee Chair of Human Services



**MICHIGAN HOUSE OF REPRESENTATIVES**  
**Oversight & Ethics Committee**

TO: Chairman Thomas B. Hooker  
Members of the Families, Children, and Seniors Committee

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