FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

MICHIGAN DEPARTMENT OF STATE POLICE

October 1, 1999 through September 30, 2001

55-100-02

Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act
October 1, 1999 through September 30, 2001

Michigan Department of State Police (MSP)

Report Number:
55-100-02

Released:
June 2002

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on MSP's financial schedules.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 through 4).

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Noncompliance Material to the Financial Schedules

We did not identify any instances of noncompliance applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 8 programs as major programs and issued 8 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We did not identify any material weaknesses in internal control over major programs. However, we did identify reportable conditions (Findings 5 through 8).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 5 through 7).

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Systems of Accounting and Internal Control:
We determined that MSP was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws.* However, we did identify a reportable condition (Finding 1).

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We audited the following programs as major programs:

CFDA Number	***Program Title***	***Compliance Opinion***
07	High Intensity Drug Trafficking Areas (HIDTA)	Unqualified
16.554	National Criminal History Improvement Program (NCHIP)	Unqualified
16.579	Byrne Formula Grant Program	Unqualified
20.218	National Motor Carrier Safety	Unqualified
20.600, 20.601, 20.602, 20.603, and 20.604	Highway Safety Cluster	Unqualified
83.543	Individual and Family Grants	Unqualified
83.548	Hazard Mitigation Grant	Unqualified
83.552	Emergency Management Performance Grants	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 19, 2002

Colonel Stephen D. Madden, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Madden:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of State Police (MSP) for the period October 1, 1999 though September 30, 2001.

This report contains our report summary; our independent auditor's report on the financial schedules; and the MSP financial schedules, notes to the financial schedules, and supplemental financial schedules. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains MSP's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Independent Auditor's Report on
the Financial Schedules

March 15, 2002

Colonel Stephen D. Madden, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Madden:

We have audited the accompanying schedule of General Fund revenue and transfers and the schedule of sources and disposition of General Fund authorizations of the Michigan Department of State Police for the fiscal years ended September 30, 2001 and September 30, 2000. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and transfers and the sources and disposition of authorizations for the Michigan Department of State Police's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and transfers and the sources and disposition of authorizations of the Michigan Department of State Police for the fiscal years ended September 30, 2001 and September 30, 2000, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2002 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedule, the schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of General Fund Revenue and Transfers
Fiscal Years Ended September 30

	2001	2000
REVENUE		
Federal revenue	$ 39,332,290	$ 31,214,006
Local revenue	1,692,007	1,625,631
Services	7,787,096	6,920,497
Licenses and permits	7,073,981	8,569,324
Miscellaneous revenue	30,126,665	31,998,752
Total Revenue	$ 86,012,039	$ 80,328,210
TRANSFERS		
From other funds	5,880,095	9,818,258
Total Revenue and Transfers	$ 91,892,134	$ 90,146,468

The accompanying notes are an integral part of the financial schedules.

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	2001	2000
SOURCES OF AUTHORIZATIONS (Note 3)		
General purpose appropriations	$ 321,355,600	$ 278,938,900
Balances carried forward	47,751,947	38,940,505
Restricted financing sources	102,301,782	96,127,644
Less: Intrafund expenditure reimbursements	(11,429,679)	(7,011,286)
Total	$ 459,979,650	$ 406,995,763
DISPOSITION OF AUTHORIZATIONS (Note 3)		
Gross expenditures and transfers	$ 420,164,364	$ 365,767,629
Less: Intrafund expenditure reimbursements	(11,429,679)	(7,011,286)
Net expenditures and transfers	$ 408,734,685	$ 358,756,343
Balances carried forward:		
Multi-year projects	$ 2,395,790	$ 14,220,699
Encumbrances	10,062,714	4,097,013
Restricted revenue - authorized	1,157,108	1,477,125
Restricted revenue - not authorized	29,756,801	27,957,110
Total balances carried forward	$ 43,372,413	$ 47,751,947
Balances lapsed	$ 7,872,552	$ 487,473
Total	$ 459,979,650	$ 406,995,763

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Michigan Department of State Police (MSP) for the fiscal years ended September 30, 2001 and September 30, 2000. The financial transactions of MSP are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR).*

The notes accompanying these financial schedules relate directly to MSP. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Pension Benefits and Other Postemployment Benefits; Compensated Absences; and Contingencies and Commitments.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and transfers and the sources and disposition of authorizations for MSP's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either MSP or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

Note 2 Miscellaneous Revenue

Significant categories of miscellaneous revenue are Secondary road patrol and training ($6.8 million and $7.4 million for fiscal years 2000-01 and 1999-2000,

respectively), auto theft prevention fees ($6.8 million and $6.7 million for fiscal years 2000-01 and 1999-2000, respectively), highway safety ($6.8 million and $7.1 million for fiscal years 2000-01 and 1999-2000, respectively), and the Michigan Justice Training Fund ($6.7 million and $7.1 million for fiscal years 2000-01 and 1999-2000, respectively).

Note 3 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.

b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.

c. Restricted financing sources: Collections of restricted revenue, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.

d. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. Significant carry-forwards of this type were emergency management planning and administration, law enforcement information technology projects, and disaster assistance grants.

e. Encumbrances: Authorizations carried forward to finance payments for goods and services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

f. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, MSP had not received legislative authorization to expend the revenue. Significant carry-forwards of this type are Michigan justice training funds, automobile theft prevention fees, truck driver safety funds, and highway safety funds.

SUPPLEMENTAL

FINANCIAL SCHEDULES

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Certain General Fund Assets and Liabilities
As of September 30

	2001	2000
ASSETS		
Amounts due from federal agencies	$ 10,999,553	$ 7,620,991
Amounts due from local units	$ 91,079	$ 441,320
Inventory	$ 3,452,772	$ 3,502,252
Other current assets	$ 3,704,458	$ 3,221,385
LIABILITIES		
Accounts payable	$ 16,983,623	$ 8,196,488
Deferred revenue	$ 2,687,364	$ 1,733,767

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Michigan Department of State Police. The schedule does not include assets and liabilities that are accounted for centrally by the State, such as equity in Common Cash, cash in transit, and warrants outstanding.

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 1999 through September 30, 2001

Federal Agency/Program	CFDA * Number		Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000: Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Executive Office of the President - Office of National Drug Control Policy						
Direct Program:						
High Intensity Drug Trafficking Areas (HIDTA)	07	**		$ 1,316,188	$ 648,447	$ 1,964,635
Total Executive Office of the President - Office of National Drug Control Policy				**$ 1,316,188**	**$ 648,447**	**$ 1,964,635**
U.S. Department of Justice						
Direct Programs:						
State Domestic Preparedness Equipment Support Program	16.007			$ 11,190	$	$ 11,190
National Institute for Juvenile Justice and Delinquency Preventior	16.542				244,447	244,447
Missing Children's Assistance	16.543			67,889		67,889
National Criminal History Improvement Program (NCHIP)	16.554			744,051	558,652	1,302,703
Corrections and Law Enforcement Family Support	16.563			12,698		12,698
Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	16.564			5,227		5,227
State Identification Systems Grant Program	16.598			22,965		22,965
Bulletproof Vest Partnership Program	16.607					0
Public Safety Partnership and Community Policing Grants	16.710			79,284		79,284
Enforcing Underage Drinking Laws Program	16.727				155,357	155,357
Equitable Sharing of Federally Forfeited Property	16	**		396,935		396,935
DEA Detroit Divisional Task Force	16	**		10,686		10,686
DEA Grand Rapids Task Force	16	**		5,863		5,863
Violent Crimes Task Force	16	**		22,881		22,881
DEA REDRUM Task Force	16	**				0
Alliance Fugitive Task Force	16	**		22,341		22,341
U.S. Attorney - Oxford Lake Reimbursement	16	**				0
WEMET Customs	16	**				0
METRO OCDETF	16	**		4,978		4,978
Customs Reimbursement	16	**		14,333		14,333
Help Eliminate Marijuana Planting (HEMP)	16.99-54, 2000-60, 2001-66	**		189,823	39,784	229,607
Total Direct Programs				$ 1,611,144	$ 998,240	$ 2,609,384
Pass-Through Programs:						
Byrne Formula Grant Program passed through:						
Alpena County	16.579		70874-1K99	$ 104,030	$	$ 104,030
City of Grand Rapids	16.579		70444-8K99	186,564		186,564
City of Holland	16.579		70834-1K99	47,132		47,132
City of Lansing	16.579		70272-9K99	89,715		89,715
Department of Attorney General	16.579		70857-1K99	140,315		140,315
Department of Community Health	16.579		(Note 2)	1,707,129	1,162,256	2,869,385
Emmet County	16.579		70868-1K99	116,760		116,760
Ionia County	16.579		70238-9K99	46,281		46,281
Lapeer County	16.579		70220-9K99	40,627		40,627
Macomb County	16.579		70640-6K99	25,000		25,000
Missaukee County	16.579		70772-2K99	58,713		58,713
Ogemaw County	16.579		70844-1K99	156,814		156,814
Family Independence Agency						
Violence Against Women Formula Grants	16.588		00-WF-NX-0026	321,199		321,199
Total Pass-Through Programs				$ 3,040,279	$ 1,162,256	$ 4,202,535
Total U.S. Department of Justice				**$ 4,651,423**	**$ 2,160,496**	**$ 6,811,919**
U.S. Department of Transportation						
Direct Programs:						
Highway Safety Cluster						
State and Community Highway Safety	20.600			$ 2,255,322	$ 2,779,199	$ 5,034,521
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601			151,382	430,394	581,776
Occupant Protection	20.602			34,009	162,129	196,138

This schedule continued on next page.

Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2001 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	$ 1,392,617	$ 542,465	$ 1,935,082	$ 3,899,717
	$ 1,392,617	**$ 542,465**	**$ 1,935,082**	**$ 3,899,717**
	$ 173,989	$ 566,096	$ 740,085	$ 751,275
		44,159	44,159	288,606
	233,057		233,057	300,946
	424,395	188,289	612,684	1,915,387
	5,192		5,192	17,890
	603,840		603,840	609,067
	131,000		131,000	153,965
	58,113		58,113	58,113
	456,639		456,639	535,923
	37,265	200,307	237,572	392,929
	117,499		117,499	514,434
	19,758		19,758	30,444
	6,077		6,077	11,940
	35,818		35,818	58,699
	18,402		18,402	18,402
	20,545		20,545	42,886
	248,500		248,500	248,500
	575		575	575
	20,923		20,923	25,901
	806		806	15,139
	118,207	24,754	142,961	372,568
	$ 2,730,600	$ 1,023,605	$ 3,754,205	$ 6,363,589
70874-2K00	$ 109,170	$	$ 109,170	$ 213,200
70444-9K00	243,685		243,685	430,249
70834-2K00	50,324		50,324	97,456
70901-1K00	99,717		99,717	189,432
70857-2K00	223,713		223,713	364,028
(Note 2)	1,800,429	1,196,710	2,997,139	5,866,524
70868-2K00	114,010		114,010	230,770
70894-1K00	40,626		40,626	86,907
70898-1K00	45,577		45,577	86,204
70640-7K00	25,000		25,000	50,000
70772-3K00	61,771		61,771	120,484
70844-2K00	156,208		156,208	313,022
	216,921		216,921	538,120
	$ 3,187,151	$ 1,196,710	$ 4,383,861	$ 8,586,396
	$ 5,917,751	**$ 2,220,315**	**$ 8,138,066**	**$ 14,949,985**
	$ 3,344,369	$ 3,240,136	$ 6,584,505	$ 11,619,026
	11,985	1,494,773	1,506,758	2,088,534
	60,000	392,541	452,541	648,679

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 1999 through September 30, 2001
Continued

Federal Agency/Program	*CFDA* * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2000: Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Federal Highway Safety Data Improvements Incentive Grants	20.603		$ 78,346	$	$ 78,346
Safety Incentive Grants for Use of Seatbelts	20.604		24,464	386,010	410,474
Total Highway Safety Cluster			$ 2,543,523	$ 3,757,732	$ 6,301,255
National Motor Carrier Safety	20.218		$ 3,582,052	$ 84,382	$ 3,666,434
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		165,007	62,375	227,382
Total U.S. Department of Transportation			**$ 6,290,582**	**$ 3,904,489**	**$ 10,195,071**
Federal Emergency Management Agency					
Direct Programs:					
Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	83.011		$ 33,100	$	$ 33,100
Community Assistance Program - State Support Services Element (CAP-SSSE)	83.105			164,000	164,000
Flood Mitigation Assistance	83.536		5,768	80,442	86,210
Fire Suppression Assistance	83.542		650	6,820	7,470
Individual and Family Grants (Note 3)	83.543				0
Public Assistance Grants	83.544		221,212	7,313,394	7,534,606
First Responder Counter-Terrorism Training Assistance	83.547		46,892		46,892
Hazard Mitigation Grant	83.548		143,055	2,527,223	2,670,278
Project Impact - Building Disaster Resistant Communities	83.551		67,118		67,118
Emergency Management Performance Grants	83.552		2,137,302	1,964,273	4,101,575
Comprehensive Environmental Response, Compensation, and Liability Act	83	**	7,113		7,113
Total Federal Emergency Management Agency			**$ 2,662,210**	**$ 12,056,152**	**$ 14,718,362**
Total Expenditures of Federal Awards			$ 14,920,403	$ 18,769,584	$ 33,689,987

* *CFDA* is defined as *Catalog of Federal Domestic Assistance* .

** *CFDA* number not available. Number derived from federal agency number and grant or contract number, if available.

The accompanying notes are an integral part of this supplemental financial schedule.

Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2001 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	$ 18,585	$	$ 18,585	$ 96,931
	171,176	57,650	228,826	639,300
	$ 3,606,115	$ 5,185,100	$ 8,791,215	$ 15,092,470
	$ 4,802,166	$ 92,282	$ 4,894,448	$ 8,560,882
	244,940	93,499	338,439	565,821
	$ 8,653,221	**$ 5,370,881**	**$ 14,024,102**	**$ 24,219,173**
	$	$	$	$ 33,100
		164,000	164,000	328,000
	10,337	92,430	102,767	188,977
	8,145		8,145	15,615
		52,663,961	52,663,961	52,663,961
	482,863	10,643,020	11,125,883	18,660,489
	38,118		38,118	85,010
	190,882	1,873,711	2,064,593	4,734,871
	4,151		4,151	71,269
	1,989,258	1,894,270	3,883,528	7,985,103
	4,000		4,000	11,113
	$ 2,727,754	**$ 67,331,392**	**$ 70,059,146**	**$ 84,777,508**
	$ 18,691,343	$ 75,465,053	$ 94,156,396	$ 127,846,383

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule includes the federal grant activity of the Michigan Department of State Police (MSP) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules. MSP receives some federal grants as a subgrantee of another State department. In these cases, the transfer of the financing is recorded in the MSP accounting records as an expenditure credit. MSP also distributes some federal grants to other State departments as a pass-through entity. In these cases, the transfer of the financing is recorded in the MSP accounting records as a revenue debit. As a result, the amounts reported as expended on this schedule do not agree with the amounts reported as federal revenue in the schedule of General Fund revenue and transfers.

Note 2 Byrne Formula Grant Program

Pass-through identification numbers for the Department of Community Health's Byrne Formula Grant Program (CFDA number 16.579) are:

Fiscal Year 1999-2000: 70889-1K99, 70859-1K99, 70860-1K99, 70888-1K99, 70358-9K99, 70439-8K99, 70678-5K99, 70768-3K99, 70771-2K99, 70773-1K98, 70773-2K99, 71168-3K97, 82001-1T98.

Fiscal Year 2000-01: 70439-9K00, 70678-6K00, 70768-4K00, 70771-3K00, 70773-2K99, 70773-3K00, 70859-2K00, 70860-2K00, 70888-2K00, 70889-2K00, 70909-1K00, 71168-3K97.

Note 3 Individual and Family Grants Program

The expenditures of the Individual and Family Grants Program represent a pass-through to the Family Independence Agency. In accordance with the State's accounting policy, the transfer of the financing is recorded in MSP's accounting records as a revenue debit which offsets the revenue credit recorded when the funds are received from the Federal Emergency Management Agency. As a result, the schedule of General Fund revenue and transfers does not reflect any federal revenue for this program.

INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

March 15, 2002

Colonel Stephen D. Madden, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Madden:

We have audited the General Fund financial schedules of the Michigan Department of State Police for the fiscal years ended September 30, 2001 and September 30, 2000 and have issued our report thereon dated March 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability

to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

March 15, 2002

Colonel Stephen D. Madden, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Madden:

Compliance

We have audited the compliance of the Michigan Department of State Police with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Michigan Department of State Police complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 5 through 7.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 5 through 8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

** See glossary at end of report for definition.*

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
07	High Intensity Drug Trafficking Areas (HIDTA)
16.554	National Criminal History Improvement Program (NCHIP)
16.579	Byrne Formula Grant Program
20.218	National Motor Carrier Safety
20.600, 20.601, 20.602, 20.603, and 20.604	Highway Safety Cluster
83.543	Individual and Family Grants
83.548	Hazard Mitigation Grant
83.552	Emergency Management Performance Grants

Dollar threshold used to distinguish between type A and type B programs: $3,000,000

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (550201)

1. Internal Audit and the Biennial Assessment of Internal Controls

MSP had not fully complied with Sections 18.1486(2) and 18.1486(5) of the *Michigan Compiled Laws* and Department of Management and Budget (DMB) Administrative Guide procedure 1270.01.

** See glossary at end of report for definition.*

Our review of MSP's internal audit position and activity disclosed:

a. MSP had not established organizational independence for its acting internal auditor in compliance with statutory requirements.

   Section 18.1486(2) of the *Michigan Compiled Laws* states that the internal auditor shall report to and be under the general supervision of the department head. Section 18.1486(5) of the *Michigan Compiled Laws* states that each internal auditor shall adhere to appropriate professional standards in carrying out any financial or program audits or investigations. These standards provide that the internal auditor should be accountable to the head or deputy head of the department and should be organizationally located outside the staff or line management function of the units under audit.

   During the audit period, the internal auditor was temporarily reassigned to another State department. MSP appointed the accountant manager as the acting internal auditor. The accountant manager is the manager of the accounting unit and reports directly to the chief accountant. The manager's duties include coordinating the closing of MSP's financial records for the fiscal year-end, supervising the accounting unit staff, providing oversight of MSP fiscal managers, and overseeing the preparation of MSP's financial reports.

   This organizational placement impairs the acting internal auditor's ability to function independently and audit impartially. This placement has also resulted in the acting internal auditor auditing transactions and balances that he, his staff, and his supervisor were responsible for preparing.

b. MSP did not complete the biennial assessment of internal controls in accordance with DMB Administrative Guide procedure 1270.01.

   DMB Administrative Guide procedure 1270.01 indicates that the designated senior official will direct the evaluation of the department's internal control in accordance with the General Framework for Evaluating Internal Accounting and Administrative Control Systems guidelines issued by DMB. The guidelines issued by DMB are formally entitled "Evaluation of Internal Controls: A General Framework and System of Reporting."

Our review of the biennial assessment documentation disclosed:

(1) MSP's designated senior official assigned the task of evaluating 2 of the 5 internal control components (the control environment and the information and communication components) to a member of the internal audit staff rather than to a member of MSP's management team.

The general framework explains that it is imperative that management throughout the department be primarily responsible for conducting the evaluation because it is management that has primary responsibility for the maintenance of strong internal controls. The general framework defines the role of the internal auditor as well by stating that regarding the biennial evaluation process, the internal auditor must conclude whether the evaluation process has been conducted in accordance with guidance provided in the general framework. The internal auditor's conclusions should be based on a review to determine whether the evaluation of internal control was carried out in a reasonable and prudent manner. The internal auditor should not be considered the "risk manager" but rather as the professional who assists management in recognizing, understanding, and appropriately controlling risks.

The internal auditor and the internal audit staff cannot independently review and make conclusions on the appropriateness of evaluations that they prepared.

(2) MSP's management did not fully complete assessments and document conclusions for 2 of the 5 internal control components.

The general framework states that a primary requirement to an effective evaluation process is developing and maintaining appropriate written documentation to substantiate conclusions from the evaluation process. This documentation, which will typically be prepared by various levels of management, should indicate whether measures are in place to achieve the objectives of internal control. The general framework defines the 5 components of internal control as: control environment, risk assessment, control activities, information and communication, and monitoring. The general framework further states that these 5 components also serve as criteria for evaluating the effectiveness of the internal controls.

We noted:

(a) Staff used a stakeholder survey as their sole source for the assessment instead of conducting their own thorough assessments.

(b) Staff addressed only 10 (34%) of the 29 criteria for the control environment component.

(c) Staff addressed only 4 (40%) of the 10 criteria for the information and communication component.

(d) The evaluation work sheets did not indicate whether the stakeholder survey comments were strengths or weaknesses. Our review of the stakeholder survey disclosed that the survey noted weaknesses for the criteria mentioned in items (b) and (c).

(e) The evaluation work sheets did not state an assessment conclusion for either component and did not contain a certifier signature or any other indication of who performed the evaluation.

RECOMMENDATION

We recommend that MSP fully comply with Sections 18.1486(2) and 18.1486(5) of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1270.01.

FINDING (550202)

2. Controls Over Procurement Cards*

MSP's controls did not ensure that procurement card users complied with MSP and DMB policies and procedures.

MSP used procurement cards to make purchases totaling approximately $3.3 million and $3.0 million in fiscal years 2000-01 and 1999-2000, respectively. We reviewed a sample of 176 transactions selected based on high risk criteria. Our

** See glossary at end of report for definition.*

review of these transactions disclosed the following instances of noncompliance with policies and procedures:

a. In 11 instances, totaling $664, the purchasers used the procurement card to make State business travel related purchases. MSP procedures and the State of Michigan Procurement Card Program's Cardholder Manual prohibit the use of procurement cards for travel related expenditures.

b. In 41 instances, totaling $12,298 (7% of the total value of the transactions tested), merchandise receipts were not retained. As a result, we could not verify the appropriateness of the purchases. MSP procedures and the Program's Cardholder Manual require that the purchasers obtain and retain merchandise receipts.

c. In 22 instances, the purchasers split the purchases to avoid exceeding the $2,500 individual transaction limit. MSP procedures and the Program's Cardholder Manual prohibit splitting charges in order to avoid exceeding the $2,500 individual transaction limit.

d. In 74 instances, supervisory approval of the transactions was not evident on receipts, transaction logs, or billing details. MSP procedures require that all transactions be approved by the purchaser's supervisor.

e. Five procurement cards were used by someone other than the approved cardholder for 29 transactions. MSP procedures and the Program's Cardholder Manual require that a procurement card be used only by the approved cardholder whose name is embossed on the card.

In response to a similar finding in our prior audit, MSP indicated that it agreed and would strengthen controls.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MSP STRENGTHEN ITS CONTROLS TO ENSURE THAT PROCUREMENT CARD USERS COMPLY WITH MSP AND DMB POLICIES AND PROCEDURES.

FINDING (550203)

3. Cash Management

MSP's controls did not provide for compliance with federal and State cash management standards related to time lines for drawing down federal funds.

MSP's drawdown of federal funds is to be made in accordance with the federal general cash management requirements, Section 18.1395(5) of the *Michigan Compiled Laws,* and DMB Administrative Guide procedure 1210.06. These standards require MSP to minimize the time elapsing between the transfer of funds from the U.S. Department of Treasury and the payout of funds by the State. MSP had not developed written procedures establishing time lines for drawing down federal funds.

We selected 15 cash drawdowns for the National Motor Carrier Safety Program (*CFDA* Number 20.218) in order to assess the time elapsed from the end of the quarter or the date that payments were made to subrecipients to the time that funds were received from the federal government. We noted a lapse of time that ranged from 16 to 140 days from the end of the quarter or subrecipient payment date to the time that the federal reimbursements were received. This resulted in a loss of interest income for the State of approximately $18,000 and $14,400 for fiscal years 2000-01 and 1999-2000, respectively. We noted that MSP manually requests draws instead of using an electronic format, which may contribute to the time lapse.

In response to a similar finding in our prior audit, MSP indicated that it agreed and would strengthen its controls to provide for compliance with federal and State cash management standards.

MSP staff informed us that they have made several inquiries of the U.S. Department of Treasury to implement an electronic process for reimbursement of federal expenditures and are currently waiting for implementation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MSP ENHANCE ITS CONTROLS TO PROVIDE FOR COMPLIANCE WITH FEDERAL AND STATE CASH MANAGEMENT STANDARDS RELATED TO TIME LINES FOR DRAWING DOWN FEDERAL FUNDS.

FINDING (550204)

4. Indirect Costs

MSP had not updated its indirect cost rate using current allowable costs to ensure that indirect costs were fully recovered. Additionally, MSP had not properly accounted for all indirect costs recovered from federal awards.

Our review of MSP's indirect cost plan and recovery of indirect costs disclosed:

a. MSP had not updated its indirect cost rate using current allowable costs.

OMB Circular A-87 requires governmental units desiring to recover indirect costs from federal awards to prepare an indirect cost proposal and related documentation to support those costs. OMB Circular A-87 provides that either a fixed or a predetermined indirect cost rate may be developed based on estimated costs. A fixed rate is calculated annually and differences between estimated and actual costs are carried forward as adjustments of rates of future years. OMB Circular A-87 also provides that a predetermined rate is not subject to adjustment and should be used for a norm of 2 to 4 years.

In addition, OMB Circular A-87 provides that an indirect cost rate should be developed by dividing the total allowable indirect costs by an equitable distribution base. OMB issued guidelines for developing state and local indirect cost rates. These guidelines provide that all allowable indirect costs for an agency should be included in the pool used to calculate an indirect cost rate.

MSP received initial approval of a fixed indirect cost rate of 7.4% in May 1989 for use in fiscal year 1988-89, based on actual costs for fiscal year 1986-87. For subsequent fiscal years, MSP has annually requested an extension of the 7.4% rate and obtained approval from its federal cognizant agency. MSP has continued to use the 7.4% as an estimated rate and has not calculated any adjustments for the differences between the costs used for the initial rate and actual costs for subsequent fiscal years.

The documentation of MSP's 1989 indirect cost rate disclosed that MSP did not include all allowable indirect costs in the indirect cost pool used to determine the rate. MSP included only indirect costs for salaries and wages to

calculate the 7.4% rate. This methodology is not consistent with the current OMB guidelines for developing indirect cost rates and the methodologies used by other State agencies that develop indirect cost rates.

MSP's indirect cost rate and the charges of indirect costs for federal grants would be significantly higher if MSP updated its rate using current allowable costs. MSP hired a consultant to develop an updated indirect cost rate proposal during fiscal year 1999-2000. The updated indirect cost rate proposal resulted in the rate increasing to 15.2%, based on actual costs for fiscal year 1998-99. This proposal used the appropriate methodology to calculate and allocate indirect costs. However, as of the end of our audit fieldwork, MSP had not submitted the updated indirect cost rate proposal to its federal cognizant agency for approval. MSP management informed us that it has not submitted the plan because of the uncertainty over the potential staffing changes resulting from the formation of the new Department of Information Technology.

We estimated that MSP could have recovered an additional $533,300 and $487,700 in fiscal years 2000-01 and 1999-2000, respectively, if the new rate had been in effect during our audit period.

b. MSP had not recorded all of the indirect cost revenue recovered from federal awards as General Fund/general purpose revenue.

Section 18.1460(2) of the *Michigan Compiled Laws* states that the indirect cost shall be credited as revenue to the respective State funds to offset State expenditures for support services for which indirect costs were provided.

We reviewed MSP's records supporting the schedule of expenditures of federal awards (SEFA) and determined that MSP reports having recovered $505,944 and $462,703 in indirect costs in fiscal years 2000-01 and 1999-2000, respectively. Our review of the revenue accounts disclosed that MSP recorded only $492,432 and $438,012 as indirect cost revenue in fiscal years 2000-01 and 1999-2000, respectively. MSP personnel did not determine in which accounts the differences of $13,512 and $24,691 were recorded.

RECOMMENDATIONS

We recommend that MSP update its indirect cost rate using current allowable costs to ensure that indirect costs are fully recovered.

We also recommend that MSP properly account for all indirect costs recovered from federal awards.

The status of the findings related to the financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (550205)

5. State and Community Highway Safety Program Expenditures

U.S. Department of Transportation	*CFDA*: 20.600 State and Community Highway Safety
Grant Number: N/A	Award Period: 10/01/99 - 09/30/00
	Questioned Cost: $26,725

MSP had not established controls to ensure that expenditures charged to the State and Community Highway Safety Program (*CFDA* Number 20.600) were consistently allocated and properly documented.

OMB Circular A-87, Attachment A, requires that charges to a federal program be adequately documented and that costs be allocated to a federal program in accordance with the relative benefits received by the federal program.

Our sample of expenditure transactions disclosed that MSP had transferred $15,000 of utility expenditures and $11,725 of rent expenditures from accounts financed with General Fund/general purpose appropriations to the federal State and Community Highway Safety Program at the end of fiscal year 1999-2000. There were no invoices or allocation work sheets to support the propriety of charging these expenditures to the federal program. Our review disclosed that MSP had invoices to support the remaining utility and rent charges of $14,525 and $55,337, respectively, charged to the program throughout the fiscal year.

RECOMMENDATION

We recommend that MSP establish controls to ensure that expenditures charged to the State and Community Highway Safety Program (*CFDA* Number 20.600) are consistently allocated and properly documented.

FINDING (550206)

6. Subrecipient Monitoring

All federal programs	Questioned Costs: None

MSP's controls did not ensure that all subrecipients were properly identified and that all subrecipient audit reports were obtained.

Our review of the subrecipient monitoring process disclosed:

a. MSP had not established a methodology for consistently identifying subrecipients.

Section 300(b) of OMB Circular A-133 requires that the auditee maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. Section 400(d) of OMB Circular A-133 sets forth requirements applicable to pass-through entities related to informing subrecipients of program requirements and monitoring subrecipients' compliance with program requirements. In order to comply with these requirements, MSP must determine if it has a subrecipient or vendor relationship with the entities to which it sends federal award money.

MSP did not evaluate the relationship with entities to which it sends federal High Intensity Drug Trafficking Area (HIDTA) grant money. Instead, for fiscal year 2000-01, the accountant manager in the MSP Management Services Division (MSD) generated a listing of payments made with HIDTA funds and identified the entities that had a local government name in the payee field. This process was done solely to provide an amount to report on the SEFA. The names were not forwarded to the individual responsible for obtaining

subrecipient audit reports. Additionally, MSP did not maintain documentation to support how it determined which entities were subrecipients for the HIDTA Program for the fiscal year 1999-2000 SEFA.

b. MSP did not obtain all of the subrecipient audit reports in accordance with OMB Circular A-133 requirements.

Section 400(d)(4) of OMB Circular A-133 requires that pass-through entities ensure that subrecipients expending $300,000 or more in federal awards during the subrecipients' fiscal year have met the audit requirements of OMB Circular A-133 for that fiscal year. MSP has established a process whereby the fiscal managers in the various divisions send a listing of all subrecipients to MSD, where the data is compiled into a database. The divisions are responsible for determining which subrecipients should submit an audit report, obtaining the audit report, and forwarding the report to MSD. MSD is responsible for reviewing the report for compliance with OMB Circular A-133 and issuing a management decision.

We compiled a listing of 5 subrecipients from our major federal programs that had received over $300,000 in federal awards from MSP. MSP informed us that it did not have any of the 5 audit reports from fiscal year 1999-2000. One of the five reports had not been requested from the subrecipient, and the remaining 4 reports had been requested but had never been received.

Additionally, we noted that MSP had not requested or obtained audit reports for any of the 4 State agencies to which it distributed $3.7 million and $2.0 million of federal funds in fiscal years 2000-01 and 1999-2000, respectively.

We noted in our prior audit that MSP's controls did not ensure that it could issue a management decision on audit findings within six months of receipt of subrecipient audit reports. Our review disclosed that MSP had strengthened its controls over that portion of the process and had achieved compliance with that criteria.

RECOMMENDATION

We recommend that MSP enhance its controls to ensure that all subrecipients are properly identified and that all subrecipient audit reports are obtained.

FINDING (550207)

7. Terminal Leave Payments

Federal Emergency Management Agency	*CFDA*: 83.552 Emergency Management Performance Grants
Award Number: EMC-2000-GR-0004	Award Period: 10/01/99 - 09/30/00
	Questioned Costs: $21,034

MSP included terminal leave payments as direct federal expenditures in fiscal year 2000-01 without written approval from the federal awarding agency.

OMB Circular A-87 prohibits the direct charging of terminal leave payments to federal grant programs unless the State obtains approval from the federal awarding agency.

Our review of fiscal year 2000-01 expenditures disclosed that MSP had included $21,034 of terminal leave payments in the direct charges to the Emergency Management Performance Grants Program. MSP had not requested or received approval to include these as direct charges.

MSP had similar expenditures in fiscal year 1999-2000 and had obtained approval for the direct charge methodology.

RECOMMENDATION

We recommend that MSP obtain written approval from the federal awarding agency prior to including terminal leave payments as direct federal expenditures.

FINDING (550208)

8. Controls Over Procurement Cards

All federal programs	Questioned Costs: None

This finding is included in Section II of the schedule of findings and questioned costs (550202).

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

MICHIGAN DEPARTMENT OF STATE POLICE
Summary Schedule of Prior Audit Findings
As of September 30, 2001

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 550001

Finding Title: Internal Control Over Accounting Functions

Finding: The Michigan Department of State Police's (MSP's) internal control over financial operations did not provide reasonable assurance that accounting transactions were properly recorded and processed and that account balances were reported consistently and accurately in the financial records.

Comments:

a. The $209,815 overstatement of MSP liabilities in the prior audit has been corrected.

b. All cashiering locations now have two employees opening the mail. Cash received by mail is now recorded in a cash log prepared by the mail openers and is verified to source documents by someone other than the cashier.

c. MSP has retained year-end physical inventory count records for fiscal years 2000-01 and 1999-2000.

d. MSP reconciled its accounts receivable system (ARS) to the Michigan Administrative Information Network* (MAIN) for both fiscal years 2000-01 and 1999-2000.

e. MSP has accurately and effectively estimated the amount of account payables established for the Office of Highway Safety Planning programs. As a result of the new estimation process,

* *See glossary at end of report for definition.*

less than 1% of the fiscal year 1999-2000 accounts payable were written off.

f. MSP deposited motor vehicle fees in a timely manner into the Truck Safety Fund for fiscal years 2000-01 and 1999-2000.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 550002

Finding Title: Operating Transfers

Finding: MSP's controls did not ensure that operating transfers were correctly recorded.

Comments: Transfers to the Michigan Transportation Fund are now recorded as operating transfers. MSP no longer receives funding from the Michigan Transportation Fund. Transactions involving the Comprehensive Transportation Fund are recorded as reductions of revenue when appropriate.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 550003

Finding Title: Controls Over MAIN User Access

Finding: MSP needs to strengthen its controls over MAIN user access by documenting compensating controls for incompatible user class combinations and by revoking MAIN access for departed employees.

Comments:

a. MSP has documented compensating controls related to incompatible user class combinations. These controls are filed with the Office of Financial Management, Department of Management and Budget (DMB).

b. The MSP Management Services Division currently runs a monthly departure report and removes access of departed employees. MAIN also sends lists of inactive and conflicting user classes to MSP. The MSP Human Resources Division also sends retirement bulletins to the Management Services Division.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 550004
Finding Title: Controls Over Procurement Cards
Finding: MSP's controls did not ensure that procurement card users complied with MSP and DMB policies and procedures and that unissued cards were adequately safeguarded.
Comments: MSP's procurement card administrator has met with card users in all locations and instructed them to comply with MSP and DMB guidelines. Unissued cards are securely stored in a safe location.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 550005
Finding Title: Cash Management
Finding: MSP's controls did not provide for compliance with federal and State cash management standards related to time lines for drawing down federal funds.
Comments: MSP has begun to document procedures related to federal and State cash management policies. MSP is currently waiting for the federal government to begin implementation of an electronic reimbursement system.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 550006
Finding Title: Motor Carrier Safety Assistance Program*
Finding: MSP needs to strengthen its controls over the random moment sampling system used to allocate Motor Carrier Safety Assistance Program expenditures.

* *See glossary at end of report for definition.*

Comments: Controls have been strengthened to ensure correct allocation. MSP has implemented backup procedures for the random moment sampling system and correctly applies percentages for periods to which they relate.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 550007
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)
Finding: MSP's controls did not ensure the accuracy of its SEFAs.
Comments: MSP has added a level of review to the SEFA to assist in preventing errors on the SEFA.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 550008
Finding Title: Monitoring of Subrecipients
Finding: MSP's controls did not ensure that it could issue a management decision on audit findings within six months after receipt of subrecipient audit reports.
Comments: MSP now monitors subrecipient audit reports through the use of a spreadsheet that ensures that a management decision is issued within six months.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 550009
Finding Title: Internal Control Over Accounting Functions
Comments: See Finding 550001 with the findings related to the financial schedules.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 550010
Finding Title: Controls Over MAIN User Access
Comments: See Finding 550003 with the findings related to the financial schedules.

Audit Findings Not Corrected or Partially Corrected:

Audit Period:	October 1, 1997 through September 30, 1999
Finding Number:	550011
Finding Title:	Controls Over Procurement Cards
Comments:	See Finding 550004 with the findings related to the financial schedules.

MICHIGAN DEPARTMENT OF STATE POLICE

Corrective Action Plan

As of May 24, 2002

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 550201

Finding Title: Internal Audit and the Biennial Assessment of Internal Controls

Management Views:

1.a. The Michigan Department of State Police (MSP) agrees with this finding. This situation was the result of the temporary assignment of our internal auditor to other duties and was never intended as a permanent arrangement.

1.b. MSP agrees with this finding.

Corrective Action:

1.a. MSP's internal auditor will return from temporary assignment and assume his regular duties in summer 2002.

1.b. MSP will determine the appropriate program staff to take ownership for completion of these two internal control components during the next biennial internal control assessment. These assessments will follow a similar methodology as used in the rest of the biennial review and will include conclusions.

Anticipated Completion Date:

1.a. June 2002

1.b. Next biennial assessment - 2003

Responsible Individual: Michael Kelterborn, Internal Audit

Finding Number: 550202

Finding Title: Controls Over Procurement Cards

Management Views: MSP agrees with the finding and will continue to strengthen controls to ensure that procurement card users comply with MSP and Department of Management and Budget (DMB) policies and procedures.

Corrective Action: MSP will perform the following to strengthen adherence to procurement card policies and procedures.

MSP will provide additional instruction to procurement card users and their supervisors reinforcing required adherence to procurement card policies and procedures. Penalties for noncompliance will be clearly stated with the understanding that MSP will take such action as required.

MSP will begin routine sampling of procurement card purchases in order to identify possible violations. Random sampling will be conducted, as well as sampling targeted toward specific high risk areas. MSP will also incorporate a review of procurement card activity into its internal audit plan.

MSP may also revoke procurement cards from users that violate MSP and DMB policies and procedures.

Anticipated Completion Date: Ongoing

Responsible Individual: Marcia Wilcox, Management Services Division

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Finding Number: 550203
Finding Title: Cash Management

Management Views: MSP agrees with this finding. MSP has worked to enhance controls to comply with federal and State cash management standards. The Motor Carrier Division has also increased resources.

Corrective Action: MSP will develop written procedures establishing departmentwide requirements related to the drawing down of federal funds. Additionally, MSP will continue to enhance cash management controls by pursuing the implementation of an electronic reimbursement system for the National Motor Carrier Safety Program. Until the electronic system is implemented, a quarterly manual reimbursement process will continue to be followed. MSP will, however, implement controls to the manual reimbursement so that reimbursement requests are prepared in a more timely fashion. MSP will also prepare an additional billing for fourth quarter expenditures rather than preparing one reimbursement request for both fourth quarter and year-end expenditures.

Anticipated Completion Date: July 2002

Responsible Individual: Cheryl Llano, Motor Carrier Division

Finding Number: 550204

Finding Title: Indirect Costs

Management Views: MSP agrees with this finding. MSP had contracted for an update to its indirect cost rate and received a new indirect cost rate proposal; however, implementation was delayed because of the executive order creating the Department of Information Technology.

Corrective Action: 1.a. MSP will update the indirect cost rate calculation.

1.b. MSP was able to reconcile the differences in indirect costs reported on the schedule of expenditures of federal awards (SEFA) and the Michigan Administrative Information Network. Remaining differences are $13,512 and $24,691 for the fiscal years ended September 30, 2001 and 2000, respectively. MSP will include program reconciliation of indirect costs as part of the SEFA preparation.

Anticipated Completion Date:	1.a. Fiscal year 2003-04 1.b. February 2003
Responsible Individual:	Howard G. Finkel, Management Services Division Douglas J. Spitzley, Management Services Division

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number:	550205
Finding Title:	State and Community Highway Safety Program Expenditures
Management Views:	MSP agrees with this finding.
Corrective Action:	MSP will maintain supporting documentation for future adjustments to federal allocation of grant expenditures.
Anticipated Completion Date:	Ongoing
Responsible Individual:	David Huffman, Office of Highway Safety Planning

Finding Number:	550206
Finding Title:	Subrecipient Monitoring
Management Views:	MSP agrees with this finding. MSP has continually made improvements to its subrecipient monitoring process and will continue to refine the methodologies and processes used.
Corrective Action:	6.a. MSP will develop procedures requiring the Management Services Division to contact all High Intensity Drug Traffic Area (HIDTA) recipients and work directly with them to determine if the appropriate relationship is vendor or subrecipient. 6.b. MSP will improve and document the methodology used to determine which subrecipient Single Audit reports are required.

Anticipated Completion Date:	January 2003
Responsible Individual:	Douglas J. Spitzley, Management Services Division

Finding Number:	550207
Finding Title:	Terminal Leave Payments
Management Views:	MSP agrees with this finding.
Corrective Action:	MSP will get approval from the federal government prior to charging any future terminal leave payments to federal programs. Such approvals have been routinely granted in the past.
Anticipated Completion Date:	When required.
Responsible Individual:	Bethany Hall, Emergency Management Division

Finding Number:	550208
Finding Title:	Controls Over Procurement Cards

See Finding 550202 with the findings related to the financial schedules.

Glossary of Acronyms and Terms

CFDA	*Catalog of Federal Domestic Assistance.*
DEA	Drug Enforcement Administration.
DMB	Department of Management and Budget.
DNA	deoxyribonucleic acid.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
HIDTA	High Intensity Drug Trafficking Areas.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.

material weakness A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

METRO OCDETF Tri-County Metro Narcotics Section
Organized Crime Drug Enforcement Task Force

Michigan Administrative Information Network (MAIN) The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).

Motor Carrier Safety Assistance Program The commonly used name for the National Motor Carrier Safety Program (*CFDA* Number 20.218).

MSD Management Services Division.

MSP Michigan Department of State Police.

OMB U.S. Office of Management and Budget.

procurement card A credit card issued to State employees for purchasing commodities and services in accordance with State purchasing policies. At the time of our audit, this was a MasterCard Purchasing Card product.

questioned costs A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible

violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

REDRUM Task Force murder task force.

reportable condition A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

SEFA schedule of expenditures of federal awards.

Single Audit A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR *State of Michigan Comprehensive Annual Financial Report.*

subrecipient A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion An auditor's opinion in which the auditor states that:

a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or

b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

WEMET Western Michigan Enforcement Team.