MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

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

STATE-FUNDED JUDICIAL OPERATIONS

October 1, 2004 through September 30, 2006

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

950-0150-07

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
950-0150-07

State-Funded Judicial Operations

October 1, 2004 through September 30, 2006

Released:
May 2007

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 the State-funded judicial operations' financial schedules.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance and Other Matters Material to the Financial Schedules

We did not identify any instances of noncompliance or other matters 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 5 programs as major programs and issued 5 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 identified a reportable condition related to internal control over major programs (Finding 1). We do not consider this reportable condition to be a material weakness.

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Required Reporting of Noncompliance

We did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

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We audited the following programs as major programs:

CFDA Number	***Program Title***	***Compliance Opinion***
16.579	Edward Byrne Memorial Formula Grant Program	Unqualified
16.738	Edward Byrne Memorial Justice Assistance Grant Program	Unqualified
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Unqualified
93.563	Child Support Enforcement	Unqualified
93.658	Foster Care - Title IV-E	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

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

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

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

May 3, 2007

The Honorable Clifford W. Taylor
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Taylor:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the State-Funded Judicial Operations for the period October 1, 2004 through September 30, 2006.

This report contains our report summary, our independent auditor's report on the financial schedules, and the State-funded judicial operations' financial schedules and schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report 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 the State-funded judicial operations' summary schedule of prior audit findings, the corrective action plan, and a glossary of acronyms and terms.

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 AND FINANCIAL SCHEDULES

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

Independent Auditor's Report on the Financial Schedules

The Honorable Clifford W. Taylor
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Taylor:

We have audited the accompanying financial schedules of the State-funded judicial operations for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents. These financial schedules are the responsibility of the State-funded judicial operations' management. Our responsibility is to express an opinion on these financial schedules based on our audit.

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 1, the financial schedules present only the revenues and the sources and disposition of authorizations for the State-funded judicial operations' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the State-funded judicial operations or the State's General Fund in conformity 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 revenues and the sources and disposition of authorizations of the State-funded judicial operations for the fiscal years ended September 30, 2006 and September 30, 2005 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007 on our consideration of the State-funded judicial operations' internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 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*, is presented for purposes of additional analysis and is not a required part of the State-funded judicial operations' 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
February 23, 2007

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of General Fund Revenues
Fiscal Years Ended September 30

	2006	2005
REVENUES		
Miscellaneous		
Court-generated revenues:		
Court of Appeals filing fees	$ 1,958,500	$ 1,956,000
Community dispute resolution fees	2,083,463	2,038,518
Other court-generated revenues	71,971,304	71,814,644
Other	3,055,444	1,684,096
Total miscellaneous	$ 79,068,712	$ 77,493,258
From federal agencies	3,065,351	3,043,607
From services	2,910,580	2,655,977
From licenses and permits	3,132,723	2,318,521
Total revenues	$ 88,177,366	$ 85,511,362

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

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	2006	2005
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	$ 157,614,500	$ 157,547,300
Balances carried forward	9,798,111	18,085,238
Restricted financing sources	86,643,542	79,348,116
Total	$ 254,056,153	$ 254,980,654
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Expenditures	$ 242,790,732	$ 244,779,865
Balances carried forward:		
Encumbrances	$ 1,494,496	$ 773,271
Restricted revenues - authorized	135,153	56,635
Restricted revenues - not authorized or used	9,584,643	8,968,206
Total balances carried forward	$ 11,214,292	$ 9,798,111
Balances lapsed:		
Current year appropriations	$ 9,779	$ 1,716
Carry-forward of prior years' appropriations	41,350	400,962
Total balances lapsed	$ 51,129	$ 402,678
Total	$ 254,056,153	$ 254,980,654

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

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the State-funded judicial operations for the fiscal years ended September 30, 2006 and September 30, 2005. The financial transactions of the State-funded judicial operations are accounted for 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 the State-funded judicial operations. The *SOMCAFR* provides more extensive general disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension benefits and other postemployment benefits.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and the sources and disposition of authorizations for the State-funded judicial operations' General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the State-funded judicial operations or the State's

General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 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 revenues.

b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used 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 revenues - not authorized or used.

c. Restricted financing sources: Collections of restricted revenues, 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 revenues - authorized or restricted revenues - not authorized or used.

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

e. Restricted revenues - authorized: Revenues that, by statute or the State Constitution, are restricted and authorized for use to a particular program

or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization.

f. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant carry-forwards of this type were revenues from court fees that are deposited into the Court Fee Fund ($1.02 million and $1.88 million for fiscal years 2005-06 and 2004-05, respectively); juror compensation reimbursement fees that are deposited into the Juror Compensation Reimbursement Fund ($2.78 million and $1.81 million for fiscal years 2005-06 and 2004-05, respectively); court fees that are deposited into the Judicial Technology Improvement Fund ($2.15 million and $1.81 million for fiscal years 2005-06 and 2004-05, respectively); court assessments and costs directed by law to the Drug Treatment Court Fund ($0.89 million and $1.57 million for fiscal years 2005-06 and 2004-05, respectively); and community dispute resolution fees ($1.79 million and $1.74 million for fiscal years 2005-06 and 2004-05, respectively). The restricted revenues - not authorized or used represent the unexpended balance of these revenues.

g. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

SUPPLEMENTAL
FINANCIAL SCHEDULE

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2004 through September 30, 2006

Federal Agency/Program	*CFDA* (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2005 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Justice					
Pass-Through Programs:					
Michigan Department of State Police					
National Criminal History Improvement Program (NCHIP)	16.554	2004-RU-BX-K042	$ 20,823	$	$ 20,823
Michigan Department of Community Health					
Edward Byrne Memorial Formula Grant Program	16.579	20051616	$ 113,930	$ 1,037,579	$ 1,151,509
Edward Byrne Memorial Justice Assistance Grant Program	16.738	20061129			0
Total Michigan Department of Community Health			$ 113,930	$ 1,037,579	$ 1,151,509
Total U.S. Department of Justice			**$ 134,753**	**$ 1,037,579**	**$ 1,172,332**
U.S. Department of Transportation					
Pass-Through Program:					
Michigan Department of State Police					
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-04-01	$ 63,754	$	$ 63,754
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-05-03	80,000		80,000
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-06-05			0
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-06-27			0
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-06-04			0
Total Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants			$ 143,754	$ 0	$ 143,754
Total U.S. Department of Transportation			**$ 143,754**	$ 0	**$ 143,754**
U.S. Department of Health and Human Services					
Direct Programs:					
State Court Improvement Program	93.586		$ 379,026	$ 33,156	$ 412,182
Child Support Enforcement Demonstrations and Special Projects	93.601		48,225	10,364	58,589
Total Direct Programs			$ 427,251	$ 43,520	$ 470,771
Pass-Through Programs:					
Michigan Department of Labor and Economic Growth					
Temporary Assistance for Needy Families	93.558	03-IA-024	$ 1,667	$	$ 1,667
Michigan Department of Human Services					
Child Support Enforcement	93.563	SCA 05002	$ 533,030	$	$ 533,030
Child Support Enforcement	93.563	SCA 05003	85,320		85,320
Child Support Enforcement	93.563	SCA 05004			0
Total Child Support Enforcement			$ 618,350	$ 0	$ 618,350
Grants to States for Access and Visitation Programs	93.597	SCA 05001	$ 79,236	$ 200,277	$ 279,513
Grants to States for Access and Visitation Programs	93.597	SCA 06002			0
Total Grants to States for Access and Visitation Programs			$ 79,236	$ 200,277	$ 279,513
Children's Justice Grants to States	93.643	03-IA-38	$ 108,012	$	$ 108,012
Total Children's Justice Grants to States			$ 108,012	$ 0	$ 108,012

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2006			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$ 27,850	$	$ 27,850	$ 48,673
$ 196,000	$	$ 196,000	$ 1,347,509
10,800	1,330,755	1,341,555	1,341,555
$ 206,800	$ 1,330,755	$ 1,537,555	$ 2,689,064
$ 234,650	**$ 1,330,755**	**$ 1,565,405**	**$ 2,737,737**
$	$	$ 0	$ 63,754
		0	80,000
47,394		47,394	47,394
24,557		24,557	24,557
26,918		26,918	26,918
$ 98,869	$ 0	$ 98,869	$ 242,623
$ 98,869	$ 0	**$ 98,869**	**$ 242,623**
$ 303,840	$ 6,001	$ 309,841	$ 722,023
1,901		1,901	60,490
$ 305,741	$ 6,001	$ 311,742	$ 782,513
$	$	$ 0	$ 1,667
$	$	$ 0	$ 533,030
		0	85,320
538,391		538,391	538,391
$ 538,391	$ 0	$ 538,391	$ 1,156,741
$	$	$ 0	$ 279,513
118,280	147,188	265,468	265,468
$ 118,280	$ 147,188	$ 265,468	$ 544,981
$	$	$ 0	$ 108,012
$ 0	$ 0	$ 0	$ 108,012

STATE-FUNDED JUDICIAL OPERATIONS

Schedule of Expenditures of Federal Awards (1)

For the Period October 1, 2004 through September 30, 2006

Continued

Federal Agency/Program	*CFDA* (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2005		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Foster Care - Title IV-E	93.658	SCA 05005	$ 327,540	$	$ 327,540
Foster Care - Title IV-E	93.658	SCA 06007			0
Total Foster Care - Title IV-E			$ 327,540	$ 0	$ 327,540
Total Michigan Department of Human Services			$ 1,133,138	$ 200,277	$ 1,333,415
Total Pass-Through Programs			$ 1,134,805	$ 200,277	$ 1,335,082
Total U.S. Department of Health and Human Services			**$ 1,562,056**	**$ 243,797**	**$ 1,805,853**
Total Expenditures of Federal Awards			$ 1,840,563	$ 1,281,376	$ 3,121,939

(1) Basis of Presentation: This schedule presents the federal grant activity of the State-funded judicial operations on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audit 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.

(2) *CFDA* is defined as *Catalog of Federal Domestic Assistance*.

For the Fiscal Year Ended September 30, 2006			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
$	$	$ 0	$ 327,540
285,477		285,477	285,477
$ 285,477	$ 0	$ 285,477	$ 613,017
$ 942,148	$ 147,188	$ 1,089,336	$ 2,422,751
$ 942,148	$ 147,188	$ 1,089,336	$ 2,424,418
$ 1,247,889	**$ 153,189**	**$ 1,401,078**	**$ 3,206,931**
$ 1,581,408	$ 1,483,944	$ 3,065,352	$ 6,187,291

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INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

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

The Honorable Clifford W. Taylor
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Taylor:

We have audited the financial schedules of the State-funded judicial operations for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents, and have issued our report thereon dated February 23, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State-funded judicial operations' 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State-funded judicial operations' financial schedules are free of material misstatement, we performed tests of

compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State-funded judicial operations' 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
February 23, 2007

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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

The Honorable Clifford W. Taylor
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Taylor:

Compliance

We have audited the compliance of the State-funded judicial operations 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 two-year period ended September 30, 2006. The State-funded judicial operations' 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 State-funded judicial operations' management. Our responsibility is to express an opinion on the State-funded judicial operations' 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 State-funded judicial operations' 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 State-funded judicial operations' compliance with those requirements.

In our opinion, the State-funded judicial operations complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each major federal program for the two-year period ended September 30, 2006.

Internal Control Over Compliance

The management of the State-funded judicial operations 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 State-funded judicial operations' 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 a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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 State-funded judicial operations' ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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 the reportable condition identified in the previous paragraph is not a material weakness.

This report is intended solely for the information and use of the State-funded judicial operations' 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

Thomas H. McTavish, C.P.A.
Auditor General
February 23, 2007

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?	None reported
Noncompliance or other matters 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

Identification of major programs:

CFDA Number	Name of Federal Program
16.579	Edward Byrne Memorial Formula Grant Program
16.738	Edward Byrne Memorial Justice Assistance Grant Program
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants

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

93.563	Child Support Enforcement
93.658	Foster Care - Title IV-E

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

We did not report any findings related to the financial schedules.

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING (9500701)

1. Edward Byrne Memorial Formula Grant Program, *CFDA* 16.579, and Edward Byrne Memorial Justice Assistance Grant Program, *CFDA* 16.738

U.S. Department of Justice	*CFDA* 16.579 Edward Byrne Memorial Formula Grant Program
Award Number: DCH 20051616	Award Period: 10/01/2004 - 09/30/2005
Pass-Through Agency: Michigan Department of Community Health	Questioned Costs: $0

U.S. Department of Justice	*CFDA* 16.738 Edward Byrne Memorial Justice Assistance Grant Program
Award Number: DCH 20061129	Award Period: 10/01/2005 - 09/30/2006
Pass-Through Agency: Michigan Department of Community Health	Questioned Costs: $0

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

The Judiciary's internal control over the Edward Byrne Memorial Formula Grant Program and the Edward Byrne Memorial Justice Assistance Grant Program (Byrne Programs) did not ensure its compliance with federal laws and regulations regarding subrecipient* monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in Byrne Program awards.

OMB Circular A-133 requires the Judiciary to monitor its subrecipients' compliance with Byrne Program requirements and applicable laws and regulations, including OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. OMB Circular A-133 also requires the Judiciary to ensure that its Byrne Program subrecipients have obtained Single Audits* and to issue management decisions (i.e., to follow up) on subrecipients' Byrne Program audit findings.

OMB Circular A-87 requires that program costs be reasonable. OMB Circular A-87 states that a cost is reasonable if, in its nature and amount, the cost does not exceed that which would be incurred by a prudent person at the time the decision was made to incur the cost.

Federal expenditures for the Byrne Programs totaled approximately $2.7 million for the two-year period ended September 30, 2006. The Judiciary paid approximately $2.4 million of the funds to 8 subrecipients and 11 subrecipients in fiscal years 2004-05 and 2005-06, respectively.

Our review of the Judiciary's monitoring of its Byrne Program subrecipients noted:

a. The Judiciary did not ensure that its Byrne Program subrecipients obtained Single Audits by receiving either a copy of the audit report or a letter stating that the subrecipients' audit reports had no Byrne Program findings. Instead, the Judiciary relied on the subrecipients to self-report that the subrecipients obtained Single Audits and whether the Single Audits contained Byrne

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

Program findings. Consequently, the Judiciary could not demonstrate its subrecipients' compliance with OMB Circular A-133.

After our review, the Judiciary stated that it performed the tasks necessary to determine that the subrecipients had obtained Single Audits. There were no Byrne Program audit findings that required the Judiciary's follow-up.

b. The Judiciary did not have a practical methodology for determining the overall reasonableness of the costs incurred by its Byrne Program subrecipients.

Consequently, although it obtained detailed documentation to support the subrecipients' costs, the Judiciary had not analyzed whether and was not able to demonstrate that the subrecipients' costs were reasonable relative to the subrecipients' actual efforts.

After our review, the Judiciary developed a method of monitoring the overall reasonableness of subrecipients' costs and subsequently determined that subrecipients' costs were reasonable. This new method used Byrne Program subrecipient data, such as the number of participants and other qualitative factors, within a Statewide management information system, which the Judiciary stated that it developed in 2005 and implemented in 2006.

RECOMMENDATION

We recommend that the Judiciary improve its internal control over the Byrne Programs to ensure its compliance with federal laws and regulations regarding subrecipient monitoring.

OTHER SCHEDULES

STATE-FUNDED JUDICIAL OPERATIONS
Summary Schedule of Prior Audit Findings
As of February 23, 2007

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules in the prior Single Audit.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

There were no findings related to federal awards in the prior Single Audit.

STATE-FUNDED JUDICIAL OPERATIONS

Corrective Action Plan

As of April 18, 2007

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules for fiscal years 2005-06 and 2004-05.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 9500701

Finding Title: Edward Byrne Memorial Formula Grant Program, *CFDA* 16.579, and Edward Byrne Memorial Justice Assistance Grant Program, *CFDA* 16.738

Management Views:

a. The Judiciary agrees that it did not independently ensure that subrecipients of Byrne Program funding obtained Single Audits. When this was identified by Office of the Auditor General staff as an issue, Michigan Supreme Court financial staff obtained information pertaining to the relevant Single Audits from the Federal Audit Clearinghouse and determined that there were no audit issues related to the Judiciary's Byrne Program grants.

b. The Judiciary agrees that it did not have a process in place for evaluating the overall reasonableness of Byrne Program subreceipients' costs. Although the Judiciary received detailed documentation related to the subrecipients' costs, a method for monitoring the overall reasonableness of subrecipients' costs was not completed until after this condition was identified by Office of the Auditor General staff.

Corrective Action:	a. The Judiciary has improved control over the Byrne Programs by implementing a process to periodically review the Single Audits of the local units of government to determine whether there are any audit issues related to the Byrne Programs. b. The Judiciary has implemented a process to periodically review the overall reasonableness of subrecipients' costs.
Anticipated Completion Date:	The corrective actions for the period under audit were completed prior to the end of the audit fieldwork, and a process has been established to periodically review these items in the future.
Responsible Individual:	E. Ronald Stadnika, Chief Financial Officer

GLOSSARY

Glossary of Acronyms and Terms

Byrne Programs	Edward Byrne Memorial Formula Grant Program and Edward Byrne Memorial Justice Assistance Grant Program.
CFDA	*Catalog of Federal Domestic Assistance*.
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.
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 changes in financial position 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 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 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.
OMB	U.S. Office of Management and Budget.
questioned cost	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.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, 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. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.

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 and/or financial statements 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 and/or financial statements 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.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL