

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

DEPARTMENT OF CORRECTIONS

October 1, 2001 through September 30, 2003

“...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 may be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

*Including the Provisions of the Single Audit Act
 October 1, 2001 through September 30, 2003*

Department of Corrections

Report Number:
 47-100-04

Released:
 June 2004

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 Department of Corrections' (DOC's) financial schedules.

~ ~ ~ ~ ~

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).

~ ~ ~ ~ ~

**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*. However, we did identify an immaterial instance of noncompliance (Finding 3).

~ ~ ~ ~ ~

Federal Awards:

Auditor's Reports Issued on Compliance

We audited 4 programs as major programs and issued 1 unqualified opinion, 2 qualified opinions, and 1 disclaimer of opinion. The opinions issued by major program are identified on the back of this summary.

~ ~ ~ ~ ~

Internal Control Over Major Programs

We identified reportable conditions related to internal control over major programs (Findings 5 through 10). We consider Findings 5 through 7 to be material weaknesses.

~ ~ ~ ~ ~

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 10).

~ ~ ~ ~ ~

Systems of Accounting and Internal Control:

We determined that DOC was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.



We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
16.579	Byrne Formula Grant Program	Disclaimer
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	Unqualified
16.593	Residential Substance Abuse Treatment for State Prisoners	Qualified
84.331	Grants to States for Incarcerated Youth Offenders	Qualified

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>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

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

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



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

June 30, 2004

Ms. Patricia L. Caruso, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Ms. Caruso:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Corrections (DOC) for the period October 1, 2001 through September 30, 2003.

This report contains our report summary; our independent auditor's report on the financial schedules; and the DOC 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 DOC'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.

AUDITOR GENERAL

This page left intentionally blank.

TABLE OF CONTENTS

DEPARTMENT OF CORRECTIONS

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULES	
Independent Auditor's Report on the Financial Schedules	8
Department of Corrections Financial Schedules	
Schedule of General Fund Revenues	10
Schedule of Sources and Disposition of General Fund Authorizations	11
Notes to the Financial Schedules	12
SUPPLEMENTAL FINANCIAL SCHEDULES	
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit - Fiscal Year Ended September 30, 2003	18
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit - Fiscal Year Ended September 30, 2002	20
Schedule of Expenditures of Federal Awards	22
INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	28

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	30
---	----

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results	34
Section II: Findings Related to the Financial Schedules	35
1. Expenditures and Federal Revenue Reporting	35
2. Procurement Card Controls	36
3. Federal Program Cost Recovery	37
4. Grants to States for Incarcerated Youth Offenders (Incarcerated Youth), <i>CFDA 84.331</i>	38
Section III: Findings and Questioned Costs Related to Federal Awards	39
5. Byrne Formula Grant Program, <i>CFDA 16.579</i>	39
6. Federal Payroll Costs	41
7. Grants to States for Incarcerated Youth Offenders (Incarcerated Youth), <i>CFDA 84.331</i>	42
8. Residential Substance Abuse Treatment for State Prisoners (RSAT), <i>CFDA 16.593</i>	45
9. Violent Offender Incarceration and Truth in Sentencing (VOI-TIS) Incentive Grants, <i>CFDA 16.586</i>	46
10. Child Nutrition Cluster	48

OTHER SCHEDULES

Summary Schedule of Prior Audit Findings	51
Corrective Action Plan	53

GLOSSARY

Glossary of Acronyms and Terms	60
--------------------------------	----

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULES



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

Independent Auditor's Report on the Financial Schedules

March 19, 2004

Ms. Patricia L. Caruso, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Ms. Caruso:

We have audited the financial schedules of the Department of Corrections for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents. 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.

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 financial schedules include only the revenues and the sources and disposition of authorizations for the Department of Corrections' 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 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 revenues and the sources and disposition of authorizations of the Department of Corrections for the fiscal years ended September 30, 2003 and September 30, 2002, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2004 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 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 other supplemental financial schedules, as identified in the table of contents, 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.

AUDITOR GENERAL

DEPARTMENT OF CORRECTIONS
Schedule of General Fund Revenues
Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>
REVENUES		
Federal agencies	\$ 21,334,178	\$ 21,825,128
Local agencies	356,294	349,305
Services:		
Resident stores	3,348,500	3,336,500
Public Works Program reimbursements	893,715	616,315
Other	191,688	197,247
Miscellaneous:		
Telephone fees and commissions	9,465,392	13,192,100
Civil infraction fee	5,757,361	3,714,419
Oversight fees	9,276,510	8,737,191
Tether Program contributions	2,970,048	3,974,096
Community Residential Program fees	593,481	850,130
Other	1,900,161	4,745,215
	<u>1,900,161</u>	<u>4,745,215</u>
Total Revenues	<u>\$ 56,087,329</u>	<u>\$ 61,537,645</u>

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

DEPARTMENT OF CORRECTIONS
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 1,597,029,531	\$ 1,599,453,900
Balances carried forward	60,800,482	55,857,505
Restricted financing sources	57,663,972	61,179,840
Less: Intrafund expenditure reimbursements	<u>(3,262,167)</u>	<u>(4,174,892)</u>
 Total	 <u>\$ 1,712,231,818</u>	 <u>\$ 1,712,316,350</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers	\$ 1,641,222,920	\$ 1,645,610,586
Less: Intrafund expenditure reimbursements	<u>(3,262,167)</u>	<u>(4,174,892)</u>
Net expenditures and transfers	<u>\$ 1,637,960,753</u>	<u>\$ 1,641,435,694</u>
Balances carried forward:		
Multi-year projects	\$ 7,300,985	\$ 26,695,295
Encumbrances	30,617,150	30,021,093
Restricted revenues - not authorized	5,531,163	4,084,093
Total balances carried forward	<u>\$ 43,449,298</u>	<u>\$ 60,800,482</u>
Balances lapsed	<u>\$ 30,821,767</u>	<u>\$ 10,080,175</u>
 Total	 <u>\$ 1,712,231,818</u>	 <u>\$ 1,712,316,350</u>

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 Department of Corrections (DOC) for the fiscal years ended September 30, 2003 and September 30, 2002. The financial transactions of DOC 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 financial schedules do not include the financial activities of the Correctional Industries Revolving Fund and DOC's Miscellaneous Trust Accounts Fund, which are audited separately and do not receive any federal assistance.

The notes accompanying these financial schedules relate directly to DOC. 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; Leases; and Interfund Receivables and Payables.

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 generally accepted accounting principles applicable to governments. 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 DOC's General Fund

accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DOC or the State's General Fund in conformity with generally accepted accounting principles.

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. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - 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 revenues - not authorized.
- d. 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.

- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. Also, the reimbursements include expenditure credits from DOC facilities to finance DOC's food service operations in Jackson. DOC is a subrecipient of certain federal programs from the Department of Community Health. The Department of Community Health records the federal revenue and expenditures for these programs. DOC is reimbursed for its costs through an expenditure credit. The expenditure credits recorded for fiscal years 2002-03 and 2001-02 were \$1,655,898 and \$2,364,562, respectively. DOC recorded expenditure credits totaling \$1,606,268 and \$1,810,330 to finance its food service operations in fiscal years 2002-03 and 2001-02, respectively.

- f. 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 \$6,375,186 for leased beds and alternatives to leased beds in fiscal year 2001-02. The work projects provided authorization for the custody, treatment, clinical, transportation, and administrative costs associated with the housing of prisoners during periods of facility overcrowding. Other significant carry-forwards included \$1,375,000 for new employee training for the new Bellamy Creek Correctional Facility for fiscal year 2001-02; \$3,779,617 for housing units to be opened at Saginaw and Macomb Correctional Facilities for fiscal year 2001-02; \$2,165,492 for redesign of DOC's computer system for fiscal year 2001-02; and \$7,300,985 and \$13,000,000 for capacity enhancements due to the need to bring prison beds on earlier than anticipated for fiscal years 2002-03 and 2001-02, respectively.

- g. Encumbrances: Authorizations carried forward to finance payments for goods or 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.

- h. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. However, DOC had not received legislative authorization to expend the revenues. DOC has carried forward \$5,531,163 and \$4,084,093 for fiscal years 2002-03 and

2001-02, respectively, under Section 791.225a of the *Michigan Compiled Laws*. This Section restricts 20% of parolee and probationary supervision fees for administrative and enhanced services costs. Enhanced services include, but are not limited to, the purchase of services for parolees, such as counseling, employment training, employment placement, or education; public transportation expenses related to training, counseling, or employment; enhancement of staff performance through specialized training and equipment purchase; and purchase of items for parolee employment. Also, this Section provides that, at the end of each fiscal year, the unexpended balance of this revenue shall be available for carry-forward to be used for administrative and enhanced services costs. The restricted revenues - not authorized represent the unexpended balance of this revenue.

- i. 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.

THIS PAGE INTENTIONALLY BLANK

SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF CORRECTIONS
 Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
 Fiscal Year Ended September 30, 2003

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
Central Administration					
Executive	\$ 10,147,100	\$ (489,500)	\$ 64,806	\$ 17,889,240	\$ 27,611,646
Administration and Programs and Information Technology	79,847,931	(2,960,500)	7,358,485	1,690,548	85,936,463
Field Operations	133,253,700	1,686,600	7,014,201	13,311,738	155,266,239
Special Alternative Incarceration Program	10,442,900	(56,400)	908,466	91,526	11,386,492
Office of Community Corrections	25,932,600	1,792,800	2,068,715	15,222,753	45,016,868
Consent Decrees	105,914,600	(39,686,300)	2,858,024		69,086,324
Office of Health Care	56,073,500	(321,300)	910,982	12,731	56,675,913
Clinical Operations	101,289,600	(920,000)	2,105,476	191,688	102,666,764
Correctional Facilities - Administration	50,804,400	(13,673,400)	19,990,748	2,612,024	59,733,772
Early Retirement Savings	(7,591,800)	7,591,800			0
Subtotal for Central Administration	\$ 566,114,531	\$ (47,036,200)	\$ 43,279,902	\$ 51,022,248	\$ 613,380,481
Facility Operations					
Alger Maximum Correctional Facility - Munising	\$ 27,418,700	\$	\$ 149,715	\$ 48,686	\$ 27,617,101
Baraga Maximum Correctional Facility - Baraga	31,035,100	355,000	115,855	122,086	31,628,041
Bellamy Creek Correctional Facility - Ionia	30,144,500	1,650,000	451,973	103,510	32,349,983
Earnest C. Brooks Correctional Facility - Muskegon	38,955,200	(100,000)	215,925	183,080	39,254,205
Carson City Correctional Facility Complex - Carson City	41,038,300	50,000	261,291	178,458	41,528,049
Chippewa Correctional Facility - Kincheloe	38,798,200	850,000	1,282,091	165,869	41,096,160
Cooper Street Correctional Facility - Jackson	22,019,900	(1,250,000)	68,250	178,348	21,016,498
G. Robert Cotton Correctional Facility - Jackson	32,069,800	150,000	304,565	139,607	32,663,972
Florence Crane Correctional Facility - Coldwater	30,447,800	(1,500,000)	248,311	177,078	29,373,189
Deerfield Correctional Facility - Ionia	16,197,700	(300,000)	388,361	106,934	16,392,995
Charles E. Egeler Correctional Facility - Jackson	30,399,100	23,556,200	178,426	894,923	55,028,648
Richard A. Handlon Correctional Facility - Ionia	21,068,300	660,000	18,953	107,809	21,855,062
Gus Harrison Correctional Facility - Adrian	39,583,100	1,210,000	657,521	178,859	41,629,480
Huron Valley Correctional Facility - Ypsilant	20,933,200	3,070,000	336,082	28,770	24,368,052
Ionia Maximum Correctional Facility - Ionia	26,322,700	(800,000)	297,117	24,347	25,844,164
Jackson Maximum Correctional Facility - Jackson			104,414		104,414
Kinross Correctional Facility - Kincheloe	44,548,300	115,000	74,384	252,864	44,990,548
Lakeland Correctional Facility - Coldwater	22,197,900	530,000	31,826	101,659	22,861,385
Macomb Correctional Facility - New Haven	25,300,600	(400,000)	1,985,571	119,653	27,005,824
Marquette Branch Prison - Marquette	32,835,000	1,820,000	777,409	61,034	35,493,443
Michigan Reformatory - Ionia		7,720,000	1,451,267		9,171,267
Mound Correctional Facility - Detroit	24,799,900		92,848	83,853	24,976,601
Muskegon Correctional Facility - Muskegon	24,297,000	(1,840,000)	173,184	112,954	22,743,138
Newberry Correctional Facility - Newberry	25,966,900	(200,000)	244,694	113,989	26,125,583
Oaks Correctional Facility - Eastlake	29,301,500	(100,000)	139,683	53,641	29,394,824
Ojibway Correctional Facility - Mareniscoc	21,460,800	(494,600)	144,427	125,951	21,236,578
Parnall Correctional Facility - Jackson	21,524,400	(1,000,000)	419,123	113,085	21,056,608
Pine River Correctional Facility - St. Louis	17,016,600	(800,000)	362,837	81,119	16,660,556
Pugsley Correctional Facility - Kingsley	16,423,900	(200,000)	130,469	121,338	16,475,707
Riverside Correctional Facility - Ionia	26,160,500	9,905,000	2,301,317	68,654	38,435,471
Ryan Correctional Facility - Detroit	25,287,400	760,000	5,539	85,205	26,138,143
Saginaw Correctional Facility - Freeland	26,136,000		1,888,798	101,510	28,126,307
Robert Scott Correctional Facility - Plymouth	31,906,400	200,000	3,728	157,955	32,268,083
Southern Michigan Correctional Facility - Jackson	29,449,300	1,003,100	430,193	102,505	30,985,098
St. Louis Correctional Facility - St. Louis	44,408,600		47,426	201,644	44,657,670
Standish Maximum Correctional Facility - Standish	31,952,500	170,000	310,407	78,281	32,511,189
State Prison of Southern Michigan - Jackson		1,190,000	46,932		1,236,932
Thumb Correctional Facility - Lapeer	29,059,500	(500,000)	137,403	195,043	28,891,946
Western Wayne Correctional Facility - Plymouth	20,998,300	756,500	29,222	65,156	21,849,178
Jackson Area Support and Services	13,452,100	800,000	991,632	1,606,268	16,850,000
Correction Camps			221,414		221,414
Subtotal for Facility Operations	\$ 1,030,915,000	\$ 47,036,200	\$ 17,520,580	\$ 6,641,724	\$ 1,102,113,504
Intrafund Expenditure Reimbursements	\$	\$	\$	\$ (3,262,167)	\$ (3,262,167)
Total	\$ 1,597,029,531	\$ 0	\$ 60,800,482	\$ 54,401,805	\$ 1,712,231,818

Disposition of Authorizations

Expenditures and Transfers	Multi-Year Projects	Encumbrances	Restricted		Total
			Revenues - Not Authorized	Balances Lapsed	
\$ 27,476,324		\$ 64,731		\$ 70,591	\$ 27,611,646
79,834,602		3,648,639		2,453,223	85,936,463
146,214,279		3,267,794	5,531,163	253,003	155,266,239
11,039,268		293,183		54,042	11,386,492
42,492,998		1,538,929		984,941	45,016,868
63,039,062		1,008,616		5,038,646	69,086,324
56,143,631		17,747		514,535	56,675,913
100,007,588		713,359		1,945,817	102,666,764
47,289,614	7,300,985	187,161		4,956,013	59,733,772
					0
<u>\$ 573,537,366</u>	<u>\$ 7,300,985</u>	<u>\$ 10,740,158</u>	<u>\$ 5,531,163</u>	<u>\$ 16,270,809</u>	<u>\$ 613,380,481</u>
\$ 27,524,663	\$	\$ 82,123	\$	\$ 10,315	\$ 27,617,101
31,584,886		38,772		4,383	31,628,041
32,257,976		85,007		7,000	32,349,983
38,971,566		264,383		18,255	39,254,205
40,607,169		530,094		390,786	41,528,049
39,095,228		1,513,716		487,216	41,096,160
20,467,034		194,664		354,800	21,016,498
31,766,562		487,675		409,735	32,663,972
28,268,698		1,098,184		6,307	29,373,189
15,644,024		554,109		194,862	16,392,995
52,700,447		102,690		2,225,512	55,028,648
21,236,183		41,693		577,186	21,855,062
40,207,797		175,342		1,246,342	41,629,480
23,470,139		826,811		71,102	24,368,052
25,169,418		353,548		321,198	25,844,164
24,572		79,607		235	104,414
44,882,370		82,118		26,060	44,990,548
22,252,062		587,595		21,729	22,861,385
25,153,254		194,556		1,658,014	27,005,824
33,617,171		1,650,853		225,418	35,493,443
8,215,930		876,093		79,244	9,171,267
24,745,891		7,337		223,373	24,976,601
21,963,303		554,755		225,081	22,743,138
25,799,865		325,366		353	26,125,583
28,608,851		778,337		7,636	29,394,824
21,232,976		445		3,157	21,236,578
20,080,465		709,247		266,895	21,056,608
16,147,794		3,066		509,696	16,660,556
16,196,219		124,139		155,350	16,475,707
36,292,954		890,937		1,251,580	38,435,471
25,142,073		430,819		565,252	26,138,143
27,636,629		365		489,313	28,126,307
31,383,313		868,699		16,071	32,268,083
29,519,397		645,587		820,115	30,985,098
44,058,347		545,786		53,537	44,657,670
31,424,464		1,074,396		12,328	32,511,189
978,490		15,842		242,599	1,236,932
28,051,379		566,930		273,637	28,891,946
20,072,354		1,210,925		565,899	21,849,178
15,180,949		1,304,381		364,669	16,850,000
52,695				168,719	221,414
<u>\$ 1,067,685,555</u>	<u>\$ 0</u>	<u>\$ 19,876,992</u>	<u>\$ 0</u>	<u>\$ 14,550,958</u>	<u>\$ 1,102,113,504</u>
<u>\$ (3,262,167)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (3,262,167)</u>
<u>\$ 1,637,960,753</u>	<u>\$ 7,300,985</u>	<u>\$ 30,617,150</u>	<u>\$ 5,531,163</u>	<u>\$ 30,821,767</u>	<u>\$ 1,712,231,818</u>

DEPARTMENT OF CORRECTIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2002

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
Central Administration					
Executive	\$ 9,974,900	\$ (183,900)	\$ 41,163	\$ 17,058,912	\$ 26,891,075
Administration and Programs	76,554,000	(3,440,000)	7,896,742	2,497,985	83,508,726
Field Operations	136,092,300	1,445,000	5,311,472	13,994,425	156,843,197
Special Alternative Incarceration Program	10,353,400	(170,000)	1,143,997	83,642	11,411,038
Office of Community Corrections	30,437,200	(1,987,900)	2,725,365	16,906,519	48,081,184
Consent Decrees	105,824,900	(42,545,000)	2,931,764		66,211,664
Office of Health Care	51,671,900	2,189,000	1,103,074	77,162	55,041,136
Clinical Operations	93,670,500	1,191,000	2,425,386	197,247	97,484,133
Correctional Facilities - Administration	72,726,000	(21,537,900)	8,139,712	2,763,876	62,091,689
Subtotal for Central Administration	\$ 587,305,100	\$ (65,039,700)	\$ 31,718,674	\$ 53,579,769	\$ 607,563,843
Facility Operations					
Alger Maximum Correctional Facility - Munising	\$ 27,705,000	\$ (205,000)	\$ 134,728	\$ 41,743	\$ 27,676,471
Baraga Maximum Correctional Facility - Baraga	31,428,400	(262,200)	78,690	97,437	31,342,326
Bellamy Creek Correctional Facility - Ionia		18,600,000	8,915,978	2,435	27,518,413
Ernest C. Brooks Correctional Facility - Muskegon	39,358,100	(350,000)	443,815	183,095	39,635,010
Carson City Correctional Facility Complex - Carson City	41,403,500	(880,000)	692,369	177,014	41,392,883
Chippewa Correctional Facility - Kincheloe	41,307,600	(1,410,000)	1,407,685	184,739	41,490,024
Cooper Street Correctional Facility - Jackson	22,329,200	(1,229,900)	523,366	154,855	21,777,521
G. Robert Cotton Correctional Facility - Jackson	32,146,800	(500,000)	429,622	139,085	32,215,506
Florence Crane Correctional Facility - Coldwater	29,963,800	(2,200,000)	447,615	157,036	28,368,451
Deerfield Correctional Facility - Ionia	16,542,500	(810,000)	331,912	103,508	16,167,920
Charles E. Egeler Correctional Facility - Jackson	20,662,100	27,099,800	247,812	60,069	48,069,781
Richard A. Handlon Michigan Correctional Facility - Ionia	21,319,600	3,202,000	212,369	107,531	24,841,500
Gus Harrison Correctional Facility - Adrian	39,952,700	426,000	207,500	177,376	40,763,577
Huron Valley Correctional Facility - Ypsilant	21,287,200	3,055,700	695,704	29,243	25,067,848
Ionia Maximum Correctional Facility - Ionia	26,449,500	(1,120,000)	613,346	130,033	26,072,879
Jackson Maximum Correctional Facility - Jackson	15,373,900	(3,095,000)	476,511	1,834,661	14,590,073
Kinross Correctional Facility - Kincheloe	44,924,100	314,200	17,476	243,743	45,499,519
Lakeland Correctional Facility - Coldwater	21,451,000	839,500	130,833	98,360	22,519,694
Macomb Correctional Facility - New Haven	26,382,400	(150,000)	325,167	112,203	26,669,769
Marquette Branch Prison - Marquette	33,106,600	688,800	577,280	60,083	34,432,763
Michigan Reformatory - Ionia		12,070,000	1,721,223	2,221	13,793,444
Mound Correctional Facility - Detroit	25,122,900	(530,400)	6,897	84,024	24,683,422
Muskegon Correctional Facility - Muskegon	24,538,900	(1,607,200)	262,706	108,708	23,303,114
Newberry Correctional Facility - Newberry	26,101,500	(160,000)	227,735	106,168	26,275,402
Oaks Correctional Facility - Eastlake	29,587,400	(945,000)	201,590	43,921	28,887,911
Ojibway Correctional Facility - Marenisc	21,630,000	(1,080,000)	72,926	122,324	20,745,250
Parnall Correctional Facility - Jackson	22,855,200	(1,150,000)	43,245	112,964	21,861,408
Pine River Correctional Facility - St. Louis	17,184,100	(1,280,000)	227,471	78,949	16,210,520
Pugsley Correctional Facility - Kingsley	14,820,500	1,300,000		78,558	16,199,058
Riverside Correctional Facility - Ionia	26,616,000	10,352,000	2,195,786	60,239	39,224,024
Ryan Correctional Facility - Detroit	25,455,200	775,000	17,862	86,438	26,334,500
Saginaw Correctional Facility - Freeland	27,315,400		126,774	99,154	27,541,328
Robert Scott Correctional Facility - Plymouth	29,057,700	1,130,700	89,975	120,985	30,399,360
Southern Michigan Correctional Facility - Jackson	29,901,500	1,980,000	389,628	110,756	32,381,885
St. Louis Correctional Facility - St. Louis	44,854,600	(780,000)	18,799	194,520	44,287,920
Standish Maximum Correctional Facility - Standish	30,197,600	(343,400)	118,712	65,448	30,038,361
State Prison of Southern Michigan - Jackson		2,003,000	81,275		2,084,275
Thumb Correctional Facility - Lapeer	29,036,900	(540,000)	110,730	155,322	28,762,952
Western Wayne Correctional Facility - Plymouth	21,335,700	186,100	52,217	64,789	21,638,806
Jackson Area Support and Services	13,443,700	1,645,000	862,100	1,810,330	17,761,130
Correction Camps			401,404		401,404
Subtotal for Facility Operations	\$ 1,012,148,800	\$ 65,039,700	\$ 24,138,831	\$ 7,600,071	\$ 1,108,927,401
Intrafund Expenditure Reimbursements	\$	\$	\$	\$ (4,174,892)	\$ (4,174,892)
Total	\$ 1,599,453,900	\$ 0	\$ 55,857,505	\$ 57,004,948	\$ 1,712,316,350

Disposition of Authorizations

Expenditures and Transfers	Multi-Year Projects	Encumbrances	Restricted Revenues - Not Authorized	Balances Lapsed	Total
\$ 26,757,971		\$ 64,806	\$	\$ 68,299	\$ 26,891,075
75,271,085	3,540,492	3,817,993		879,157	83,508,726
148,698,280		2,930,108	4,084,093	1,130,716	156,843,198
10,390,948		908,466		111,624	11,411,038
45,823,017		2,068,715		189,453	48,081,184
62,914,651		2,858,024		438,988	66,211,664
54,111,632	198,000	712,982		18,523	55,041,136
95,098,514	217,600	1,887,876		280,143	97,484,133
41,354,028	19,567,586	423,162		746,912	62,091,689
<u>\$ 560,420,125</u>	<u>\$ 23,523,678</u>	<u>\$ 15,672,131</u>	<u>\$ 4,084,093</u>	<u>\$ 3,863,816</u>	<u>\$ 607,563,843</u>
\$ 27,374,962		\$ 149,715	\$	\$ 151,794	\$ 27,676,471
31,050,625		115,855		175,847	31,342,326
27,066,420		451,973		20	27,518,413
39,143,723		215,925		275,362	39,635,010
40,784,533		261,291		347,059	41,392,883
40,046,015		1,282,091		161,919	41,490,024
21,601,209		68,250		108,063	21,777,521
31,740,825		304,565		170,116	32,215,506
28,012,879		248,311		107,260	28,368,451
15,668,801		388,361		110,759	16,167,920
47,580,658		178,425		310,698	48,069,781
24,651,624		18,953		170,923	24,841,500
39,921,481		657,521		184,574	40,763,577
24,544,202		336,083		187,563	25,067,848
25,557,554		297,117		218,208	26,072,879
14,345,985		104,414		139,674	14,590,073
45,139,693		74,384		285,442	45,499,519
22,274,160		31,826		213,709	22,519,694
24,553,824	1,437,600	547,971		130,374	26,669,769
33,412,435		777,409		242,919	34,432,763
12,264,934		1,451,267		77,243	13,793,444
24,583,676		92,848		6,897	24,683,422
22,975,646		173,184		154,284	23,303,114
25,739,469		244,694		291,239	26,275,402
28,601,277		139,683		146,951	28,887,911
20,487,474		144,427		113,349	20,745,250
21,239,641		419,123		202,644	21,861,408
15,746,322		362,837		101,361	16,210,520
16,013,902		130,469		54,686	16,199,058
36,694,400		2,301,317		228,307	39,224,024
26,174,415		5,539		154,547	26,334,500
25,647,973	1,734,017	154,781		4,557	27,541,328
30,249,323		3,728		146,308	30,399,360
31,786,987		430,193		164,705	32,381,885
44,040,075		47,426		200,419	44,287,920
29,727,867		310,407		87	30,038,361
2,009,565		46,932		27,778	2,084,275
28,485,788		137,403		139,761	28,762,952
21,552,116		29,222		57,469	21,638,806
16,564,603		991,632		204,895	17,761,130
133,402		221,414		46,588	401,404
<u>\$ 1,085,190,461</u>	<u>\$ 3,171,617</u>	<u>\$ 14,348,963</u>	<u>\$ 0</u>	<u>\$ 6,216,358</u>	<u>\$ 1,108,927,400</u>
<u>\$ (4,174,892)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (4,174,892)</u>
<u>\$ 1,641,435,694</u>	<u>\$ 26,695,295</u>	<u>\$ 30,021,093</u>	<u>\$ 4,084,093</u>	<u>\$ 10,080,175</u>	<u>\$ 1,712,316,350</u>

DEPARTMENT OF CORRECTIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2001 through September 30, 2003

Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	Fiscal Year Ended September 30, 2002		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Agriculture</u>					
Pass-Through Programs:					
Michigan Department of Education					
Child Nutrition Cluster:					
School Breakfast Program	10.553	330008008	\$ 207,127	\$	\$ 207,127
National School Lunch Program	10.555	330008008	365,960		365,960
Total Child Nutrition Cluster			\$ 573,087	\$ 0	\$ 573,087
Total U.S. Department of Agriculture			\$ 573,087	\$ 0	\$ 573,087
<u>U.S. Department of Justice</u>					
Direct Programs:					
Offender Reentry Program	16.202		\$	\$	\$ 0
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586		17,058,912	1,349,206	18,408,118
State Criminal Alien Assistance Program	16.606		1,823,339		1,823,339
Total Direct Programs			\$ 18,882,251	\$ 1,349,206	\$ 20,231,457
Pass-Through Programs:					
Michigan Department of Community Health					
Byrne Formula Grant Program	16.579	70846-3K01	\$ 319,644	\$	\$ 319,644
Byrne Formula Grant Program	16.579	70981-1K01	264,080		264,080
Total Byrne Formula Grant Program			(1) \$ 583,724	\$ 0	\$ 583,724
Residential Substance Abuse Treatment for State Prisoners	16.593	90001-6S01	(1) 1,140,676		1,140,676
Total Pass-Through Programs			\$ 1,724,400	\$ 0	\$ 1,724,400
Total U.S. Department of Justice			\$ 20,606,651	\$ 1,349,206	\$ 21,955,857
<u>Institute of Museum and Library Services</u>					
Pass-Through Program:					
Library of Michigan					
State Library Program	45.310	304-01	\$ 109,595	\$	\$ 109,595
Total Institute of Museum and Library Services			\$ 109,595	\$ 0	\$ 109,595
<u>U.S. Department of Education</u>					
Direct Programs:					
Grants to States for Incarcerated Youth Offenders	84.331		\$ 455,248	\$	\$ 455,248
Total Direct Programs			\$ 455,248	\$ 0	\$ 455,248
Pass-Through Programs:					
Michigan Department of Career Development					
Adult Education - State Grant Program	84.002	021190/210112	\$ 664,600	\$	\$ 664,600
Adult Education - State Grant Program	84.002	031190/310113	216,112		216,112
Adult Education - State Grant Program	84.002	011120/50002	19,918		19,918
Total Adult Education - State Grant Program			\$ 900,630	\$ 0	\$ 900,630
Vocational Education - Basic Grants to States	84.048	013320/6201	169,400		169,400
Total Pass-Through Programs - Michigan Department of Career Development			\$ 1,070,030	\$ 0	\$ 1,070,030
Michigan Department of Education					
Title I Program for Neglected and Delinquent Children	84.013	011660/0102	\$ 43,456	\$	\$ 43,456
Title I Program for Neglected and Delinquent Children	84.013	021660/0102	60,105		60,105
Total Title I Program for Neglected and Delinquent Children			\$ 103,561	\$ 0	\$ 103,561
Special Education - Grants to States	84.027	020490/61TS	\$ 24,345	\$	\$ 24,345
Special Education - Grants to States	84.027	010440/61	675		675
Special Education - Grants to States	84.027	020440/61	57,047		57,047
Special Education - Grants to States	84.027	020490/61	10,925		10,925
Special Education - Grants to States	84.027	020490/61CB	5,000		5,000
Total Special Education - Grants to States			\$ 97,992	\$ 0	\$ 97,992
Total Pass-Through Programs - Michigan Department of Education			\$ 201,553	\$ 0	\$ 201,553
Total U.S. Department of Education			\$ 1,726,831	\$ 0	\$ 1,726,831

This schedule is continued on next page.

Fiscal Year Ended September 30, 2003

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
330008008	\$ 217,058	\$	\$ 217,058	\$ 424,185
330008008	368,490		368,490	734,450
	<u>\$ 585,548</u>	<u>\$ 0</u>	<u>\$ 585,548</u>	<u>\$ 1,158,635</u>
	<u>\$ 585,548</u>	<u>\$ 0</u>	<u>\$ 585,548</u>	<u>\$ 1,158,635</u>
	\$ 373,056	\$	\$ 373,056	\$ 373,056
	17,889,240	34,291	17,923,531	36,331,649
	832,915		832,915	2,656,254
	<u>\$ 19,095,211</u>	<u>\$ 34,291</u>	<u>\$ 19,129,502</u>	<u>\$ 39,360,959</u>
70846-4K02	\$ 255,715	\$	\$ 255,715	\$ 575,359
70981-2K02	246,776		246,776	510,856
(1)	<u>\$ 502,491</u>	<u>\$ 0</u>	<u>\$ 502,491</u>	<u>\$ 1,086,215</u>
90001-7S02	(1) 1,140,676		1,140,676	2,281,352
	<u>\$ 1,643,167</u>	<u>\$ 0</u>	<u>\$ 1,643,167</u>	<u>\$ 3,367,567</u>
	<u>\$ 20,738,378</u>	<u>\$ 34,291</u>	<u>\$ 20,772,669</u>	<u>\$ 42,728,526</u>
	\$	\$	\$ 0	\$ 109,595
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 109,595</u>
	\$ 576,006	\$	\$ 576,006	\$ 1,031,254
	<u>\$ 576,006</u>	<u>\$ 0</u>	<u>\$ 576,006</u>	<u>\$ 1,031,254</u>
031140/310113	\$ 9,977	\$	\$ 9,977	\$ 674,577
031190/310113	360,622		360,622	576,734
031120/2003500022	39,146		39,146	59,064
	<u>\$ 409,745</u>	<u>\$ 0</u>	<u>\$ 409,745</u>	<u>\$ 1,310,375</u>
033320/62131	118,973		118,973	288,373
	<u>\$ 528,718</u>	<u>\$ 0</u>	<u>\$ 528,718</u>	<u>\$ 1,598,748</u>
031660/0203	\$ 30,786	\$	\$ 30,786	\$ 74,242
021660/0203	53,417		53,417	113,522
	<u>\$ 84,203</u>	<u>\$ 0</u>	<u>\$ 84,203</u>	<u>\$ 187,764</u>
030490/TS	\$ 30,000	\$	\$ 30,000	\$ 54,345
030490/EOSD	4,800		4,800	5,475
030440/0203	57,047		57,047	114,094
				10,925
030490/CB	5,000		5,000	10,000
	<u>\$ 96,847</u>	<u>\$ 0</u>	<u>\$ 96,847</u>	<u>\$ 194,839</u>
	<u>\$ 181,050</u>	<u>\$ 0</u>	<u>\$ 181,050</u>	<u>\$ 382,603</u>
	<u>\$ 1,285,774</u>	<u>\$ 0</u>	<u>\$ 1,285,774</u>	<u>\$ 3,012,605</u>

DEPARTMENT OF CORRECTIONS
 Schedule of Expenditures of Federal Awards (1)
 For the Period October 1, 2001 through September 30, 2003
 Continued

Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	Fiscal Year Ended September 30, 2002		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Health and Human Services					
Pass-Through Programs:					
Michigan Department of Community Health					
HIV Care Formula Grants	93.917	X07HA00044 (1)	\$ 77,162	\$	\$ 77,162
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	02B1MISAPT (1)	563,000		563,000
Total U.S. Department of Health and Human Services			\$ 640,162	\$ 0	\$ 640,162
Total Expenditures of Federal Awards			<u>\$ 23,656,326</u>	<u>\$ 1,349,206</u>	<u>\$ 25,005,532</u>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Corrections (DOC) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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.

DOC is a subrecipient of certain federal programs from the Department of Community Health. DOC is reimbursed for its costs through an expenditure credit. The expenditure credits recorded for fiscal years 2001-02 and 2002-03 were \$2,364,562 and \$1,655,898, respectively. These amounts are included in the schedule of expenditures of federal awards but are not included in the financial schedules.

DOC 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 accounting records as a revenue debit.

As a result of these expenditure credits and revenue debits, the amounts reported as expended on this schedule do not agree with the amounts reported as federal revenue in the schedule of General Fund revenues.

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

Fiscal Year Ended September 30, 2003

Pass-Through Identification Number		Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
X07HA00044	(1)	\$ 12,731	\$	\$ 12,731 0	\$ 89,893 563,000
		\$ 12,731	\$ 0	\$ 12,731	\$ 652,893
		\$ 22,622,431	\$ 34,291	\$ 22,656,722	\$ 47,662,254

THIS PAGE INTENTIONALLY BLANK

INDEPENDENT AUDITOR'S REPORTS ON
COMPLIANCE AND INTERNAL CONTROL



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

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

March 19, 2004

Ms. Patricia L. Caruso, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Ms. Caruso:

We have audited the financial schedules of the Department of Corrections for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents, and have issued our report thereon dated March 19, 2004. 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*. However, we noted an immaterial instance of noncompliance, which is described in Finding 3.

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 internal control over financial reporting. However, we noted certain matters involving 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 internal control over

financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules. The 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 internal control over financial reporting would not necessarily disclose all matters in 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.

AUDITOR GENERAL



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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 19, 2004

Ms. Patricia L. Caruso, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Ms. Caruso:

Compliance

We have audited the compliance of the Department of Corrections 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, 2003. 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.

Except as discussed in the following paragraph, 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.

As described in Finding 5 in the accompanying schedule of findings and questioned costs, we could not obtain sufficient documentation supporting the compliance of the Byrne Formula Grant Program regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, and earmarking; period of availability of federal funds; and reporting and we could not satisfy ourselves as to the Department's compliance with those requirements by other auditing procedures.

As described in Findings 6 and 7 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles; eligibility; and equipment and real property management that are applicable to its Residential Substance Abuse Treatment for State Prisoners and Grants to States for Incarcerated Youth Offenders Programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

As identified in the second previous paragraph, because the Department could not provide sufficient documentation, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Department's compliance with Byrne Formula Grant requirements for the two-year period ended September 30, 2003. Also, in our opinion, except for the effects of the noncompliance described in the previous paragraph, the Department complied, in all material respects, with the requirements referred to in the fourth previous paragraph for the Residential Substance Abuse Treatment for State Prisoners and Grants to States for Incarcerated Youth Offenders Programs for the two-year period ended September 30, 2003. Further, in our opinion, the Department complied, in all material respects, with the requirements referred to in the fourth previous paragraph for the Violent Offender Incarceration and Truth in Sentencing Incentive Grants Program for the two-year period ended September 30, 2003. The results of our auditing procedures also disclosed other 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 8 through 10.

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 internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving 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 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. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 5 through 10.

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 internal control over compliance would not necessarily disclose all matters in 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, of the reportable conditions identified in the previous paragraph, we consider Findings 5 through 7 to be material weaknesses.

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.

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? Yes

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs:

- Unqualified for Violent Offender Incarceration and Truth in Sentencing Incentive Grants.
- Qualified* for Residential Substance Abuse Treatment for State Prisoners and Grants to States for Incarcerated Youth Offenders.
- Disclaimer of opinion* for Byrne Formula Grant Program.

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:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
16.579	Byrne Formula Grant Program
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants
16.593	Residential Substance Abuse Treatment for State Prisoners
84.331	Grants to States for Incarcerated Youth Offenders

Dollar threshold used to distinguish between type A and type B programs: \$1,429,868

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (470401)

1. Expenditures and Federal Revenue Reporting

The Department of Corrections (DOC) did not comply with State accounting policies regarding the recording of expenditures and federal revenue for funds passed through from other State departments. As a result, DOC understated expenditures and federal revenue for funds passed through from the Department of Community Health (DCH).

DOC received federal funds from DCH for four federal programs in fiscal year 2001-02 and three federal programs in fiscal year 2002-03 totaling \$2,364,562 and \$1,655,898, respectively. The funds were appropriated at DCH; however, DOC incurred the related expenditures and was responsible for the determination of compliance for these programs.

* See glossary at end of report for definition.

According to the Department of Management and Budget's (DMB's) Financial Reporting and Accounting Manual (FRAM), Chapter 16, Section 1(4), the agency responsible for determining compliance with federal regulations for a particular State program should recognize both the expenditure and related federal revenue. When passing federal funds between agencies, a revenue reduction should be recorded by the paying agency and revenue should be recognized by the receiving agency.

DCH periodically processed an expenditure on DCH's accounting records and an expenditure credit on DOC's accounting records for these federal programs. As a result, the related expenditures and revenue were recorded on DCH's financial schedules rather than DOC's.

DOC informed us that it has discussed the accounting for these programs with DCH. However, DCH has remained reluctant to change its method for recording the expenditures and revenue.

RECOMMENDATION

We recommend that DOC comply with State accounting policies regarding the recording of expenditures and federal revenue for funds passed through from other State departments.

FINDING (470402)

2. Procurement Card Controls

DOC's internal control did not ensure that procurement card users complied with DMB policies and procedures.

Noncompliance with established State procurement requirements may result in ineffective and inefficient use of resources and, potentially, noncompliance with federal regulations.

DMB's Procurement Card Program Cardholder Manual established guidelines for ineligible purchases using the procurement card. DOC used procurement cards to make purchases totaling approximately \$28,020,880 during the audit period. Our

review of 44 transactions disclosed the following instances of noncompliance with policies and procedures:

- a. In 6 instances, totaling \$17,372, procurement card users exceeded the established individual transaction limit. These transactions ranged from \$13 to \$1,360 over the limit.
- b. In 5 instances, totaling \$15,713, procurement card users circumvented DMB procedures by splitting the purchases to avoid exceeding the individual transaction limit. DMB's Procurement Card Program Cardholder Manual prohibits splitting charges to avoid exceeding the individual transaction limit.

RECOMMENDATION

We recommend that DOC enhance its internal control to help ensure that procurement card users comply with DMB policies and procedures.

FINDING (470403)

3. Federal Program Cost Recovery

DOC incurred various direct and indirect costs related to the Byrne Formula Grant and Grants to States for Incarcerated Youth Offenders (Incarcerated Youth) Programs that were not charged to the federal programs. As a result, DOC paid for some direct and indirect costs with State General Fund money rather than with federal program funds.

State agencies may recover from federal grants both direct costs and indirect costs. OMB Circular A-87 establishes principles and standards for determining allowable costs that can be charged against federal awards. Section 18.1460 of the *Michigan Compiled Laws* states that the departments shall charge the applicable indirect costs to the federal program and shall use the revenue to offset State expenditures for support services related to the indirect costs.

Our review of the Byrne Formula Grant and Incarcerated Youth Programs disclosed:

- a. DOC did not charge its administrative costs to the Byrne Formula Grant Program. DOC informed us that it did not charge these costs to the Byrne Formula Grant Program because the agreement between DOC and DCH

provided that an outside contractor shall provide the program match. However, DOC should have requested, in the grant application, the recovery of the DOC direct and indirect costs.

- b. DOC did not charge allowable costs to the Incarcerated Youth Program for employment counseling, prerelease programming, and career development, including health education.

In the past, DOC had not established an indirect cost rate to apply against federal grants because direct program costs were sufficient to fully utilize all available federal program funds.

RECOMMENDATION

We recommend that DOC take steps to charge all allowable direct and indirect costs to the Byrne Formula Grant and the Incarcerated Youth Programs.

FINDING 470404

4. Grants to States for Incarcerated Youth Offenders (Incarcerated Youth), CFDA 84.331

This finding is included in Section III of the schedule of findings and questioned costs (470407).

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 470405

5. Byrne Formula Grant Program, CFDA 16.579

U.S. Department of Justice	CFDA 16.579: Byrne Formula Grant Program
Award Number: 70981-1K01 70981-2K02	Award Period: 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003
Pass-Through Agency: Michigan Department of Community Health	Questioned Costs: \$510,856

DOC's internal control did not ensure that DOC obtained sufficient documentation to support its compliance with federal program requirements for the Byrne Formula Grant Program. We consider this condition to be a material internal control weakness for the Program.

As a result of weak internal control procedures, DOC could not ensure that the federal compliance requirements that were direct and material to the federal program were met, including activities allowed or unallowed*; allowable costs/cost principles*; cash management*; eligibility*; matching*, level of effort, and earmarking; period of availability of federal funds*; and reporting*. Because a material internal control weakness existed, the federal grantor agency could disallow program expenditures of \$510,856 and reject DOC's subsequent requests for federal funds.

OMB Circular A-133 requires DOC to maintain internal control over federal programs that provides reasonable assurance that DOC is managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

DOC expended \$1,086,215 of federal funds for the Byrne Formula Grant Program during the two-year period ended September 30, 2003.

* See glossary at end of report for definition.

DOC entered into an agreement with an independent contractor to assist Wayne County offenders with their transition from prison (TOP) to the community. DOC expended Byrne Formula Grant Program federal awards totaling \$264,080 and \$246,776 for TOP in fiscal years 2001-02 and 2002-03, respectively.

DOC's responsibility for TOP is to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and provisions of the contract. A program's compliance requirements do not pass through to the contractor. However, DOC is responsible for ensuring compliance by reviewing the contractor's records. Our review of DOC's internal control disclosed:

- a. DOC's contracts did not state what types of expenditures the primary vendor could request reimbursement for or what services were paid for with the federal award.

The contracts between DOC and the primary vendor did not specify the costs for services, such as hourly wage rates. DOC indicated that the contract paid for staff salaries. However, vendor billings requested reimbursement for various expenditures, including lease, office supplies, postage, and travel expenditures.

- b. DOC did not obtain adequate documentation to support the vendor's request for reimbursement. Our review of the vendor billings disclosed that DOC received only summary information for expenditure reimbursement. Without adequate documentation, such as approved purchase orders, receiving reports, and vendor invoices, DOC could not determine if the independent contractor complied with the applicable laws, regulations, and provisions of the contract.
- c. DOC's contracts did not clearly state the parties' responsibilities regarding participants' eligibility or programmatic decisions.

DOC staff provided information indicating that DOC determined eligibility and made programmatic decisions. However, the contracts stated that DOC referred participants to the vendor and the vendor assessed individuals for participation.

- d. DOC did not adequately review program activities.

DOC staff provided information indicating that parole officers performed site visits related to their individual parolee caseloads and documented such visits in their case files. Also, DOC staff informed us that supervisors reviewed the case files on a regular basis to ensure that the parolees participated as required. However, these reviews were not aggregated to allow for summary reviews to determine compliance with the federal program.

RECOMMENDATION

We recommend that DOC establish internal control to help ensure that DOC obtains sufficient documentation to support its compliance with federal program requirements for the Byrne Formula Grant Program.

FINDING 470406

6. Federal Payroll Costs

U.S. Department of Justice	<i>CFDA</i> 16.593: Residential Substance Abuse Treatment for State Prisoners
Award Number: 90001-7S02	Award Period: 10/01/2002 - 09/30/2003
Pass-Through Agency: Michigan Department of Community Health	Questioned Costs: \$98,212

U.S. Department of Education	<i>CFDA</i> 84.331: Grants to States for Incarcerated Youth Offenders
Award Number: V331A000043	Award Period: 07/01/2000 - 09/30/2001
	Questioned Costs: \$65,688

DOC's internal control did not ensure that payroll costs charged to two federal programs were properly documented in accordance with federal requirements. We consider this condition to be a material internal control weakness which resulted in material noncompliance for the Residential Substance Abuse Treatment for State Prisoners (RSAT) and Grants to States for Incarcerated Youth Offenders (Incarcerated Youth) Programs.

Noncompliance with federal regulations related to payroll costs could result in disallowed costs of \$98,212 for the RSAT Program and \$65,688 for the Incarcerated Youth Program.

OMB Circular A-87 requires employees who charge 100% of their payroll costs to a single grant program or cost objective to certify, at least semiannually, that they worked solely on a single grant program or cost objective.

Our review of accounting records for employees who charged payroll costs to two federal programs disclosed that DOC had not prepared certifications for employees whose payroll cost distributions were charged 100% to the RSAT Program for fiscal year 2002-03 or to the Incarcerated Youth Program for fiscal year 2001-02.

RECOMMENDATION

We recommend that DOC enhance its internal control to help ensure that payroll costs are properly documented in accordance with federal requirements.

FINDING 470407

7. Grants to States for Incarcerated Youth Offenders (Incarcerated Youth), CFDA 84.331

U.S. Department of Education	CFDA 84.331: Grants to States for Incarcerated Youth Offenders
Award Number: V331A000043 V331A010043	Award Period: 07/01/2000 - 06/30/2001 07/01/2001 - 06/30/2002
	Questioned Costs: \$366,767

DOC paid for services and materials that were not adequately documented or were not allowable costs, including payments made for prisoners who were not eligible, for the Incarcerated Youth Program. Also, DOC did not record and identify equipment items purchased with Incarcerated Youth Program funds in accordance with federal and State requirements. We consider these conditions to be material internal control weaknesses which resulted in material noncompliance for the Incarcerated Youth Program.

As a result, the federal grantor agency could disallow program expenditures of \$366,767 and reject DOC's subsequent requests for federal funds.

DOC expended \$1,031,254 of federal funds for the Incarcerated Youth Program during the two-year period ended September 30, 2003.

Title 20, Section 1151 of the *Code of Laws of the United States* provides that Incarcerated Youth funds may be used to assist and encourage incarcerated youths to acquire functional literacy, life, and job skills and for employment counseling and other related services. Also, this Section requires that a youth offender be 25 years of age or younger to participate in the Program. Further, OMB Circular A-87 requires that costs be adequately documented to be allowable for payment from a federal award.

DOC contracted with a community college to provide educational services at two prisons to prisoners participating in the Incarcerated Youth Program. The contract contains budgets to show annual projected program-related expenditures. Our review of budgeted items and related reimbursements to the college based on those budgets disclosed instances of unallowable expenditures or inadequate documentation to support the propriety of expenditures:

- a. We questioned \$31,250 of costs that DOC paid for selected space rental charges:
 - (1) DOC paid the college \$4,167 for space rental charges for a period prior to the start of the contract.
 - (2) DOC reimbursed the college \$27,083 for space rental charges that included classroom space that was not used for the Program.
- b. We questioned \$7,940 of costs that DOC paid for travel costs that were not eligible for reimbursement under the contract.
- c. We questioned \$24,417 of costs that DOC reimbursed the college for materials used in one of the college classes for which the contract budgets provide that the cost of these materials is included in DOC's per prisoner payment.

- d. We questioned \$66,428 of the student allocation costs that DOC reimbursed the college. The student allocation cost was \$1,500 for each of the 190 prisoners (\$285,000 total). Our review of these reimbursements disclosed:
- (1) DOC paid the college \$6,000 for 4 prisoners which DOC had previously reimbursed.
 - (2) DOC paid the college \$4,200 for 3 prisoners who began participation in the Program after they turned 26 or the day before they turned 26. Also, 1 prisoner who completed the Program began 4 (80%) of his 5 classes after he turned 26. The Program is only available to youths who are 25 years of age or younger.
 - (3) DOC paid the college \$56,228 for 63 prisoners who started the Program but subsequently withdrew or were terminated from the Program by DOC before beginning all required classes.

In addition, DOC did not record or identify \$236,732 of equipment items purchased with Incarcerated Youth Program funds. Title 34, Part 80, section 32 of the *Code of Federal Regulations* and the FRAM require recipients to maintain equipment property records and a control system to ensure adequate safeguards to prevent loss, damage, or theft of equipment acquired with federal funds. The FRAM requires that all individual pieces of equipment with an acquisition cost of \$5,000 or more be capitalized and recorded in a department's accounting records for inclusion in the State's comprehensive annual financial report. OMB Circular A-87 defines capital equipment as an item having a useful life of more than one year and an acquisition cost equal to the lesser of the capitalization level established by the governmental unit for financial statement purposes or \$5,000.

RECOMMENDATIONS

We recommend that DOC pay for only services and materials that are adequately documented and allowable for the Incarcerated Youth Program.

We also recommend that DOC record and identify equipment items purchased with Incarcerated Youth Program funds in accordance with federal and State requirements.

FINDING 470408

8. Residential Substance Abuse Treatment for State Prisoners (RSAT), CFDA 16.593

U.S. Department of Justice	CFDA 16.593: Residential Substance Abuse Treatment for State Prisoners
Award Number: 90001-6S01 90001-7S02	Award Period: 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003
Pass-Through Agency: Michigan Department of Community Health	Questioned Costs: \$39,121

DOC had not obtained adequate documentation to support costs and verify amounts incurred for the RSAT Program. Also, DOC had not always complied with RSAT federal program eligibility requirements.

As a result, the federal grantor agency could disallow program expenditures of \$39,121 and reject DOC's subsequent requests for federal funds.

DOC expended \$2,281,352 of federal funds for the RSAT Program during the two-year period ended September 30, 2003.

As a result of our review of 41 transactions, we questioned \$19,434 that DOC paid contractors in 14 (34%) instances in which it did not obtain adequate supporting documentation or verify mathematical calculations. The federal Office of Justice Programs/Bureau of Justice Assistance program guide requires DOC to administer the RSAT Program, which includes receiving, accounting for, and disbursing funds. OMB Circular A-87 states that costs must be adequately documented to be allowable under federal awards.

We also questioned \$19,687 that DOC paid a contractor for services provided to 7 (39%) of 18 prisoners whom DOC released from the RSAT Program 2 to 23 days before the prisoners participated in the Program for the minimum six months and/or whom DOC admitted into the Program with less than six months before their potential release dates. The federal Office of Justice Programs/Bureau of Justice Assistance program guide states that the RSAT formula grant funds may be used to implement residential substance abuse treatment programs that provide individual and group treatment activities for offenders in residential facilities operated by state and local correctional agencies. Each offender must participate

in the program for not less than six months. Although the federal agency does not define six months, DOC uses 180 days as its measurement.

DCH passes through federal awards to DOC based on a grant agreement. The agreement requires the RSAT Program to target prisoners who have a diagnosis of substance abuse dependency, have within 9 to 18 months (men's facility) and 10 to 24 months (women's facility) remaining before their potential release date for admittance, and have around 6 months (men's facility) and 9 months (women's facility) before their potential release dates.

RECOMMENDATIONS

We recommend that DOC obtain adequate documentation to support costs and verify amounts incurred for the RSAT Program.

We also recommend that DOC comply with RSAT federal program eligibility requirements.

FINDING 470409

9. Violent Offender Incarceration and Truth in Sentencing (VOI-TIS) Incentive Grants, CFDA 16.586

U.S. Department of Justice	CFDA 16.586: Violent Offender Incarceration and Truth in Sentencing Incentive Grants
Award Number: 1996-CV-VX-0026	Award Period: 09/30/1996 - 09/29/2006
	Questioned Costs: \$1,383,497

DOC had not established a comprehensive subrecipient* monitoring process to ensure that the VOI-TIS Incentive Grants Program's federal awards provided to its subrecipient were expended in accordance with federal laws and regulations and contract or grant agreement provisions.

DOC's failure to comply with subrecipient monitoring prescribed controls related to Single Audit requirements does not provide proper oversight of its subrecipient and could result in the loss of federal funds.

* See glossary at end of report for definition.

DOC expended \$36,331,649 of federal funds for the VOI-TIS Incentive Grants Program during the two-year period ended September 30, 2003.

DOC is responsible to the federal agency for the federal awards that DOC provides to its subrecipient. The Single Audit Act Amendments of 1996 and OMB Circular A-133 require DOC to monitor the activities of its subrecipient to ensure that the subrecipient uses federal awards in compliance with applicable laws, regulations, and provisions of contracts or grants. This can be accomplished through site visits, Single Audits or limited scope audits, or reviews of documentation supporting requests for reimbursement.

DOC provided approximately \$1.4 million in VOI-TIS federal awards to its subrecipient during the two-year period ended September 30, 2003. The subrecipient received VOI-TIS funds for the construction of new prisons and the expansion of existing adult prisons. DOC informed us that its Physical Plant Division periodically performed prison construction site visits and that DOC's Finance Division received and reviewed the subrecipient's requests for reimbursement.

However, DOC had not conducted site visits to determine that the subrecipient was in compliance with laws, regulations, and provisions of contracts or grants applicable to the VOI-TIS Incentive Grants Program. Also, the subrecipient's requests for reimbursement did not include documentation that would provide evidence that the subrecipient complied with laws, regulations, and provisions of contracts or grants applicable to the VOI-TIS Incentive Grants Program. Further, the VOI-TIS Incentive Grants Program was not audited as a major program in the subrecipient's Single Audit for the two-year period ended September 30, 2003.

RECOMMENDATION

We recommend that DOC establish a comprehensive subrecipient monitoring process to ensure that the VOI-TIS Incentive Grants Program's federal awards provided to its subrecipient are expended in accordance with federal laws and regulations and contract or grant agreement provisions.

FINDING 470410

10. Child Nutrition Cluster

U.S. Department of Agriculture	Child Nutrition Cluster: CFDA 10.553: School Breakfast Program CFDA 10.555: National School Lunch Program
Award Number: 330008008 330008008	Award Period: 07/01/2001 - 06/30/2002 07/01/2002 - 06/30/2003
Pass-Through Agency: Michigan Department of Education	Questioned Costs: \$0

DOC's internal control did not ensure that federal funds expended for the School Breakfast Program (SBP) and the National School Lunch Program (NSLP) were recorded separately in the Michigan Administrative Information Network* (MAIN).

As a result, DOC recorded all federal expenditures for SBP and NSLP as NSLP expenditures for fiscal year 2001-02.

DOC expended \$1,158,635 of federal funds for the Child Nutrition Cluster during the two-year period ended September 30, 2003.

DOC received federal awards for SBP and NSLP from the Michigan Department of Education (MDE). The grant agreement between DOC and MDE clearly stipulated that SBP and NSLP were separate federal programs. The OMB Circular A-133 Compliance Supplement designates SBP and NSLP as a cluster of programs entitled "Child Nutrition Cluster."

For federal programs included in a cluster of programs, DOC must report federal awards expended for the individual federal programs within the cluster. Also, OMB Circular A-133 requires DOC to identify within its accounting records the individual federal programs. In addition, the federal awards expended that are reported in the schedule of expenditures of federal awards (SEFA) must reconcile with amounts in the detailed accounting records.

DOC prepared its fiscal year 2001-02 SEFA reporting federal awards expended separately for SBP and NSLP under the Child Nutrition Cluster. However, DOC

* See glossary at end of report for definition.

could not reconcile the amounts reported in the SEFA with the State's accounting system. DOC informed us that, in its SEFA, it reported an allocation of federal awards expended based on the federal reimbursement received for breakfasts and lunches served. We determined that the allocation was reasonable.

RECOMMENDATION

We recommend that DOC enhance its internal control to help ensure that federal funds expended for SBP and NSLP are recorded separately in MAIN.

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

DEPARTMENT OF CORRECTIONS
Summary Schedule of Prior Audit Findings
As of September 30, 2003

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 470201

Finding Title: Encumbrances

Finding: The Department of Corrections (DOC) did not establish encumbrances at fiscal year-end in accordance with the Department of Management and Budget (DMB) Administrative Guide.

Comments: DOC's position is that it was and still is in compliance with DMB policies and procedures.

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 470202

Finding Title: Payroll Transactions

Finding: DOC did not consistently adhere to prescribed procedures for retaining transaction documentation.

Comments: DOC's Bureau of Human Resources has reinforced to all correctional facilities the importance of record retention.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 470203

Finding Title: Equipment

Finding: DOC did not obtain approval from the Michigan Department of Career Development (MDCD) prior to expending federal funds on the purchase of equipment totaling \$65,968 for the Adult Education - State Grant Program.

Comments: DOC was not aware of this requirement. Prior to such future purchases, DOC will receive prior approval from MDCD.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 470204

Finding Title: Residential Substance Abuse Treatment for State Prisoners (RSAT) Case Files

Finding: DOC did not consistently comply with RSAT program requirements and with established case file internal control procedures for documenting RSAT activities.

Comments: DOC amended the grant application so that the RSAT application was consistent with the federal requirements and program operations.

DEPARTMENT OF CORRECTIONS

Corrective Action Plan

As of June 15, 2004

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 470401
Finding Title: Expenditures and Federal Revenue Reporting

Management Views: The Department of Corrections (DOC) agrees.

In addition to raising this accounting issue with the Department of Community Health (DCH), DOC has raised this issue with the Department of Management and Budget (DMB) for the last several years. The issue was not viewed as material to the State's financial statements.

Corrective Action: DOC will comply by properly recording expenditures and federal revenue for funds passed through DCH starting with fiscal year 2003-04.

Anticipated Completion Date: September 30, 2004

Responsible Individual: Mike Draschil, Manager, Finance Division

Finding Number: 470402
Finding Title: Procurement Card Controls

Management Views: DOC agrees.

Corrective Action: DOC took steps to comply by instructing administrative officers to document the corrective action taken to address instances of noncompliance.

Anticipated Completion Date: Completed

Responsible Individual: Mike Draschil, Manager, Finance Division

Finding Number: 470403

Finding Title: Federal Program Cost Recovery

Management Views: DOC agrees with the finding. Underutilization of the Incarcerated Youth grant was largely due to a gap in programming, resulting from a program revision. In addition, DOC has determined that the cost of computing an indirect cost rate would be between \$10,000 and \$25,000, which would likely exceed the amount that could be charged to the grants.

Corrective Action: DOC has taken steps to ensure that the grants are fully utilized using allowable direct charges.

Anticipated Completion Date: Completed

Responsible Individuals: Julie DeRose, Manager, Correctional Facilities
Administration Education
Mike Draschil, Manager, Finance Division
Kami Pasch, Budget Officer, Field Operations
Administration

Finding Number: 470404

Finding Title: Grants to States for Incarcerated Youth Offenders
(Incarcerated Youth), *CFDA* 84.331

See Finding 470407 with the findings related to the federal awards.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 470405
Finding Title: Byrne Formula Grant Program, *CFDA* 16.579

Management Views: DOC agrees.

Corrective Action: DOC took steps to comply. DOC amended the contract to provide for billing and reimbursement based on a per diem amount for each day that programming was available to each offender during the month. The vendor is required to document the names of the offenders and the offenders' admit and release dates. DOC also amended the contract to more clearly define the responsibilities of each party regarding participants' eligibility and programming needs. In addition, DOC has taken steps to establish a system of review over the vendor's case files and program activity reports to provide for an aggregated review of the vendor's compliance with the federal program requirements.

Anticipated Completion Date: Completed

Responsible Individual: Kami Pasch, Budget Officer, Field Operations Administration

Finding Number: 470406
Finding Title: Federal Payroll Costs

Management Views: DOC agrees. Regarding the Residential Substance Abuse Treatment for State Prisoners (RSAT) grant, a turnover of staff caused this administrative oversight. Although not certified, 100% of the staff persons' time was spent on the RSAT grant. Regarding the Grants to States for Incarcerated Youth Offenders

(Incarcerated Youth) Program, no salaries have been charged since fiscal year 2001-02.

Corrective Action: Regarding the RSAT grant, DOC has taken steps to ensure that applicable certifications are completed as required. Regarding the Incarcerated Youth Program, no salaries are covered by the grant at this time. If salaries are funded through this grant in the future, DOC will ensure that a weekly time sheet is prepared to record the actual time spent on the grant.

Anticipated Completion Date: Completed

Responsible Individuals: Julie DeRose, Manager, Correctional Facilities
Administration Education
Tom Combs, Manager, Substance Abuse Services

Finding Number: 470407
Finding Title: Grants to States for Incarcerated Youth Offenders (Incarcerated Youth), *CFDA* 84.331

Management Views: DOC agrees.

Corrective Action: DOC will comply. DOC plans to pursue a revised contract and budget with the community college that will address space rental, travel costs, and course materials. The four double billings have been corrected and a process has been implemented to ensure that double billings do not occur in the future. In addition, DOC is working with the U.S. Department of Education and the community college to develop a revised enrollment and billing solution. Regarding equipment costs, DOC will take steps to ensure proper recording in the accounting records. In addition, equipment items will no longer be charged to the grant.

Anticipated Completion Date: September 30, 2004

Responsible Individuals: Julie DeRose, Manager, Correctional Facilities
Administration Education
Mike Draschil, Manager, Finance Division

Finding Number: 470408

Finding Title: Residential Substance Abuse Treatment for State Prisoners (RSAT), *CFDA* 16.593

Management Views: DOC agrees.

Corrective Action: DOC has taken steps to comply. A new billing process has been implemented that will make it easier to verify mathematical calculations. In addition, DOC has changed the screening and enrollment criteria. Inmates who have been accepted into the program, but arrive at the treatment facility with less than six months remaining until their potential release date, will not be enrolled.

Anticipated Completion Date: Completed

Responsible Individual: Tom Combs, Manager, Substance Abuse Services

Finding Number: 470409

Finding Title: Violent Offender Incarceration and Truth in Sentencing (VOI-TIS) Incentive Grants, *CFDA* 16.586

Management Views: DOC agrees with the finding. DOC was not aware that the latest Single Audit of the subrecipient (DMB) did not include the VOI-TIS grant.

Corrective Action: DOC has requested and received copies of all payment documents from DMB that were greater than

\$5,000. All documents were reviewed for propriety. No discrepancies were noted. The projects at issue were completed in fiscal year 2002-03; therefore, this situation will not reoccur.

Anticipated Completion Date: Completed

Responsible Individual: Mike Draschil, Manager, Finance Division

Finding Number: 470410

Finding Title: Child Nutrition Cluster

Management Views: DOC agrees. This finding was brought to our attention during the Single Audit for the period ended September 30, 2001, which was conducted during fiscal year 2001-02. Accounting profiles are not changed during the middle of a fiscal year so the changes to the accounting system became effective for fiscal year 2002-03. As reported by the auditors, the funds expended for the School Breakfast Program (SBP) and the National School Lunch Program (NSLP) were reported separately in the fiscal year 2001-02 schedule of expenditures of federal awards.

Corrective Action: Federal funds expended for SBP and NSLP have been recorded separately in the Michigan Administrative Information Network (MAIN) since October 1, 2003.

Anticipated Completion Date: Completed

Responsible Individual: Mike Draschil, Manager, Finance Division

GLOSSARY

Glossary of Acronyms and Terms

activities allowed or unallowed	Types of activities that are specifically allowed by laws, regulations, and provisions of contract or grant agreements pertaining to a program.
allowable costs/cost principles	Costs of goods and services charged to federal awards in accordance with applicable cost principles and for allowable activities.
cash management	The efficient utilization of cash through coordinated management of payments, collections, and cash balances.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
DCH	Department of Community Health.
disclaimer of opinion	A statement that the auditor does not express an opinion on the financial schedules and/or financial statements or a statement that the auditor does not express an opinion on the audited agency's compliance with the cited requirements that are applicable to each major federal program.
DMB	Department of Management and Budget.
DOC	Department of Corrections.
eligibility	Qualified in accordance with program requirements.
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.
FRAM	DMB's Financial Reporting and Accounting Manual.

HIV	human immunodeficiency virus.
Incarcerated Youth	Grants to States for Incarcerated Youth Offenders.
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.
major program	A federal program determined by the auditor to be a major program using a risk-based approach to determine which programs to audit. This risk-based approach shall include consideration of expenditure amount, current and prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program.
matching	Requirements to provide contributions (usually nonfederal) of a specified amount or percentage to match federal awards.
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 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.
MDCD	Michigan Department of Career Development.
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).
NSLP	National School Lunch Program.
OMB	U.S. Office of Management and Budget.
period of availability of federal funds	Authorized period during which federal funds may be expended.
qualified opinion	An auditor's opinion in which the auditor: <ul style="list-style-type: none"> a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules presenting

supplemental financial information 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

- b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program. 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.

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) 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.

reporting	Submission of reports of federal awards to the federal awarding agency or pass-through entity that include all activity of the reporting period.
RSAT	Residential Substance Abuse Treatment for State Prisoners.
SBP	School Breakfast Program.
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 <i>Government Auditing Standards</i> 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	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
TOP	transition from prison.

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.

VOI-TIS

Violent Offender Incarceration and Truth in Sentencing.