

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

MICHIGAN DEPARTMENT OF STATE POLICE

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

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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*

Michigan Department of State Police (MSP)

Report Number:
 55-100-04

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 MSP's financial schedules.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 through 3).

~ ~ ~ ~ ~

**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 4).

~ ~ ~ ~ ~

Federal Awards:

Auditor's Reports Issued on Compliance

We audited 5 programs as major programs and issued 4 unqualified opinions and 1 qualified opinion. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified reportable conditions related to internal control over major programs (Findings 5 through 11). We consider Findings 5 through 7 to be material weaknesses.

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 5 through 9).

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Systems of Accounting and Internal Control:

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

~ ~ ~ ~ ~

We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
16.554	National Criminal History Improvement Program (NCHIP)	Unqualified
20.600, 20.601, 20.602, 20.603, and 20.604	Highway Safety Cluster	Qualified
21	Jobs and Growth Tax Relief Reconciliation Act of 2003	Unqualified
97.004	State Domestic Preparedness Equipment Support Program	Unqualified
97.036	Public Assistance Grants	Unqualified

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



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

June 30, 2004

Colonel Tadarial J. Sturdivant, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Sturdivant:

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

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

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

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

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULES



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

Independent Auditor's Report on the Financial Schedules

April 27, 2004

Colonel Tadarial J. Sturdivant, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Sturdivant:

We have audited the financial schedules of the Michigan Department of State Police 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, these financial schedules include only the revenues and transfers and the sources and disposition of authorizations for the Michigan Department of State Police's 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 conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and transfers and the sources and disposition of authorizations of the Michigan Department of State Police 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 April 27, 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*, is presented for purposes of additional analysis and is 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

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

	<u>2003</u>	<u>2002</u>
REVENUES		
From federal agencies (Note 3)	\$ 210,489,478	\$ 35,284,150
From local agencies	1,549,688	1,742,025
From services	11,794,734	11,257,811
From licenses and permits	7,465,173	7,627,985
Miscellaneous		
Secondary Road Patrol and Training Fund	13,616,871	11,278,844
Highway Safety Fund	7,012,802	6,919,178
Auto Theft Prevention Fund	6,456,214	6,643,101
Michigan Justice Training Fund	5,588,152	6,585,838
Other	4,514,008	3,536,170
Total Revenues	<u>\$ 268,487,120</u>	<u>\$ 90,875,102</u>
TRANSFERS		
From other funds	<u>6,256,275</u>	<u>6,274,020</u>
Total Revenues and Transfers	<u><u>\$ 274,743,395</u></u>	<u><u>\$ 97,149,122</u></u>

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

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

	<u>2003</u>	<u>2002</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 277,389,448	293,870,000
Balances carried forward	38,462,234	43,372,413
Restricted financing sources	112,326,015	105,152,500
Less: Intrafund expenditure reimbursements	<u>(8,246,836)</u>	<u>(9,218,745)</u>
 Total	 <u>\$ 419,930,861</u>	 <u>\$ 433,176,168</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 393,829,063	\$ 403,696,171
Less: Intrafund expenditure reimbursements	<u>(8,246,836)</u>	<u>(9,218,745)</u>
Net expenditures and transfers out	<u>\$ 385,582,227</u>	<u>\$ 394,477,426</u>
Balances carried forward:		
Multi-year projects	\$ 1,676,571	\$ 2,006,127
Encumbrances	4,663,431	6,815,341
Restricted revenues - authorized		1,052,242
Restricted revenues - not authorized	27,894,926	28,588,524
Total balances carried forward	<u>\$ 34,234,928</u>	<u>\$ 38,462,234</u>
Balances lapsed	<u>\$ 113,706</u>	<u>\$ 236,508</u>
 Total	 <u>\$ 419,930,861</u>	 <u>\$ 433,176,168</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 Michigan Department of State Police (MSP), for the fiscal years ended September 30, 2003 and September 30, 2002. The financial transactions of MSP are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

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

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by 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 transfers and the sources and disposition of authorizations for MSP's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either MSP 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. 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.
- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized.
- d. 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. Significant intrafund expenditure reimbursements were auto theft prevention fees, training academy charges, and casino gaming fees.
- e. 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. These carry-forwards were federal grants for disasters.
- f. 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.

- g. Restricted revenues - authorized: Revenues that, by statute or the State Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization. This carry-forward was secondary road patrol funds.
- h. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. However, MSP had not received legislative authorization to expend the revenues. Significant carry-forwards of this type were the Auto Theft Prevention Fund (\$10.3 million and \$9.9 million for fiscal years 2002-03 and 2001-02, respectively) and the Michigan Justice Training Fund (\$6.3 million and \$9.2 million for fiscal years 2002-03 and 2001-02, respectively).

Note 3 Differences From the State's Accounting System

MSP received federal funds from the Jobs and Growth Tax Relief Reconciliation Act of 2003 to provide temporary state fiscal relief. The funds are required to be used to provide essential government services and can only be used for expenditures permitted under the most recently approved budget for the state. Act 173, P.A. 2003, states that these funds shall be deposited into the General Fund as general purpose revenue and expended to support essential State services provided by MSP.

These funds were received by the Department of Treasury and were recorded as federal revenue within its accounting system. MSP requested and received approval from the Office of Financial Management, Office of the State Budget, to present these federal revenues on its schedule of General Fund revenues and transfers.

SUPPLEMENTAL
FINANCIAL SCHEDULE

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

Federal Agency/Program or Cluster	For the Fiscal Year Ended September 30, 2002				
	CFDA * Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed
<u>Executive Office of the President</u>					
Direct Program:					
High Intensity Drug Trafficking Areas (HIDTA)	07	**	\$ 2,259,325	\$	\$ 2,259,325
Total Executive Office of the President			\$ 2,259,325	\$ 0	\$ 2,259,325
<u>U.S. Department of Justice</u>					
Direct Programs:					
Missing Children's Assistance	16.543		\$ 94,276	\$	\$ 94,276
National Criminal History Improvement Program (NCHIP)	16.554		2,677,221	1,722,168	4,399,389
Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	16.564		54,036		54,036
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		59,967		59,967
Bulletproof Vest Partnership Program	16.607		52,400	28,185	80,585
Public Safety Partnership and Community Policing Grants	16.710		830,407		830,407
Enforcing Underage Drinking Laws Program	16.727		84,949	365,821	450,770
Alliance Fugitive Task Force	16	**	27,885		27,885
COMET OCDEF	16	**	18,875		18,875
COMET DEA Task Force	16	**			0
DEA DRANO Task Force	16	**	9,029		9,029
DEA Saginaw Task Force	16	**	6,754		6,754
Equitable Sharing of Federally Forfeited Property	16	**	119,168		119,168
Help Eliminate Marijuana Planting (HEMP)	16	**	78,736		78,736
Help Eliminate Marijuana Planting (HEMP)	16	**	136,798		136,798
Customs OT MINT, Auto Theft	16	**			0
Joint Terrorism Task Force	16	**			0
BAYANET Gang Task Force	16	**			0
Anti-Terrorism Task Force	16	**			0
MET OCDEF	16	**	7,758		7,758
SWET and METRO Customs Reimbursement	16	**	15,281		15,281
Violent Crimes Task Force	16	**	23,072		23,072
Total Direct Programs			\$ 4,296,612	\$ 2,116,174	\$ 6,412,786
Pass-Through Programs:					
Byrne Formula Grant Program passed through:					
Alpena County	16.579	70874-4K02	\$ 105,703	\$	\$ 105,703
City of Grand Rapids	16.579	70973-2K02	264,857		264,857
City of Holland	16.579	70834-3K01	58,807		58,807
City of Lansing	16.579	70901-3K02	109,638		109,638
City of Troy	16.579	70995-1K01	47,622		47,622
Michigan Department of Attorney General	16.579	70857-4K02	234,716		234,716
Michigan Department of Community Health	16.579	(Note 2)	1,844,362	1,180,358	3,024,720
Emmet County	16.579	70868-4K02	125,165		125,165
Ionia County	16.579	70894-2K01	42,713		42,713
Lapeer County	16.579	70898-3K02	48,396		48,396
Missaukee County	16.579	70772-5K02	63,246		63,246
Montcalm County	16.579	70894-3K02			0
Ogemaw County	16.579	70844-3K01	117,230		117,230
Ottawa County	16.579	70834-4K02			0
Total Byrne Formula Grant Program Passed Through			\$ 3,062,455	\$ 1,180,358	\$ 4,242,813

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2003

Directly Expended	Distributed to Subrecipient	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 1,231,520	\$	\$ 1,231,520	\$ 3,490,845
\$ 1,231,520	\$ 0	\$ 1,231,520	\$ 3,490,845

\$ 136,071	\$	\$ 136,071	\$ 230,347
1,206,002	1,039,568	2,245,570	6,644,959
486,456		486,456	540,492
577,283		577,283	637,250
30,496		30,496	111,081
24,526		24,526	854,933
35,071	253,919	288,990	739,760
16,589		16,589	44,474
14,598		14,598	33,473
4,053		4,053	4,053
8,333		8,333	17,362
8,875		8,875	15,629
1,772		1,772	120,940
145,770		145,770	224,506
		0	136,798
15,998		15,998	15,998
5,567		5,567	5,567
25,919		25,919	25,919
93,309		93,309	93,309
8,220		8,220	15,978
1,730		1,730	17,011
24,853		24,853	47,925
\$ 2,871,491	\$ 1,293,487	\$ 4,164,978	\$ 10,577,764

\$ 109,884	\$	\$ 109,884	\$ 215,587
239,706		239,706	504,563
		0	58,807
100,209		100,209	209,847
		0	47,622
264,515		264,515	499,231
2,221,016	1,265,003	3,486,019	6,510,739
127,607		127,607	252,772
		0	42,713
44,461		44,461	92,857
59,447		59,447	122,693
40,023		40,023	40,023
		0	117,230
41,611		41,611	41,611
\$ 3,248,479	\$ 1,265,003	\$ 4,513,482	\$ 8,756,295

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

Federal Agency/Program or Cluster	CFDA *	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2002		
			Directly Expended	Distributed to Subrecipient	Total Expended and Distributed
Michigan Family Independence Agency					
Violence Against Women Formula Grants	16.588	95-WF-NX-0026	\$ 125,652	\$	\$ 125,652
Total Pass-Through Programs			\$ 3,188,107	\$ 1,180,358	\$ 4,368,465
Total U.S. Department of Justice			\$ 7,484,719	\$ 3,296,532	\$ 10,781,251
<u>U.S. Department of Transportation</u>					
Highway Safety Cluster:					
Direct Programs:					
State and Community Highway Safety	20.600		\$ 4,614,373	\$ 2,801,460	\$ 7,415,833
Alcohol Traffic Safety and Drunk Driving Prevention					
Incentive Grants	20.601		1,159,697	865,899	2,025,596
Occupant Protection	20.602		688,403	169,826	858,229
Federal Highway Safety Data Improvements Incentive					
Grants	20.603		99,960		99,960
Safety Incentive Grants for Use of Seatbelts	20.604		50,145	72,587	122,732
Total Highway Safety Cluster			\$ 6,612,578	\$ 3,909,772	\$ 10,522,350
Direct Programs:					
National Motor Carrier Safety	20.218		5,448,623	95,984	5,544,607
Interagency Hazardous Materials Public Sector Training					
and Planning Grants	20.703		243,031	88,362	331,393
State Demonstration Alcohol Enforcement Project	20	**	129,541	92,545	222,086
Total Direct Programs			\$ 12,433,773	\$ 4,186,663	\$ 16,620,436
Pass-Through Programs:					
City of Detroit					
Buckle up Detroit	20	**	\$	\$	\$
Total Pass-Through Programs			\$ 0	\$ 0	\$ 0
Total U.S. Department of Transportation			\$ 12,433,773	\$ 4,186,663	\$ 16,620,436
<u>U.S. Department of Treasury</u>					
Direct Program:					
Jobs and Growth Tax Relief Reconciliation Act of 2003	21	**	\$	\$	\$
Total U.S. Department of Treasury			\$ 0	\$ 0	\$ 0
<u>U.S. Department of Homeland Security</u>					
Direct Programs:					
State Domestic Preparedness Equipment Support					
Program (16.007)	97.004	(Note 3)	\$ 551,273	\$ 1,635,078	\$ 2,186,351
Hazardous Materials Assistance Program (83.012)	97.021	(Note 3)	8,500		8,500
Community Assistance Program - State Support Services					
Element (CAP-SSSE) (83.105)	97.023	(Note 3)		174,770	174,770
Flood Mitigation Assistance (83.536)	97.029	(Note 3)	5,869	100,750	106,619
Individual and Family Grants (83.543)	97.035	(Note 3)	(214,020)		(214,020) ***
Public Assistance Grants (83.544)	97.036	(Note 3)	201,561	770,548	972,109
First Responder Counter-Terrorism Training					
Assistance (83.547)	97.038	(Note 3)	110,000		110,000

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2003			
Directly Expended	Distributed to Subrecipient	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 176,701	\$	\$ 176,701	\$ 302,353
\$ 3,425,180	\$ 1,265,003	\$ 4,690,183	\$ 9,058,648
\$ 6,296,671	\$ 2,558,490	\$ 8,855,161	\$ 19,636,412

\$ 3,531,282	\$ 2,286,358	\$ 5,817,640	\$ 13,233,473
920,186	763,515	1,683,701	3,709,297
310,488	458,183	768,671	1,626,900
582,375		582,375	682,335
91,546	219,703	311,249	433,981
\$ 5,435,877	\$ 3,727,759	\$ 9,163,636	\$ 19,685,986

5,191,847	113,776	5,305,623	10,850,230
233,700	97,693	331,393	662,786
73,467	236,367	309,834	531,920
\$ 10,934,891	\$ 4,175,595	\$ 15,110,486	\$ 31,730,922

\$ 916	\$	\$ 916	\$ 916
\$ 916	\$ 0	\$ 916	\$ 916
\$ 10,935,807	\$ 4,175,595	\$ 15,111,402	\$ 31,731,838

\$ 168,979,448	\$	\$ 168,979,448	\$ 168,979,448
\$ 168,979,448	\$ 0	\$ 168,979,448	\$ 168,979,448

\$ 1,343,421	\$ 5,600,338	\$ 6,943,759	\$ 9,130,110
144		144	8,644
	246,027	246,027	420,797
	67,312	67,312	173,931
			(214,020)
72,212	1,913,748	1,985,960	2,958,069
74,970		74,970	184,970

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

Federal Agency/Program or Cluster	CFDA *	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2002		
			Directly Expended	Distributed to Subrecipient	Total Expended and Distributed
Hazard Mitigation Grant (83.548)	97.039	(Note 3)	\$ 356,192	\$ 758,268	\$ 1,114,460
Emergency Management Performance Grants (83.552)	97.042	(Note 3)	2,072,168	1,752,859	3,825,027
Pre-Disaster Mitigation (83.557)	97.047	(Note 3)	37,534		37,534
State and Local All Hazards Emergency Operations Planning	97.051				
Emergency Operations Centers	97.052				
Citizen Corps	97.053				
Total U.S. Department of Homeland Security			\$ 3,129,077	\$ 5,192,273	\$ 8,321,350
Total Expenditures of Federal Awards			\$ 25,306,894	\$ 12,675,468	\$ 37,982,362

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

** CFDA number is not available. Number derived from federal agency number.

*** Payables were overestimated.

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

For the Fiscal Year Ended September 30, 2003			
Directly Expended	Distributed to Subrecipient	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 403,496	\$ 4,194,637	\$ 4,598,133	\$ 5,712,593
1,967,065	1,999,788	3,966,853	7,791,880
70,328		70,328	107,862
229,263	181,668	410,931	410,931
70,971		70,971	70,971
	31,913	31,913	31,913
\$ 4,231,870	\$ 14,235,431	\$ 18,467,301	\$ 26,788,651
<u>\$ 191,675,316</u>	<u>\$ 20,969,516</u>	<u>\$ 212,644,832</u>	<u>\$ 250,627,194</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

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

Note 2 Byrne Formula Grant Program

MSP receives multiple pass-through grants from the Michigan Department of Community Health. The pass-through identification numbers are:

Fiscal year 2001-02: 70978-1K01, 70678-7K01, 70768-5K01, 70771-4K01, 70773-4K01, 70773-3K00, 70859-3K01, 70860-2K00, 70860-3K01, 70888-3K01, 70889-3K01, 70909-2K01, 71168-4K97, 72040-1K02.

Fiscal year 2002-03: 70678-8K02, 70768-6K02, 70771-5K02, 70773-5K02, 70844-4K02, 70859-4K02, 70860-4K02, 70888-4K02, 70889-4K02, 70909-3K02, 70978-2K02, 72040-1K02, 72082-1K02, 72093-1K02.

Note 3 U.S. Department of Homeland Security Grants

During fiscal year 2002-03, the federal government moved the Federal Emergency Management Agency (FEMA) into the U.S. Department of Homeland Security and revised the *CFDA* program number to reflect the new federal agency designation. The original FEMA *CFDA* numbers are noted in parentheses following the program names.

INDEPENDENT AUDITOR'S REPORTS ON
COMPLIANCE AND INTERNAL CONTROL



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

April 27, 2004

Colonel Tadarial J. Sturdivant, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Sturdivant:

We have audited the financial schedules of the Michigan Department of State Police 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 April 27, 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 we have described in Finding 4.

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 3.

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

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

April 27, 2004

Colonel Tadarial J. Sturdivant, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Sturdivant:

Compliance

We have audited the compliance of the Michigan Department of State Police with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the 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.

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 Findings 5 through 7 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles and subrecipient monitoring that are applicable to its Highway Safety Cluster programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the previous paragraph, the Michigan Department of State Police complied, in all material respects, with the requirements referred to in the third previous paragraph that are applicable to each major federal 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 and 9.

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 11.

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 all major programs except for the Highway Safety Cluster*, which is qualified*.

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/Cluster</u>
16.554	National Criminal History Improvement Program (NCHIP)
20.600, 20.601, 20.602, 20.603, and 20.604	Highway Safety Cluster
21	Jobs and Growth Tax Relief Reconciliation Act of 2003
97.004	State Domestic Preparedness Equipment Support Program
97.036	Public Assistance Grants

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

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (550401)

1. Payroll Internal Control

The Michigan Department of State Police (MSP) had not developed written policies and procedures for processing and monitoring payroll transactions entered into the Human Resources Management Network* (HRMN). As a result, MSP did not effectively monitor HRMN reports, did not maintain a separation of duties, and did not prevent payroll personnel from sharing HRMN user identifications (IDs) and passwords.

Internal control weaknesses increase the risk that improper payroll expenditures could occur. Internal control is a process designed to prevent errors from occurring

* See glossary at end of report for definition.

and to detect errors or irregularities in a timely manner. Although we noted internal control weaknesses, we did not note any instances of impropriety.

MSP processed \$280 million and \$260 million in payroll expenditures during fiscal years 2002-03 and 2001-02, respectively. MSP's payroll operations disclosed control weaknesses in the monitoring and data entry functions:

- a. MSP did not use HRMN reports on a regular basis to effectively monitor HRMN transactions.

There are several HRMN reports available that would assist MSP to identify and correct errors in processing payroll transactions. MSP should use HRMN reports that list payroll and personnel transactions that were rejected during HRMN processing to assist it in identifying and correcting errors in a timely manner. MSP should also use reports that list personnel transactions processed that would assist it in identifying unauthorized transactions.

- b. MSP did not separate the duties of inputting HRMN transactions and verifying the propriety of those transactions on daily and biweekly transaction reports. MSP indicated that two employees were provided data entry capability, which allowed them inquiry access needed to review transactions in HRMN. Because of the lack of monitoring as cited in part a., MSP could face a greater risk of improper entries without detection.
- c. MSP did not prevent payroll personnel from sharing HRMN user IDs and passwords. MSP allowed HRMN users to share user IDs when training new employees. Although HRMN Central Security can take up to a month to provide new employees with a user ID and password, HRMN users should not share their user IDs and passwords with others.

RECOMMENDATION

We recommend that MSP develop written policies and procedures for processing and monitoring payroll transactions entered into HRMN.

FINDING (550402)

2. Controls Over Time and Attendance

MSP should improve its internal control over payroll time and attendance processing.

An improved system of internal control would provide MSP with assurance that errors or irregularities are detected in a timely manner.

Data Collection and Distribution System* (DCDS) Procedures Manual section 9.2 states that someone other than the person who entered the data collection information must certify a timekeeping unit (TKU). In addition, section 9.6 states that the release of a TKU must be completed by someone other than the person who entered, audited, and/or certified the data collection information. The separation of duties is necessary to prevent fraudulent transactions from occurring.

Our review of 38 time and attendance transactions for fiscal years 2002-03 and 2001-02 disclosed:

- a. The same employee performed both the timekeeping and certifying functions for 4 (11%) payroll transactions tested. In addition, these employees recorded their own time and attendance into DCDS without verification by someone else. However, the supervisor approved the employees' hardcopy time sheets and the information was properly recorded in DCDS.
- b. The same employee both certified and released 2 (5%) payroll transactions.
- c. The employees identified as the timekeepers for 10 (26%) payroll transactions and the certifiers for 6 (16%) payroll transactions had not been assigned the timekeeping and certifying function according to the human resources records for those TKUs.

RECOMMENDATION

We recommend that MSP improve its internal control over payroll time and attendance processing.

* See glossary at end of report for definition.

FINDING (550403)

3. Controls Over Procurement Cards*

MSP's controls did not ensure that procurement card users complied with MSP and the Department of Management and Budget (DMB) policies and procedures. As a result, MSP did not have assurance that procurement card purchases were allowable and authorized.

MSP used procurement cards to make purchases totaling approximately \$2.4 million and \$3.5 million in fiscal years 2002-03 and 2001-02, respectively. Our sample of 67 (\$67,639) high-risk transactions disclosed the following instances of noncompliance with policies and procedures:

- a. In 12 instances, totaling \$2,427, MSP did not retain merchandise receipts. As a result, we could not verify the appropriateness of the purchases. MSP procedures and the Procurement Card Program's Cardholder Manual require that the purchasers obtain and retain merchandise receipts.
- b. In 20 instances, totaling \$12,742, MSP purchased items that were covered by a State contract. MSP procedures and the Procurement Card Program's Cardholder Manual prohibit the purchase of items that are required to be purchased through a contract as lower prices may have been negotiated.
- c. In 19 instances, totaling \$15,682, MSP did not document supervisory approval of the purchases on receipts, transaction logs, or billing details. MSP procedures require that the purchaser's supervisor approve all transactions in order to ensure that the purchase is for a legitimate business purpose.
- d. In 11 instances, totaling \$22,900, MSP split the purchases to avoid exceeding the \$2,500 individual transaction limit. MSP procedures and the Procurement Card Program's Cardholder Manual prohibit splitting charges in order to avoid exceeding the \$2,500 individual transaction limit. Larger value items may receive a lower price if negotiated via contract.

MSP's Budget and Financial Services Division (BFSD) issued a memorandum to MSP staff in April 2002 regarding the appropriate use of procurement cards,

* See glossary at end of report for definition.

including the prohibition of split purchases. However, 6 of the 11 instances occurred after the issuance of the memorandum.

- e. In 11 instances, totaling \$9,873, someone other than the approved cardholder used the procurement card. MSP procedures and the Procurement Card Program's Cardholder Manual require that only the approved cardholder whose name is embossed on the card use the procurement card. The procurement card number may be retained and used for fraudulent purchases at a later date.

We reported this finding in our prior audit report. MSP's corrective action plan stated that it agreed with the finding and would comply with the corresponding recommendation.

RECOMMENDATION

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

FINDING (550404)

4. Indirect Costs

MSP had not updated its indirect cost rate using current allowable costs to ensure that indirect costs were fully recovered.

We estimated that MSP could have potentially recovered an additional \$706,000 and \$707,000 in fiscal years 2002-03 and 2001-02, respectively, if MSP had used an updated indirect cost rate.

MSP's indirect cost rate and the charges of indirect costs for federal grants would be significantly higher if MSP updated its rate using current allowable costs. During fiscal year 2002-03, MSP hired a consultant at a cost of \$18,750 to develop an updated indirect cost rate proposal. The updated indirect cost rate proposal resulted in a rate increase from 7.4% to 16.8%, based on actual costs for fiscal year 2001-02. As of the end of our audit fieldwork, MSP had not submitted the updated indirect cost rate proposal to its federal cognizant agency for approval and had not begun using the increased rate. MSP informed us that it has not submitted

the new rate because it believes the result would only shift funding and would not result in additional federal funds. However, 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.

We reported this finding in our prior audit report. MSP's corrective action plan stated that it agreed with the finding and would comply with the corresponding recommendation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MSP UPDATE ITS INDIRECT COST RATE USING CURRENT ALLOWABLE COSTS TO ENSURE THAT INDIRECT COSTS ARE FULLY RECOVERED.

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 (550405)

5. Highway Safety Cluster - Personnel-Payroll Cost Distributions

U.S. Department of Transportation	CFDA 20.600: Highway Safety Cluster
Award Number: Various	Award Period: Various
	Questioned Costs: \$2,751,254

MSP's internal control did not ensure that personnel-payroll cost distributions to federal programs were properly documented in accordance with federal requirements. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles.

* See glossary at end of report for definition.

MSP did not have documentation to support the payroll charges to the Highway Safety Cluster. Payroll expenditures charged to the Highway Safety Cluster by MSP appeared to be budget-driven and were not adjusted to or based on actual time worked on the grant activity. Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or further reductions of State and Community Highway Safety funds.

Our review disclosed:

- a. MSP did not obtain a semiannual certification for any of the employees (20 for fiscal year 2002-03 and 24 for fiscal year 2001-02) who worked solely on the Highway Safety Cluster. Also, 1 employee for fiscal year 2002-03 and 1 employee for fiscal year 2001-02 had nonfederal job-related duties noted within their position descriptions but were still charged 100% to the Highway Safety Cluster.

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

- b. MSP did not maintain personnel activity reports that supported an after-the-fact distribution of the activities performed for the three employees who worked on multiple State and federal programs during fiscal years 2002-03 and 2001-02.

We reviewed the biweekly time sheets and the distribution of percent of time reports (if attached) and noted that each time sheet recorded only the total hours worked while the distribution of percent of time reports reported only the predetermined rate and not actual time. Because MSP did not document actual hours worked on the federal programs, it could not verify that the predetermined rate was an accurate reflection of actual federal payroll costs.

OMB Circular A-87 requires employees charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that support the distribution of their salaries or wages. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of each employee, must account for

total activity for which the employee is compensated, must be prepared monthly, and must be signed by the employee.

- c. MSP did not maintain personnel activity reports that supported an after-the-fact distribution of the activities performed for the four employees whose time was charged to federal administration funds and federal program funds during fiscal years 2002-03 and 2001-02. Some employees completed a distribution of percent of time report that reflected budgeted amounts while other employees never completed the distribution of percent of time report. MSP charged these employees to the federal programs based on how the employees were budgeted.

The Implementation Guide for OMB Circular A-87 requires employees who are paid partially from federal administrative funds and partially from federal program funds to maintain time and effort reports.

RECOMMENDATION

We recommend that MSP enhance its internal control to ensure that personnel-payroll cost distributions to federal programs are properly documented in accordance with federal requirements.

FINDING (550406)

6. Highway Safety Cluster - Pass-Through Entity Responsibility

U.S. Department of Justice	CFDA 16.727: Enforcing Underage Drinking Laws Program
Award Number: Various	Award Period: Various
	Questioned Costs: \$0

U.S. Department of Transportation	CFDA 20.600, 20.601, 20.602, 20.603, and 20.604: Highway Safety Cluster
Award Number: Various	Award Period: Various
	Questioned Costs: \$0

MSP did not provide subrecipients* with accurate federal award information for the Highway Safety Cluster. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding subrecipient monitoring.

OMB Circular A-133 requires a pass-through entity to inform each subrecipient of the *CFDA* title and number, the award name and number, the award year, whether the award is research and development, and the name of the federal awarding agency. This helps ensure that subrecipients are aware of their responsibilities and that the subrecipients' auditors are using the appropriate compliance requirements during their audits.

We reviewed 8 contracts consisting of several different funding sources to determine if MSP identified the correct *CFDA* title, *CFDA* number, and award name in the grant contract. Although the funding sources varied for these 8 contracts, MSP provided each subrecipient with the same *CFDA* title, *CFDA* number, and/or federal awarding agency name for each contract.

We also reviewed the Single Audit reports of 5 subrecipients and determined that all 5 subrecipients used the inaccurate *CFDA* title, *CFDA* number, and/or federal awarding agency name to complete their schedules of expenditures of federal awards (SEFAs). MSP issued 89 contract awards to subrecipients totaling \$2.3 million and 91 contract awards totaling \$2.9 million in fiscal years 2002-03 and 2001-02, respectively, that may have contained inaccurate federal award information. MSP has provided inaccurate information to subrecipients since 1997.

RECOMMENDATION

We recommend that MSP provide subrecipients with accurate federal award information for the Highway Safety Cluster.

* See glossary at end of report for definition.

FINDING (550407)

7. Highway Safety Cluster - Subrecipient /Vendor Determination

U.S. Department of Transportation	CFDA 20.600, 20.601, 20.602, 20.603, and 20.604: Highway Safety Cluster
Award Number: Various	Award Period: Various
	Questioned Costs: Undeterminable

MSP did not evaluate and properly classify grantees as subrecipients or vendors. As a result, MSP did not competitively bid for contracted services and did not ensure that it received the most reasonable price for the services provided by grantees for the Highway Safety Cluster. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding subrecipient monitoring.

Failure to competitively bid or document that costs are reasonable may result in the State overpaying for services and having to repay the federal government for disallowed grant costs. Also, not properly classifying grantees resulted in the misclassification of information presented on MSP's SEFA. Upon informing MSP of the misclassification, MSP modified its SEFA to properly reflect expenditures.

MSP classified its grantees as subrecipients and, thus, did not competitively bid or document that costs were reasonable. We reviewed 5 grantees whose expenditures totaled approximately \$2.0 million during fiscal years 2001-02 and 2002-03. Based on OMB Circular A-133 criteria and Michigan procurement policy, 4 of the grantees performed as vendors and the contracts should have been competitively bid or MSP should have documented that costs were reasonable. The 4 grantees provided data collection services, direct seat belt observations, and training totaling approximately \$977,000.

OMB Circular A-87 requires that a recipient of federal funds ensure that services are received at a reasonable cost. The Common Rule requires that the recipient of federal funds follow the State's procurement policy for ensuring that services are received at a reasonable cost, regardless of whether a grantee is classified as a subrecipient or a vendor. DMB Administrative Guide procedure 0510.13 requires that departments competitively bid goods and services whenever possible to ensure that the State receives the goods and services for a reasonable cost.

RECOMMENDATION

We recommend that MSP evaluate and properly classify grantees as subrecipients or vendors.

FINDING (550408)

8. Terminal Leave Payments

U.S. Department of Justice	CFDA 16.554: National Criminal History Improvement Program (NCHIP)
Award Number: 95-RU-RX-K044	Award Period: 09/30/1995 - 12/31/2002
	Questioned Costs: \$5,367

U.S. Department of Justice	CFDA 16.579: Byrne Formula Grant Program
Award Number: 2001-DB-BX-0026 2002-DB-BX-0026	Award Period: 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003
Pass - Through Agency: Michigan Department of Community Health	Questioned Costs: \$42,090

U.S. Department of Transportation	CFDA 20.600: Highway Safety Cluster
Award Number: Various	Award Period: Various
	Questioned Costs: \$3,917

MSP did not obtain written approval from the federal awarding agency prior to including terminal leave payments as direct federal expenditures.

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

Our review of expenditures in fiscal years 2002-03 and 2001-02 disclosed that MSP had included \$87,632 of terminal leave payments in the direct charges to the National Criminal History Improvement Program (NCHIP), Byrne Formula Grant Program, and State and Community Highway Safety Program. MSP had not requested or received approval to include these terminal leave payments as direct charges for either NCHIP or the Byrne Formula Grant Program.

MSP requested approval from the U.S. Department of Transportation (USDOT) during our audit to include terminal leave payments for the State and Community Highway Safety Program as a direct federal expenditure. USDOT responded that MSP could charge the terminal leave payments for the length of time that the departed employees worked on the federal program. After receiving this response, MSP provided us with documentation for charging \$36,258 of the \$40,175 costs as direct expenditures to the program.

We reported this finding in our prior audit report. MSP's corrective action plan stated that it agreed with the finding and would comply with the corresponding recommendation. MSP did obtain approval to charge a portion of the terminal leave payments as direct expenditures for the federal program identified in the prior audit. However, MSP did not obtain approval for three other federal programs.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MSP OBTAIN WRITTEN APPROVAL FROM THE FEDERAL AWARDING AGENCY PRIOR TO INCLUDING TERMINAL LEAVE PAYMENTS AS DIRECT FEDERAL EXPENDITURES.

FINDING (550409)

9. Subrecipient Monitoring

U.S. Department of Justice	CFDA 16.554: National Criminal History Improvement Program (NCHIP)
Award Number: 95-RU-RX-K044 2000-RH-CX-K019	Award Period: 09/30/1995 - 12/31/2002 09/30/2000 - 09/30/2003
	Questioned Costs: \$0

U.S. Department of Transportation	CFDA 20.600, 20.601, 20.602, 20.603, and 20.604: Highway Safety Cluster
Award Number: Various	Award Period: Various
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.004: State Domestic Preparedness Equipment Support Program
Award Number: Various	Award Period: Various
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.036: Public Assistance Grants
Award Number: Various	Award Period: Various
	Questioned Costs: \$0

MSP's controls did not ensure that all subrecipients were properly identified, that all subrecipient Single Audit reports were obtained, and that the federal award information listed in subrecipient Single Audit reports was correct. Without proper subrecipient monitoring controls, MSP cannot provide reasonable assurance that the subrecipients administered federal awards in accordance with federal regulations.

Our review of the subrecipient monitoring process disclosed:

- a. MSP did not consistently apply a methodology for identifying subrecipients.

OMB Circular A-133 requires that the auditee maintain internal control over federal programs to provide reasonable assurance that the auditee 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. OMB Circular A-133 also sets forth requirements applicable to pass-through entities related to informing subrecipients of program requirements and monitoring subrecipients' compliance with program requirements. In order to comply with these requirements, MSP must determine if it has a subrecipient or vendor relationship with the entities to which it awards federal money.

BFSD's procedure is to request fiscal managers of each division to submit a list of payments made to subrecipients. However, BFSD could not produce the information obtained from all the fiscal managers during fiscal year 2001-02 and the subrecipient payments were not requested during fiscal year 2002-03.

- b. MSP did not obtain all subrecipient Single Audit reports.

OMB Circular A-133 requires that pass-through entities ensure that each subrecipient expending \$300,000 or more in federal awards during the subrecipient's fiscal year has met the audit requirements of OMB Circular A-133 for that fiscal year.

MSP did not have 1 of the 6 Single Audit reports from fiscal year 2001-02 for subrecipients that expended over \$300,000 in federal awards and did not initiate contact to obtain the report. Additionally, MSP did not request or obtain Single Audit reports for 3 State agencies to which it distributed \$1.8 million and \$614,000 of federal funds in fiscal years 2001-02 and 2000-01, respectively.

- c. MSP did not verify that the federal award information listed in subrecipient Single Audit reports was correct.

MSP reviewed subrecipient Single Audit reports as it received them; however, MSP did not properly verify that the federal award information identified in the subrecipients' SEFAs was accurate. As noted in Finding 6, MSP provided Highway Safety Cluster subrecipients with inaccurate federal award information. Also, some of the inaccurate federal award information carried forward to the subrecipients' SEFAs and was not identified as being inaccurate by MSP staff during its review of subrecipient Single Audit reports.

When verifying that the federal award information listed in the subrecipient Single Audit report was correct, MSP only verified that the *CFDA* number was one that it may have passed through to the subrecipient. If MSP fiscal managers were to report the recipients of funds and the funding source to BFSD, they could more accurately review the subrecipients' SEFAs.

We reported parts a. and b. of this finding in our prior audit report. MSP's corrective action plan stated that it agreed with the finding and would comply with the corresponding recommendation.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT MSP ENHANCE ITS CONTROLS TO ENSURE THAT ALL SUBRECIPIENTS ARE PROPERLY IDENTIFIED AND THAT ALL SUBRECIPIENT SINGLE AUDIT REPORTS ARE OBTAINED.

We also recommend that MSP enhance its controls to ensure that the federal award information listed in subrecipient Single Audit reports is correct.

FINDING (550410)

10. Payroll Internal Control

All Federal Programs	Questioned Costs: \$0
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This finding is included in Section II of the schedule of findings and questioned costs (550401).

FINDING (550411)

11. Controls Over Time and Attendance

Executive Office of the President	CFDA 07: High Intensity Drug Trafficking Areas (HIDTA)
Award Number: Various	Award Period: 01/01/2001 - 12/31/2001 01/01/2002 - 12/31/2002 01/01/2003 - 12/31/2003
	Questioned Costs: \$0

U.S. Department of Transportation	CFDA 20.600: Highway Safety Cluster
Award Number: Various	Award Period: Various
	Questioned Costs: \$0

U.S. Department of Treasury	CFDA 21: Jobs and Growth Tax Relief Reconciliation Act of 2003
Award Number: Not Applicable	Award Period: 10/01/2002 - 09/30/2003
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.042: Emergency Management Performance Grants
Award Number: EMC-2002-GR-7003 EMC-2003-GR-7003	Award Period: 10/01/2002 - 03/31/2004 10/01/2001 - 09/30/2002
	Questioned Costs: \$0

This finding is included in Section II of the schedule of findings and questioned costs (550402).

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

OTHER SCHEDULES

MICHIGAN DEPARTMENT OF STATE POLICE
Summary Schedule of Prior Audit Findings
As of September 30, 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: 550201
Finding Title: Internal Audit and the Biennial Assessment of Internal Controls

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

Comments: MSP entered into a memorandum of understanding with the Department of Civil Rights to share an internal auditor. The internal auditor reports to each department director.

MSP completed the biennial internal control assessment in accordance with DMB Administrative Guide procedure 1270.01.

Audit Period: October 1, 1999 through September 30, 2001
Finding Number: 550203
Finding Title: Cash Management

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

Comments: MSP has developed cash management standards. Individual divisions have also developed internal cash management policies.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1999 through September 30, 2001
Finding Number: 550202
Finding Title: Controls Over Procurement Cards

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

Comments: MSP's acting internal auditor conducted procurement card audits and noted several policy violations. MSP distributed correspondence to its members advising them to adhere to State and MSP guidelines regarding procurement card usage.

Audit Period: October 1, 1999 through September 30, 2001
Finding Number: 550204
Finding Title: Indirect Costs

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

Comments: MSP contracted with a vendor and recalculated its indirect cost rate using fiscal year 2001-02 information, but MSP has not yet presented the updated rate to its federal cognizant agency.

MSP has included program reconciliation as a part of the schedule of expenditures of federal awards (SEFA) preparation.

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: 550205

Finding Title: State and Community Highway Safety Program Expenditures

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

Comments: The Office of Highway Safety Planning has established controls to properly allocate federal expenditures. Periodic review of expenditures ensures that they are consistently allocated and properly documented.

Audit Findings Not Corrected or Partially Corrected:

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

Finding Number: 550206

Finding Title: Subrecipient Monitoring

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

Comments: During the preparation of the fiscal year 2002-03 SEFA in January 2004, MSP began using a work sheet to determine whether a recipient is a subrecipient or a vendor. MSP has presented to department fiscal managers the characteristics of each. MSP reviews a work sheet with amounts paid to local units and also requests Single Audit reports from subrecipients that receive \$300,000 or greater.

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

Finding Number: 550207

Finding Title: Terminal Leave Payments

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

Comments: MSP no longer includes terminal leave payments as direct federal expenditures without written approval from the federal awarding agency for the federal program identified in the prior audit report.

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

Finding Number: 550208

Finding Title: Controls Over Procurement Cards

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

MICHIGAN DEPARTMENT OF STATE POLICE

Corrective Action Plan

As of June 18, 2004

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 550401

Finding Title: Payroll Internal Control

Management Views:

- 1.a. The Michigan Department of State Police (MSP) agrees with this finding.
- 1.b. MSP agrees with this finding.
- 1.c. MSP disagrees with this finding. Payroll personnel did not share user identifications (IDs) and passwords. As a business necessity, we trained new personnel by having a trainer log into the Human Resources Management Network (HRMN) and sit next to the new personnel as they processed and entered HRMN transactions. The work had to be done, and we did not have the luxury of training the new personnel on mock transactions while waiting a month for the new personnel to be given access to HRMN. Instead, we trained them by demonstrating how to process and enter actual transactions on HRMN after the trainer had logged onto HRMN. At no time did the trainer share the user ID or password with the new personnel.

Corrective Action:

- 1.a. On a biweekly basis, the following HRMN reports will be run: BN100 (Employee Benefit Changes), PR141 (Payroll Register), XP105 (Daily/Biweekly Personnel Transactions), ZB106 (Dependents of Active Employees), ZH105 (Expiring Limited Term Appointments), ZH106 (Biweekly Expiration Dates), ZP108 (Audit Report) and ZP110 (Personnel Action Error Report).

- 1.b. MSP will delete entry capabilities for persons responsible for auditing transaction reports.
- 1.c. None planned at this time.

Anticipated Completion Date: 1.a. June 21, 2004, then ongoing
1.b. June 17, 2004, then ongoing
1.c. None

Responsible Individuals: 1.a. Susan Ventocilla, Human Resources Manager,
Human Resources Division
1.b. Paula Wallace, Compensation Supervisor,
Human Resources Division
1.c. Susan Ventocilla, Human Resources Manager,
Human Resources Division

Finding Number: 550402
Finding Title: Controls Over Time and Attendance

Management Views: 2.a. MSP agrees with this finding.
2.b. MSP agrees with this finding.
2.c. MSP agrees with this finding.

Corrective Action: 2.a. Official correspondence will be written stressing that one individual must not perform both the timekeeping and certifying functions. All MSP employees complete a PD89 form recording their time and attendance, which is signed by the supervisor. The certifier verifies that the timekeeper entered the time correctly into the Data Collection and Distribution System (DCDS).
2.b. Payroll staff will be directed to not both certify and release payroll transactions.
2.c. MSP will include in its internal security procedures the stipulation that a DCDS Security Request form must be kept for each individual who is assigned either timekeeping or certifying functions.

Anticipated Completion Date: 2.a. June 25, 2004
2.b. June 16, 2004, then ongoing
2.c. July 2, 2004

Responsible Individuals: 2.a. Susan Ventocilla, Human Resources Manager,
Human Resources Division
2.b. Susan Ventocilla, Human Resources Manager,
Human Resources Division
2.c. Paula Wallace, Compensation Supervisor,
Human Resources Division

Finding Number: 550403
Finding Title: Controls Over Procurement Cards

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

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

MSP will continue to provide additional instruction to procurement card users and their supervisors reinforcing required adherence to procurement card policies and procedures.

MSP will begin routine sampling of procurement card purchases in order to identify possible violations. Random sampling will be conducted, as well as sampling targeted toward specific high-risk areas.

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

Anticipated Completion Date: Ongoing

Responsible Individual: Melanie Oudsema, Chief Accountant, Budget and Financial Services Division

Finding Number: 550404

Finding Title: Indirect Costs

Management Views: MSP agrees with this finding. MSP had contracted for an update to the indirect cost rate and received a new indirect cost proposal.

Corrective Action: MSP will recalculate its indirect cost rate based on updated data.

Anticipated Completion Date: Fiscal year 2004-05

Responsible Individual: Jerri McClure, Chief Financial Officer, Budget and Financial Services Division

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 550405

Finding Title: Highway Safety Cluster - Personnel-Payroll Cost Distributions

Management Views: MSP agrees with this finding. MSP disagrees that questioned costs are determinable. MSP based the percentages allocated to federal programs on estimates which are reviewed and revised as necessary.

Corrective Action: MSP will establish a policy and form to ensure that employees working 100% on federal programs certify this semiannually. MSP will also develop a policy and

spreadsheet to track actual time on an ongoing basis for employees split between federal and State programs, or two federal programs, and adjust reported costs as required in U.S. Office of Management and Budget (OMB) Circular A-87.

Anticipated Completion Date: MSP will begin working on policies and tracking documents in July 2004, with actual implementation of the policies to begin with the new fiscal year, October 1, 2004.

Responsible Individual: Kim Kelly, Accountant Manager, Office of Highway Safety Planning

Finding Number: 550406

Finding Title: Highway Safety Cluster - Pass-Through Entity Responsibility

Management Views: MSP agrees with this finding.

Corrective Action: MSP did not include *Catalog of Federal Domestic Assistance (CFDA)* numbers in the initial award letters sent to grantees for fiscal year 2003-04. However, MSP plans to notify all grantees of the correct *CFDA* numbers prior to the end of the fiscal year. A policy will be established to provide a listing of all applicable *CFDA* numbers in the initial award letter to each grantee.

Anticipated Completion Date: MSP will begin working on a policy and revising the grant letter in July 2004, with actual implementation of the policies to begin with the new fiscal year, October 1, 2004.

Responsible Individual: Kim Kelly, Accountant Manager, Office of Highway Safety Planning

Finding Number: 550407
Finding Title: Highway Safety Cluster - Subrecipient/Vendor Determination

Management Views: MSP agrees with this finding.

Corrective Action: MSP will improve documentation to substantiate that it is receiving the most reasonable price for the services provided by grantees, including bids, requests for proposals (RFPs), and other methods as appropriate.

Anticipated Completion Date: Ongoing

Responsible Individual: Kathy Farnum, Planning and Program Development Manager, Office of Highway Safety Planning

Finding Number: 550408
Finding Title: Terminal Leave Payments

Management Views: MSP agrees with this finding.

Corrective Action: MSP will obtain approval from the federal government prior to charging any future terminal leave payments to federal programs. Such approvals have been routinely granted in the past.

Anticipated Completion Date: When required

Responsible Individuals: Kim Dunbar, Fiscal Manager, Investigative Services Bureau
Kim Kelly, Accountant Manager, Office of Highway Safety Planning
David Morris, Fiscal Manager, Criminal Justice Information Center

Finding Number: 550409
Finding Title: Subrecipient Monitoring

Management Views: MSP agrees with this finding. MSP has continually made improvements to its subrecipient monitoring process and will continue to refine the methodologies and processes used.

Corrective Action: MSP has developed procedures to determine which subrecipient Single Audit reports are required. MSP has also developed procedures to determine whether a grantee relationship is subrecipient or vendor related.

Anticipated Completion Date: Fiscal year 2003-04

Responsible Individual: Douglas J. Spitzley, Accountant Manager, Budget and Financial Services Division

Finding Number: 550410
Finding Title: Payroll Internal Control

See Finding 550401 with the findings related to the financial schedules.

Finding Number: 550411
Finding Title: Controls Over Time and Attendance

See Finding 550402 with the findings related to the financial schedules.

GLOSSARY

Glossary of Acronyms and Terms

BFSD	Budget and Financial Services Division.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
Data Collection and Distribution System (DCDS)	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system for the Michigan Administrative Information Network Human Resource System.
DMB	Department of Management and Budget.
FEMA	Federal Emergency Management Agency.
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.
Highway Safety Cluster	The commonly used name for the State and Community Highway Safety Program (<i>CFDA</i> 20.600), Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants Program (<i>CFDA</i> 20.601), Occupant Protection (<i>CFDA</i> 20.602), Federal Highway Safety Data Improvements Incentive Grants (<i>CFDA</i> 20.603), and Safety Incentive Grants for Use of Seatbelts (<i>CFDA</i> 20.604).
Human Resources Management Network (HRMN)	The State's integrated human resources system that processes personnel, payroll, and employee benefits data for the Michigan Administrative Information Network Human Resource System.
ID	identification.

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 statutes, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MSP	Michigan Department of State Police.
NCHIP	National Criminal History Improvement Program.

OMB	U.S. Office of Management and Budget.
procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with the State purchasing policies.
qualified opinion	<p>An auditor's opinion in which the auditor:</p> <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.
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 State 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.
TKU	timekeeping unit.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ul style="list-style-type: none"> 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 basis 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.
USDOT	U.S. Department of Transportation.