



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

“...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*

Report Number:
55-100-06

Michigan Department of State Police

October 1, 2003 through September 30, 2005

Released:
June 2006

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 a qualified opinion on the Michigan Department of State Police's (MSP's) financial schedules.

~ ~ ~ ~ ~

Internal Control Over Financial Reporting

We identified reportable conditions related to internal control over financial reporting (Findings 1 through 3). We consider Finding 1 to be a material weakness.

~ ~ ~ ~ ~

Noncompliance or Other Matters

Material to the Financial Schedules

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*. However, we did identify reportable conditions (Findings 1 through 3).

~ ~ ~ ~ ~

Federal Awards:

Auditor's Reports Issued on Compliance

We audited 11 programs as major programs and issued 8 unqualified opinions and 3 qualified opinions. 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 4 through 6). We consider Findings 4 and 6 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 4 through 6).

~ ~ ~ ~ ~

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 or Cluster Title</u>	<u>Compliance Opinion</u>
16.007/97.004	State Domestic Preparedness Equipment Support Program	Qualified
16.011/97.008	Urban Areas Security Initiative	Qualified
16.564	Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	Unqualified
16.579	Byrne Formula Grant Program	Unqualified
20.218	National Motor Carrier Safety	Unqualified
20.600, 20.601, 20.602, 20.603, 20.604, and 20.605	Highway Safety Cluster	Unqualified
21**	Jobs and Growth Tax Relief Reconciliation Act of 2003	Unqualified
83.548/97.039	Hazard Mitigation Grant	Unqualified
83.552/97.042	Emergency Management Performance Grants	Unqualified
83.562	State and Local All Hazards Emergency Operations Planning	Qualified
97.067	Homeland Security Grant Program	Unqualified

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

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, 2006

Colonel Peter C. Munoz, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Munoz:

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, 2003 through September 30, 2005.

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 report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains 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 response is 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

Colonel Peter C. Munoz, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Munoz:

We have audited the accompanying schedule of General Fund revenues and other financing sources and the schedule of sources and disposition of General Fund authorizations of the Michigan Department of State Police for the fiscal years ended September 30, 2005 and September 30, 2004. 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 1, the financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for the Michigan Department of State Police's General Fund accounts, 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.

As more fully described in Finding 1, the Michigan Department of State Police's internal control procedures did not ensure that federal revenue was recorded in the proper fiscal year, resulting in an approximately \$10.9 million understatement on the schedule of General Fund revenues and other financing sources for the fiscal year ended September 30, 2005. In our opinion, accounting principles generally accepted in the United States of America require that federal revenue be recognized in the period when the federal revenue becomes both measurable and available.

In our opinion, except for the effects of not recording transactions in the proper fiscal year, as discussed in the preceding paragraph, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and other financing sources and the sources and disposition of authorizations of the Michigan Department of State Police for the fiscal years ended September 30, 2005 and September 30, 2004 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2006 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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

April 21, 2006

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

	2005	2004
REVENUES		
From taxes	\$ 1,982,550	\$
From federal agencies (Note 3)	98,149,484	230,997,333
From local agencies	1,747,554	1,708,966
From services	39,656,808	18,966,403
From licenses and permits	11,547,486	32,056,613
Miscellaneous		
Secondary Road Patrol and Training Fund	13,821,909	13,699,897
Highway Safety Fund	14,303,245	13,807,299
Auto Theft Prevention Fund	6,736,953	6,447,828
Michigan Justice Training Fund	7,018,016	7,004,923
Other	6,408,342	5,563,845
Total Revenues	\$ 201,372,347	\$ 330,253,107
 OTHER FINANCING SOURCES		
Transfers from other funds	737,900	
 Total Revenues and Other Financing Sources	 \$ 202,110,247	 \$ 330,253,107

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>2005</u>	<u>2004</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 246,374,600	\$ 235,833,657
Budgetary transfers in (out)		(801,660)
Budgetary adjustment	426,152	
Balances carried forward	30,596,868	34,234,928
Restricted financing sources	209,198,001	166,658,347
Less: Intrafund expenditure reimbursements	<u>(9,597,653)</u>	<u>(9,162,011)</u>
 Total	 <u>\$ 476,997,968</u>	 <u>\$ 426,763,261</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 456,125,977	\$ 403,760,905
Less: Intrafund expenditure reimbursements	<u>(9,597,653)</u>	<u>(9,162,011)</u>
Net expenditures and transfers out	<u>\$ 446,528,324</u>	<u>\$ 394,598,894</u>
Balances carried forward:		
Multi-year projects	\$ 5,150,000	\$ 1
Encumbrances	378,293	1,823,417
Restricted revenues - not authorized	<u>24,147,523</u>	<u>28,773,450</u>
Total balances carried forward	<u>\$ 29,675,816</u>	<u>\$ 30,596,868</u>
Balances lapsed	<u>\$ 793,828</u>	<u>\$ 1,567,499</u>
 Total	 <u>\$ 476,997,968</u>	 <u>\$ 426,763,261</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, 2005 and September 30, 2004. 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 disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension benefits and other postemployment benefits.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by 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 other financing sources 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. 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. Budgetary adjustment: Adjustments for write-off of accounts receivable, deferrals, and prior year obligations in excess of prior appropriation.
- d. 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.
- e. 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.
- f. 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 funds (\$0.9 million for each of fiscal years 2004-05 and 2003-04), training academy charges (\$2.1 million for each of fiscal years 2004-05 and 2003-04), and casino gaming fees (\$2.9 million and \$3.3 million for fiscal years 2004-05 and 2003-04, respectively).

- g. 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 to restore funding to prior levels for arson investigations, post operations, justice training grants, and security at professional sporting events.
- h. 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.
- i. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant carry-forwards of this type were the Auto Theft Prevention Fund (\$7.8 million and \$9.3 million for fiscal years 2004-05 and 2003-04, respectively) and the Michigan Justice Training Fund (\$6.9 million and \$6.6 million for fiscal years 2004-05 and 2003-04, respectively).

Note 3 Differences From the State's Accounting System

MSP received \$168.9 million in federal funds during fiscal year 2003-04 from the Jobs and Growth Tax Relief Reconciliation Act of 2003, which provides temporary fiscal relief to states. 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 receiving the funds. Act 237, P.A. 2003, requires that these funds be deposited into the General Fund as general purpose revenue and expended to support essential State services provided by MSP.

These funds were recorded as general purpose federal revenue within the Department of Treasury in the State's accounting system. MSP requested and

received approval from the Office of Financial Management, Office of the State Budget, Department of Management and Budget, to present these federal revenues on its schedule of General Fund revenues and other financing sources. However, this federal award is shown as general purpose appropriations on the schedule of sources and disposition of General Fund authorizations.

SUPPLEMENTAL
FINANCIAL SCHEDULE

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2003 through September 30, 2005

Federal Agency/ Program or Cluster	CFDA * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2004		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Executive Office of the President					
Direct Program:					
High Intensity Drug Trafficking Areas (HIDTA)	07 **		\$ 311,062	\$	\$ 311,062
Total Executive Office of the President			\$ 311,062	\$ 0	\$ 311,062
U.S. Department of Justice					
Direct Programs:					
State Domestic Preparedness Equipment Support Program (Notes 1 and 2)	16.007		\$ 5,288,114	\$ 12,720,892	\$ 18,009,006
Urban Areas Security Initiative (Notes 1 and 2)	16.011		3,800		3,800
Missing Children's Assistance	16.543		239,363		239,363
National Criminal History Improvement Program (NCHIP)	16.554		182,509	463,216	645,725
Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	16.564		1,190,041		1,190,041
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		111,169		111,169
Violence Against Women Formula Grants	16.588		36		36
Bulletproof Vest Partnership Program	16.607		24,410		24,410
Community Prosecution and Project Safe Neighborhoods	16.609		172,104	32,060	204,164
Public Safety Partnership and Community Policing Grants	16.710		198,396		198,396
Enforcing Underage Drinking Laws Program	16.727		61,890	232,311	294,201
Equitable Sharing of Federally Forfeited Property	16 **		485		485
COMET OCDETF	16 **		19,839		19,839
Customs OT - Mint Auto Theft	16 **				0
COMET DEA Task Force	16 **		12,016		12,016
Metro OCDETF	16 **		3,517		3,517
MET OCDETF	16 **		16,131		16,131
Violent Crimes Task Force	16 **		27,661		27,661
Alliance Fugitive Task Force	16 **		32,188		32,188
Joint Terrorism Task Force	16 **		6,377		6,377
DEA Saginaw Task Force	16 **		12,184		12,184
DEA DRANO Task Force	16 **		9,571		9,571
BAYANET Gang Task Force	16 **		12,238		12,238
Help Eliminate Marijuana Planting (HEMP) 2003	16 **		140,433		140,433
Help Eliminate Marijuana Planting (HEMP) 2004	16.2004-66		49,153		49,153
Help Eliminate Marijuana Planting (HEMP) 2005	16.2005-73				0
Bureau of Alcohol, Tobacco, and Firearms	16 **				0
ATF Bomb Squad	16 **				0
Total Direct Programs			\$ 7,813,625	\$ 13,448,479	\$ 21,262,104
Pass-Through Programs:					
Byrne Formula Grant Program:					
Alpena County	16.579	70874-5-03-B	\$ 110,003	\$	\$ 110,003
Alpena County	16.579	70874-6-04-B			
Emmet County	16.579	70868-5-03-B	118,116		118,116
Emmet County	16.579	70868-6-04-B			
City of Grand Rapids	16.579	70973-3-03-B	108,761		108,761
City of Grand Rapids	16.579	70973-4-04-B			
City of Lansing	16.579	70901-4-03-B	100,967		100,967
City of Lansing	16.579	70901-5-04-B			
Lapeer County	16.579	70898-4-03-B	43,472		43,472
Lapeer County	16.579	70898-5-04-B			
Michigan Department of Community Health	16.579	(Note 3)	1,737,772	1,262,162	2,999,934
Missaukee County	16.579	70772-6-03-B	14,566		14,566
Missaukee County	16.579	70772-7-04-B			
Montcalm County	16.579	70894-4-03-B	55,528		55,528
Montcalm County	16.579	70894-5-04-B			
Ottawa County	16.579	70834-5-03-B	34,003		34,003
Ottawa County	16.579	70834-6-04-B			
Total Byrne Formula Grant Program Passed Through			\$ 2,323,188	\$ 1,262,162	\$ 3,585,350

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2005			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 352,682	\$ 13,078	\$ 365,760	\$ 676,822
\$ 352,682	\$ 13,078	\$ 365,760	\$ 676,822

\$ 4,848,187	\$ 18,570,197	\$ 23,418,384	\$ 41,427,390
621,002	8,329,858	8,950,860	8,954,660
290,117		290,117	529,480
1,192,387	35,551	1,227,938	1,873,663
1,312,389		1,312,389	2,502,430
10,200		10,200	121,369
82,269		82,269	82,305
33,032	4,136	37,168	61,578
281,683	150,387	432,070	636,234
		0	198,396
78,149	483,578	561,727	855,928
77,289		77,289	77,774
15,360		15,360	35,199
2,804		2,804	2,804
		0	12,016
		0	3,517
47,104		47,104	63,235
30,919		30,919	58,580
16,977		16,977	49,165
10,853		10,853	17,230
813		813	12,997
		0	9,571
10,225		10,225	22,463
		0	140,433
179,122		179,122	228,275
96,089		96,089	96,089
20,559		20,559	20,559
21,757		21,757	21,757
\$ 9,279,286	\$ 27,573,707	\$ 36,852,993	\$ 58,115,097

\$ 111,595	\$	\$ 111,595	\$ 110,003
			111,595
135,361		135,361	118,116
			135,361
116,777		116,777	108,761
			116,777
110,420		110,420	100,967
			110,420
50,104		50,104	43,472
1,774,083	1,370,154	3,144,237	50,104
			6,144,171
67,041		67,041	14,566
			67,041
60,745		60,745	55,528
			60,745
			34,003
50,579		50,579	50,579
\$ 2,476,705	\$ 1,370,154	\$ 3,846,859	\$ 7,432,209

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2003 through September 30, 2005
Continued

Federal Agency/ Program or Cluster	CFDA* Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2004		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Michigan Department of Human Services					
Juvenile Accountability Incentive Block Grants	16.523	N/A	\$	\$ 50,902	\$ 50,902
Violence Against Women Formula Grants	16.588	N/A	\$	\$ 158,374	\$ 158,374
Michigan Department of Community Health					
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2003-DN-BX-1009	\$	\$ 4,888	\$ 4,888
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2003-DN-BX-0026		75,997	75,997
Total National Institute of Justice Research, Evaluation, and Development Project Grants			\$	\$ 80,885	\$ 80,885
Total Pass-Through Programs			\$	\$ 2,562,447	\$ 3,875,511
Total U.S. Department of Justice			\$	\$ 10,376,072	\$ 14,761,543
U.S. Department of Transportation					
Highway Safety Cluster:					
Direct Programs:					
State and Community Highway Safety	20.600		\$	\$ 2,708,729	\$ 4,585,336
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601			736,179	1,207,187
Occupant Protection	20.602			114,157	1,071,841
Federal Highway Safety Data Improvements Incentive Grants	20.603				111,200
Safety Incentive Grants for Use of Seatbelts	20.604			4,174,166	1,001,549
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605				0
Total Highway Safety Cluster			\$	\$ 7,733,231	\$ 12,265,436
Direct Programs:					
National Motor Carrier Safety	20.218		\$	\$ 6,573,589	\$ 115,137
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703			220,268	111,125
State Demonstration Alcohol Enforcement Project	20**				(13,363)
Total Direct Programs			\$	\$ 6,793,857	\$ 212,899
Total U.S. Department of Transportation			\$	\$ 14,527,088	\$ 4,745,104
U.S. Department of Treasury					
Direct Program:					
Jobs and Growth Tax Relief Reconciliation Act of 2003	21**		\$	\$ 168,979,448	\$ 168,979,448
Total U.S. Department of Treasury			\$	\$ 168,979,448	\$ 0
U.S. Department of Energy					
Pass-Through Program:					
Iowa State University Forensic Soil Samples Grant	81**		\$	\$	\$ 0
Total U.S. Department of Energy			\$	\$ 0	\$ 0
Federal Emergency Management Agency (Note 2)					
Direct Programs:					
Hazardous Materials Assistance Programs	83.012		\$	\$ 3,190	\$ 3,190
Community Assistance Program - State Support Services Element (CAP-SSSE)	83.105			230,870	230,870
Flood Mitigation Assistance	83.536			17,883	17,883
Public Assistance Grants	83.544			49,259	6,375,257
Hazard Mitigation Grant (Note 1)	83.548			340,332	4,599,556

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2005			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$	\$ 32,870	\$ 32,870	\$ 83,772
\$ 155,039		\$ 155,039	\$ 313,413
\$ 227,141		\$ 227,141	\$ 232,029
20,058		20,058	96,055
\$ 247,199	\$ 0	\$ 247,199	\$ 328,084
\$ 2,878,943	\$ 1,403,024	\$ 4,281,967	\$ 8,157,478
\$ 12,158,229	\$ 28,976,731	\$ 41,134,960	\$ 66,272,575
\$ 3,993,063	\$ 3,534,619	\$ 7,527,682	\$ 12,113,018
810,401	823,520	1,633,921	2,841,108
545,965	676,883	1,222,848	2,408,846
97		97	111,297
442,317	205,928	648,245	5,823,960
540,106	400,000	940,106	940,106
\$ 6,331,949	\$ 5,640,950	\$ 11,972,899	\$ 24,238,335
\$ 6,558,464	\$ 62,395	\$ 6,620,859	\$ 13,309,585
189,474	141,919	331,393	662,786
		0	(13,363)
\$ 6,747,938	\$ 204,314	\$ 6,952,252	\$ 13,959,008
\$ 13,079,887	\$ 5,845,264	\$ 18,925,151	\$ 38,197,343
\$	\$	\$ 0	\$ 168,979,448
\$ 0	\$ 0	\$ 0	\$ 168,979,448
\$ 9,584		\$ 9,584	\$ 9,584
\$ 9,584	\$ 0	\$ 9,584	\$ 9,584
\$	\$	\$ 0	\$ 3,190
		0	230,870
	1,805	1,805	19,688
15,362	711,375	726,737	7,151,253
278,000	5,214,069	5,492,069	10,431,957

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2003 through September 30, 2005
Continued

Federal Agency/ Program or Cluster	CFDA*	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2004		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Emergency Management Performance Grants	83.552		\$ 742,728	\$ 212	\$ 742,940
Pre-Disaster Mitigation	83.557			15,332	15,332
State and Local All Hazards Emergency Operations Planning (Note 1)	83.562		235,832	1,519,036	1,754,868
Emergency Operations Center	83.563		1,676		1,676
Citizen Corps	83.564			83,079	83,079
Community Emergency Response Teams	83.565			378,778	378,778
Total Federal Emergency Management Agency			\$ 1,373,017	\$ 13,220,003	\$ 14,593,020
<u>U.S. Department of Homeland Security</u>					
Direct Programs:					
State Domestic Preparedness Equipment Support Program (Notes 1 and 2)	97.004		\$ 83,693	\$	\$ 83,693
Urban Areas Security Initiative (Notes 1 and 2)	97.008			3,930	3,930
National Fire Academy Training Assistance	97.018		11,348		11,348
Hazardous Materials Assistance Program (Note 2)	97.021				0
Flood Mitigation Assistance (Note 2)	97.029				0
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (Note 2)	97.036				0
First Responder Counter-Terrorism Training Assistance	97.038		24,628		24,628
Hazard Mitigation Grant (Notes 1 and 2)	97.039				0
Emergency Management Performance Grants (Note 2)	97.042		1,368,114	2,000,000	3,368,114
Community Emergency Response Teams (Note 2)	97.054			80,691	80,691
Homeland Security Information Technology and Evaluation Program	97.066				0
Homeland Security Grant Program (Note 1)	97.067				0
Map Modernization Management Support	97.070				0
Buffer Zone Protection Program (BZPP)	97.078				0
Total U.S. Department of Homeland Security			\$ 1,487,783	\$ 2,084,621	\$ 3,572,404
Total Expenditures of Federal Awards			\$ 197,054,470	\$ 34,811,271	\$ 231,865,741

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

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

The accompanying notes are an integral part of this schedule.

For the Fiscal Year Ended September 30, 2005			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$	\$	\$	
12,375	143,216	155,591	742,940
234,357	1,056,500	1,290,857	170,923
	9,698	9,698	3,045,725
	89,578	89,578	1,676
			92,777
			468,356
\$ 540,094	\$ 7,226,241	\$ 7,766,335	\$ 22,359,355

\$	\$	\$	\$
3,250,219	20,424,172	23,674,391	23,758,084
	101	101	4,031
		0	11,348
4,000		4,000	4,000
	10,627	10,627	10,627
302,384	541,855	844,239	844,239
		0	24,628
1,799		1,799	1,799
1,560,906	456,073	1,560,906	4,929,020
		456,073	536,764
719,442		719,442	719,442
1,396,637	2,232,092	3,628,729	3,628,729
	100,000	100,000	100,000
1,081		1,081	1,081
\$ 7,236,468	\$ 23,764,920	\$ 31,001,388	\$ 34,573,792
\$ 33,376,944	\$ 65,826,234	\$ 99,203,178	\$ 331,068,919

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 the 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 the amounts presented in, or used in the preparation of, the financial schedules. MSP receives some federal grants as a subgrantee of another State department and 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 an expenditure credit or as a revenue debit. As a result, the amounts reported as expended on this schedule differ from the amounts reported as federal revenue in the schedule of General Fund revenues and other financing sources.

In addition, for the State Domestic Preparedness Equipment Support Program (16.007/97.004), Urban Areas Security Initiative (16.011/97.008), Hazard Mitigation Grant (83.548/97.039), State and Local All Hazards Emergency Operations Planning (83.562), and Homeland Security Grant Program (97.067), expenditures and related revenues are recognized only to the extent of billings received from subrecipients* by fiscal year-end (cash basis of accounting). This treatment understates assets and liabilities and expenditures and revenues in amounts that are material to MSP's schedule of General Fund revenues and other financing sources for fiscal year 2004-05 and to federal awards (see Findings 1 and 6).

Note 2 U.S. Department of Homeland Security Grants

Grants from the Federal Emergency Management Agency and certain grants from the U.S. Department of Justice are now awarded through the U.S. Department of Homeland Security. For reporting purposes, the awards are shown under the federal agency that originally awarded the funds.

* See glossary at end of report for definition.

Note 3 Byrne Formula Grant Program

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

Fiscal year 2003-04:

70678-9-03-B	70768-7-03-B	70771-6-03-B	70844-5-03-B
70859-5-03-B	70888-5-03-B	70889-5-03-B	70909-4-03-B
70978-3-03-B	72040-2-03-B	72082-2-03-B	72093-2-03-B
72095-2-03-B			

Fiscal year 2004-05:

70768-8-04-B	70771-7-04-B	70844-6-04-B	70859-6-04-B
70888-6-04-B	70889-6-04-B	70909-5-04-B	70909-4-03-B
70978-4-04-B	72040-3-04-B	72082-3-04-B	72093-3-04-B
72197-1-04-B			

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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 Internal Control Over Financial Reporting and on Compliance and Other Matters

Colonel Peter C. Munoz, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Munoz:

We have audited the financial schedules of the Michigan Department of State Police for the fiscal years ended September 30, 2005 and September 30, 2004, as identified in the table of contents, and have issued our report thereon dated April 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 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 the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Finding 1 to be a material weakness.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted reportable conditions, as described in the accompanying schedule of findings and questioned costs in Findings 1 through 3.

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

April 21, 2006



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

Colonel Peter C. Munoz, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Munoz:

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, 2005. 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 Finding 6 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles that are applicable to the State Domestic Preparedness Equipment Support Program, Urban Areas Security Initiative, and State and Local All Hazards Emergency Operations Planning. 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 first paragraph that are applicable to each major federal program for the two-year period ended September 30, 2005. 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 4 through 6.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 4 through 6.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Findings 4 and 6 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

April 21, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	Yes
Reportable condition identified that is not considered to be a material weakness?	Yes

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

Unqualified* for all major programs except for State Domestic Preparedness Equipment Support Program, Urban Areas Security Initiative, and State and Local All Hazards Emergency Operations Planning, which are 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
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.007/97.004	State Domestic Preparedness Equipment Support Program
16.011/97.008	Urban Areas Security Initiative

* See glossary at end of report for definition.

16.564	Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction
16.579	Byrne Formula Grant Program
20.218	National Motor Carrier Safety
20.600, 20.601, 20.602, 20.603, 20.604, and 20.605	Highway Safety Cluster
21**	Jobs and Growth Tax Relief Reconciliation Act of 2003
83.548/97.039	Hazard Mitigation Grant
83.552/97.042	Emergency Management Performance Grants
83.562	State and Local All Hazards Emergency Operations Planning
97.067	Homeland Security Grant Program

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

Auditee qualified as a low-risk auditee*? No

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

Section II: Findings Related to the Financial Schedules

FINDING (550601)

1. Federal Program Expenditures and Revenue

The Michigan Department of State Police (MSP) did not comply with generally accepted accounting principles by recording expenditures and federal revenue for six of its federal programs in the proper fiscal year. As a result, MSP understated

* See glossary at end of report for definition.

expenditures, accounts payable, federal revenue, and receivables by approximately \$10.9 million and \$2.3 million in fiscal years 2004-05 and 2003-04, respectively. Our review disclosed a material internal control weakness and material noncompliance* with federal requirements.

Generally accepted accounting principles (i.e., Section 1600.118 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board [GASB]) and the Department of Management and Budget's (DMB's) Financial Management Guide, Chapter 1, state that expenditures and the related liability should be recognized in the period when the entity incurs the liability. Also, GASB Codification Section 1600.106 states that revenue should be recognized in the accounting period when it becomes both measurable and available. Section 18.1492 of the *Michigan Compiled Laws* and OMB Circular A-87, *Costs Principles for State, Local, and Indian Tribal Governments*, require that costs must be determined in accordance with generally accepted accounting principles.

Our review disclosed that the Emergency Management and Homeland Security Division (EMHSD) and Forensic Science Division (FSD) did not record expenditures, accounts payable, and the related federal revenue and receivables for services incurred or goods received prior to year-end for six federal programs. The estimated error amounts are material to the reported federal revenue on MSP's schedule of General Fund revenues and other financing sources for fiscal year 2004-05. The estimated expenditure error amounts are material to the programs' expenditures listed below, resulting in material noncompliance with the requirements of OMB Circular A-87:

Program Name	Fiscal Year 2004-05 Overstatement (Understatement)	Fiscal Year 2003-04 Overstatement (Understatement)	Fiscal Years 2004-05 and 2003-04 Total Federal Expenditures
State Domestic Preparedness			
Equipment Support Program	\$ (9,392,014)	\$ (2,514,654)	\$ 65,185,474
Urban Areas Security Initiative	\$ (2,001,214)	\$ 0	\$ 8,958,691
State and Local Hazards			
Emergency Operations	\$ 186,523	\$ 319,679	\$ 3,045,725

* See glossary at end of report for definition.

EMHSD did not require subrecipients to submit the necessary information at year-end to record expenditures, year-end accounts payable, and the related federal revenue and receivables for goods or services provided to subrecipients prior to year-end. FSD did not require its private vendors to submit invoices for laboratory testing services completed prior to year-end.

The divisions recognized expenditures and the associated federal revenue in the fiscal year in which the reimbursement requests from the subrecipient or the invoices from the vendor were paid rather than when the goods or services were received and federal revenue earned.

RECOMMENDATION

We recommend that MSP comply with generally accepted accounting principles to ensure proper recording of expenditures and federal revenue for all of its federal programs.

FINDING (550602)

2. Cash Management - EMHSD

EMHSD's cash management procedures did not sufficiently minimize the time elapsing between the expenditure of funds and the request for federal grant reimbursement. Based on the State Treasurer's common cash rates of return, we estimated that EMHSD could have earned additional interest income of approximately \$42,000 and \$25,000 in fiscal years 2004-05 and 2003-04, respectively, if it had requested reimbursement for expenditures on a monthly, instead of quarterly, basis.

DMB Administrative Guide procedure 1210.06 requires State agencies to minimize, to the extent administratively feasible, the time elapsing between the actual payout of funds and the reimbursement of funds from the U.S. Department of Treasury for federal programs. EMHSD's cash management policy requires EMHSD to request reimbursement for eligible costs on a quarterly basis for the federal share of routine EMHSD costs (payroll, travel, and supplies). EMHSD costs are easily identifiable on a monthly basis from accounting reports. We determined that although EMHSD complied with its internal policy, it could easily reduce the time elapsing between the payment of its expenditures and receipt of its federal revenue by requesting reimbursement on a monthly basis instead of a quarterly basis.

RECOMMENDATION

We recommend that EMHSD improve its cash management procedures to sufficiently minimize the time elapsing between the expenditure of funds and the request for federal grant reimbursement.

FINDING (550603)

3. Indirect Costs

MSP did not request and obtain federal approval of its revised indirect cost rate. As a result, MSP did not recover all eligible indirect costs from the federal government.

All seven of the major programs that bill for indirect costs used General Fund dollars to pay for administrative costs that could have been paid by the federal grants. We estimated that if MSP had used an updated indirect cost rate, it could have reduced General Fund expenditures by \$757,994 and \$371,479 in fiscal years 2004-05 and 2003-04, respectively, for its major federal programs.

Section 18.1460 of the *Michigan Compiled Laws* requires that each State agency charge the applicable indirect costs to all awards, contracts, and grants, including the federal programs. The revenue shall be used to offset State expenditures for support services related to the indirect costs.

During fiscal year 2002-03 and again in fiscal year 2004-05, MSP hired a consultant 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%, effective October 1, 2003, based on actual costs for fiscal year 2001-02. MSP did not submit the updated indirect cost rate proposal to its federal cognizant agency for approval and did not use the increased rate during our audit period. MSP informed us that it did not submit 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* does not provide for an exemption to not recover indirect costs paid for by the General Fund, if the recovery results in less funding to subrecipients.

We reported this finding in the prior two Single Audit* reports. MSP's corrective action plan stated that it agreed with the finding and would recalculate its indirect cost rate based on updated data.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MSP REQUEST AND OBTAIN FEDERAL APPROVAL OF ITS REVISED INDIRECT COST RATE.

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 (550604)

4. Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction, CFDA 16.564

U.S. Department of Justice	CFDA 16.564: Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction
Award Number: 2002-DN-BX-K011 2003-DN-BX-K021	Award Period: 07/01/2002 - 08/31/2004 09/01/2003 - 08/31/2005
	Questioned Costs: \$0

MSP's internal control did not ensure that the Crime Laboratory Improvement - Combined DNA Backlog Reduction Program complied with federal laws and regulations regarding procurement and suspension and debarment. In addition, MSP did not always document proper approval of expenditure transactions.

Noncompliance with federal laws and regulations could result in sanctions and/or disallowances for federal grants. Our review of expenditure transactions disclosed:

- a. Procurement and Suspension and Debarment

MSP had not established internal control procedures to ensure compliance with OMB Circular A-102 requirements regarding suspension and debarment.

* See glossary at end of report for definition.

OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, prohibits federal grantees from awarding assistance to applicants that are suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs under federal Executive Order 12549. OMB Circular A-102 requires that grantees establish procedures to ensure that they do not award assistance to listed parties in violation of the Executive Order.

Our review of all four laboratory contracts disclosed that MSP did not obtain suspension or debarment certifications from any of the contractors and did not include language in any of the contracts for suspension and debarment requirements. We reviewed the federal List of Parties Excluded from Federal Procurement or Nonprocurement Programs and verified that none of these contractors were suspended or debarred during fiscal years 2003-04 and 2004-05. As a result, we have not reported questioned costs for this item.

b. Documentation of Approval of Expenditure Transactions

MSP did not always document proper approval of expenditure transactions for the Program. Our review disclosed that 11 (29%) of 38 expenditure transaction invoices, totaling approximately \$489,000, did not contain the initials of the MSP employee who had verified the receipt of services and authorized the invoice for payment. We consider this to be a material internal control weakness. We reviewed other supporting documentation and determined that goods and services were received.

Sections 18.1483 - 18.1485 of the *Michigan Compiled Laws* require that MSP management establish and maintain authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures. Documentation to support the approval to pay invoices normally includes the initials of the staff who verified that goods and services had been received.

RECOMMENDATIONS

We recommend that MSP improve its internal control to ensure that the Crime Laboratory Improvement - Combined DNA Backlog Reduction Program complies with federal laws and regulations regarding procurement and suspension and debarment.

We also recommend that MSP document proper approval of expenditure transactions.

FINDING (550605)

5. **Subrecipient Monitoring**

U.S. Department of Justice	CFDA 16.007: State Domestic Preparedness Equipment Support Program CFDA 16.011: Urban Areas Security Initiative CFDA 16.579: Byrne Formula Grant Program
Award Number: All	Award Period: Various
	Questioned Costs: \$0

U.S. Department of Transportation	CFDA 20.600: State and Community Highway Safety CFDA 20.601: Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants CFDA 20.602: Occupant Protection CFDA 20.603: Federal Highway Safety Data Improvements Incentive Grants CFDA 20.604: Safety Incentive Grants for Use of Seatbelts
Award Number: All	Award Period: Various
	Questioned Costs: \$0

Federal Emergency Management Agency	CFDA 83.548: Hazard Mitigation Grant CFDA 83.552: Emergency Management Performance Grants CFDA 83.562: State and Local All Hazards Emergency Operations Planning
Award Number: All	Award Period: Various
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.004: State Domestic Preparedness Equipment Support Program CFDA 97.008: Urban Areas Security Initiative CFDA 97.042: Emergency Management Performance Grants
Award Number: All	Award Period: Various
	Questioned Costs: \$0

MSP's internal control did not ensure that it obtained required subrecipient Single Audit reports. Also, MSP's internal control did not ensure that it issued management decisions on subrecipients' audit findings within the time frame required by OMB Circular A-133. Without proper internal control over subrecipient monitoring, MSP cannot be assured that the subrecipients used federal awards in accordance with federal regulations and contract or grant agreements.

MSP incorporates various methods of subrecipient monitoring, including site visits, review of monthly or quarterly subrecipient financial and performance reports, and review of subrecipient invoices. However, OMB Circular A-133 requires that pass-through entities ensure that each subrecipient expending \$300,000 or more (\$500,000 or more for fiscal years ended after December 31, 2003) in federal awards during the subrecipient's fiscal year complies with the audit requirement of OMB Circular A-133 for that fiscal year. OMB Circular A-133 also requires that the pass-through entity issue a management decision on audit findings within six months after receipt of a subrecipient's audit report. MSP distributed approximately \$21.0 million to 231 subrecipients and approximately \$34.8 million to 401 subrecipients for fiscal years 2002-03 and 2003-04, respectively.

We selected 21 subrecipients from fiscal years 2002-03 and 2003-04 to determine compliance with subrecipient monitoring. We observed that:

- a. MSP had not obtained Single Audit reports for 9 (43%) subrecipients, and there was no documentation that MSP contacted the subrecipients requesting copies of the audit reports.
- b. MSP did not review or issue a management decision within the required six-month time frame for 7 (58%) of the 12 Single Audit reports received from subrecipients. MSP's review of all Single Audit reports and issuance of management decisions within the six-month time frame would help ensure timely corrective action by the subrecipients.

Two divisions within MSP collected information on whether a subrecipient was required to have a Single Audit performed. However, the two divisions did not summarize the information and forward it to the Budget and Financial Services Division (BFSD). BFSD was responsible for determining compliance with OMB Circular A-133 requirements for subrecipients to submit Single Audits.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT MSP IMPROVE ITS INTERNAL CONTROL TO ENSURE THAT IT OBTAINS REQUIRED SUBRECIPIENT SINGLE AUDIT REPORTS.

We also recommend that MSP improve its internal control to ensure that it issues management decisions on subrecipients' audit findings within the time frame required by OMB Circular A-133.

FINDING (550606)

6. Federal Program Expenditures and Revenue

U.S. Department of Justice	CFDA 16.007: State Domestic Preparedness Equipment Support Program
Award Number: 2003-MU-T3-0018	Award Period: 05/01/2003 - 04/30/2006
	Questioned Costs: \$0

U.S. Department of Justice	CFDA 16.011: Urban Areas Security Initiative
Award Number: 2003-EU-T3-0011	Award Period: 07/01/2003 - 06/30/2006
	Questioned Costs: \$0

U.S. Department of Justice	CFDA 16.564: Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction
Award Number: 2003-DN-BX-K021	Award Period: 09/01/2003 - 08/31/2005
	Questioned Costs: \$0

Federal Emergency Management Agency	CFDA 83.548: Hazard Mitigation Grant
Award Number: MI01HM1346	Award Period: 10/17/2000 - 10/16/2006
	Questioned Costs: \$0

Federal Emergency Management Agency	CFDA 83.562: State and Local All Hazards Emergency Operations Planning
Award Number: EMC-2003-GR-7019	Award Period: 12/16/2002 - 12/11/2004
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.004: State Domestic Preparedness Equipment Support Program
Award Number: 2004-GE-T4-0026	Award Period: 12/01/2003 - 05/31/2006
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.008: Urban Areas Security Initiative
Award Number: 2004-TU-T4-0026	Award Period: 02/01/2004 - 07/31/2006
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.039: Hazard Mitigation Grant
Award Number: MI04HM1527	Award Period: 06/30/2004 - 06/30/2008
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.067: Homeland Security Grant Program
Award Number: 2005-GE-T5-0014	Award Period: 10/01/2004 - 03/31/2007
	Questioned Costs: \$0

This finding is included in Section II of the schedule of findings and questioned costs (550601).

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, 2005

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550401
Finding Title: Payroll Internal Control

Finding: 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).

Comments: MSP developed written internal policies and procedures for processing and auditing payroll transactions.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550402
Finding Title: Controls Over Time and Attendance

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

Comments: MSP developed internal procedures for time entry, certification, and releasing of payroll. Procedures promote separation of duties and require an up-to-date listing of designated timekeepers and certifiers.

* See glossary at end of report for definition.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550403
Finding Title: Controls Over Procurement Cards*

Finding: MSP's controls did not ensure that procurement card users complied with MSP and the Department of Management and Budget (DMB) policies and procedures.

Comments: MSP's internal auditor conducted a procurement card audit for the period August 1, 2004 through March 31, 2005. Additional procedures addressing the audit recommendation have been completed. MSP began random sampling of procurement card purchases. In addition, DMB has written a manual for procurement card supervisors.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550404
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.

Comments: MSP contracted with a vendor and recalculated its indirect cost rate; however, MSP did not submit the new rate to the federal cognizant agency for approval because the result would only shift funding and would not result in additional federal funds.

* See glossary at end of report for definition.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550405
Finding Title: Highway Safety Cluster*- Personnel-Payroll Cost Distributions

Finding: MSP's internal control did not ensure that personnel-payroll cost distributions to federal programs were properly documented in accordance with federal requirements.

Comments: MSP developed an employee time certification form, a spreadsheet to track actual time, and a policy and procedure regarding time and effort accounting. In addition, the National Highway Traffic Safety Association determined that the new policies and procedures are properly documented and acceptable.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550406
Finding Title: Highway Safety Cluster - Pass-Through Entity Responsibility

Finding: MSP did not provide subrecipients with accurate federal award information for the Highway Safety Cluster.

Comments: MSP developed new policies and procedures. MSP included the federal award information for the Highway Safety Cluster in the grant letters for fiscal years 2003-04 and 2004-05.

* See glossary at end of report for definition.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550407
Finding Title: Highway Safety Cluster - Subrecipient/Vendor Determination

Finding: MSP did not evaluate and properly classify grantees as subrecipients or vendors.

Comments: MSP developed a documented grant process.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550408
Finding Title: Terminal Leave Payments

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

Comments: MSP implemented several new procedures to identify, account for, and request prior written approval from the federal awarding agency for terminal leave payments, as necessary. New financial reports have been developed that identify all terminal leave payments. Also, these new procedures have been included in an interim assessment checklist from the Budget and Financial Services Division.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550410
Finding Title: Payroll Internal Control

Comments: See Finding 550401 with the prior audit findings related to the financial schedules.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 550411

Finding Title: Controls Over Time and Attendance

Comments: See Finding 550402 with the prior audit findings related to the financial schedules.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2001 through September 30, 2003

Finding Number: 550409

Finding Title: Subrecipient Monitoring

Finding: 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.

Comments: MSP updated its procedures for review of subrecipient Single Audits, which includes identification of subrecipients and verification of receipt of Single Audit reports. A subrecipient review form and delinquency letter form were developed, which includes a review of the accuracy of the federal award information.

MICHIGAN DEPARTMENT OF STATE POLICE

Corrective Action Plan

As of June 14, 2006

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 550601

Finding Title: Federal Program Expenditures and Revenue

Management Views: The Michigan Department of State Police (MSP) agrees with this finding.

Corrective Action: MSP will work with the Office of Financial Management, Department of Management and Budget, to develop a payable estimation methodology for federal grant programs. MSP will work with vendors to obtain invoices or billing estimates prior to year-end closing. In addition, for Emergency Management and Homeland Security Division (EMHSD) grants, all local jurisdictions and State agencies will be requested to submit the total owed to them by EMHSD as of September 15 of every year. This includes all funds expended by the grantee, but not yet reimbursed from October 1 to September 15 of each fiscal year. MSP will record a payable and the related receivable for these grants at year-end.

Anticipated Completion Date: September 2007

Responsible Individuals: Melanie Oudsema, Chief Accountant, Budget and Financial Services Division (BFSD);
Dawn Lake, Acting Fiscal Manager, EMHSD;
Abby Meyer, Grant Manager, Forensic Science Division (FSD)

Finding Number: 550602
Finding Title: Cash Management - EMHSD

Management Views: MSP agrees with this finding.

Corrective Action: EMHSD will request federal grant reimbursements, after the expenditure of funds, on a monthly basis to the extent administratively feasible.

Anticipated Completion Date: June 2006

Responsible Individual: Dawn Lake, Acting Fiscal Manager, EMHSD

Finding Number: 550603
Finding Title: Indirect Costs

Management Views: MSP agrees with this finding.

Corrective Action: MSP is working on an alternative implementation proposal.

Anticipated Completion Date: October 2006

Responsible Individual: Jerri McClure, Chief Financial Officer, BFSD

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 550604
Finding Title: Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction, *CFDA* 16.564

Management Views: MSP agrees with parts a. and b. of this finding.

Corrective Action: Regarding part a., MSP will ensure that contracts comply with U.S. Office of Management and Budget (OMB) Circular A-102 requirements regarding suspension and debarment.

Regarding part b., MSP and FSD will develop a policy regarding review and approval for payment of invoices.

Anticipated Completion Date: June 30, 2006

Responsible Individual: Abby Meyer, Grant Manager, FSD

Finding Number: 550605

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 applied additional resources to ensure that all subrecipient audit reports are obtained and a management decision is issued within the time frame identified by OMB Circular A-133.

Anticipated Completion Date: Fiscal year 2005-06

Responsible Individual: Douglas Spitzley, Accountant Manager, BFSD

Finding Number: 550606

Finding Title: Federal Program Expenditures and Revenue

See Finding 550601 with the findings related to the financial schedules.

GLOSSARY

Glossary of Acronyms and Terms

BFSD	Budget and Financial Services Division.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DMB	Department of Management and Budget.
DNA	deoxyribonucleic acid.
EMHSD	Emergency Management and Homeland Security Division.
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.
FSD	Forensic Science Division.
GASB	Governmental Accounting Standards Board.
Highway Safety Cluster	The commonly used name for the following group of federal programs: State and Community Highway Safety (<i>CFDA</i> 20.600) Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants (<i>CFDA</i> 20.601) Occupant Protection (<i>CFDA</i> 20.602) Federal Highway Safety Data Improvements Incentive Grants (<i>CFDA</i> 20.603) Safety Incentive Grants for Use of Seatbelts (<i>CFDA</i> 20.604) Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons (<i>CFDA</i> 20.605).

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's Human Resource System.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MSP	Michigan Department of State Police.
OMB	U.S. Office of Management and Budget.
procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with State purchasing policies.
qualified opinion	<p>An auditor's opinion in which the auditor:</p> <ol 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 and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or 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 and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the

extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves.

questioned cost

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller

General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

subrecipient

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

unqualified opinion

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

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the 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 and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

