



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

Audit report information can be accessed at:

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit
Including the Provisions of the Single Audit Act
Department of Corrections

Report Number:
 471-0100-08

October 1, 2005 through September 30, 2007

Released:
 June 2008

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 requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on the Department of Corrections' (DOC's) financial schedules.

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Internal Control Over Financial Reporting

We identified significant deficiencies in internal control over financial reporting (Findings 1 and 2). We do not consider these significant deficiencies to be material weaknesses.

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**Noncompliance and Other Matters
 Material to the Financial Schedules**

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*. However, we did identify other noncompliance (Finding 2).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 6 programs as major programs and issued 6 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We identified significant deficiencies in internal control over federal program compliance (Finding 3). We do not consider these significant deficiencies 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 (Finding 3).

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Systems of Accounting and Internal Control:

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

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
10.553 and 10.555	Child Nutrition Cluster	Unqualified
16.606	State Criminal Alien Assistance Program	Unqualified
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	Unqualified
16.738	Edward Byrne Memorial Justice Assistance Grant Program	Unqualified
84.013	Title I Program for Neglected and Delinquent Children	Unqualified
84.048	Vocational Education - Basic Grants to States	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 20, 2008

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

Dear Ms. Caruso,

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Corrections (DOC) for the period October 1, 2005 through September 30, 2007.

This report contains our report summary, our independent auditor's report on the financial schedules, and the DOC financial schedules and supplemental financial schedules. 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 DOC's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

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

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

AUDITOR GENERAL

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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

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

Dear Ms. Caruso:

We have audited the accompanying financial schedules of the Department of Corrections for the fiscal years ended September 30, 2007 and September 30, 2006, 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 1, the financial schedules present only the revenues and the sources and disposition of authorizations for the Department of Corrections' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and the sources and disposition of authorizations of the Department of Corrections for the fiscal years ended September 30, 2007 and September 30, 2006 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2008 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*, and other supplemental financial schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

May 30, 2008

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

	<u>2007</u>	<u>2006</u>
REVENUES		
From federal agencies	\$ 5,456,930	\$ 4,868,856
From local agencies	420,900	411,700
From services:		
Resident stores	4,598,700	4,337,400
Public Works Program reimbursements	1,753,986	1,274,174
Other	138,174	35,450
Miscellaneous:		
Telephone fees and commissions	10,221,862	10,026,479
Oversight fees	9,258,140	9,467,203
Civil infraction fees	6,967,939	7,181,673
Tether Program contributions	1,612,322	1,711,292
Other	<u>1,504,819</u>	<u>1,073,097</u>
Total revenues	<u>\$ 41,933,773</u>	<u>\$ 40,387,325</u>

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

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

SOURCES OF AUTHORIZATIONS (Note 2)	<u>2007</u>	<u>2006</u>
General purpose appropriations	\$ 1,871,877,500	\$ 1,806,098,500
Budgetary transfers in (out)	0	0
Balances carried forward	3,845,064	17,849,113
Restricted financing sources	42,329,742	39,563,194
Less: Intrafund expenditure reimbursements	<u>(1,062,855)</u>	<u>(83,934)</u>
 Total	 <u>\$ 1,916,989,451</u>	 <u>\$ 1,863,426,873</u>
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 1,908,290,652	\$ 1,854,592,627
Less: Intrafund expenditure reimbursements	<u>(1,062,855)</u>	<u>(83,934)</u>
Net expenditures and transfers out	<u>\$ 1,907,227,796</u>	<u>\$ 1,854,508,693</u>
Balances carried forward:		
Encumbrances	\$ 2,694,258	\$ 0
Restricted revenues - not authorized or used	<u>4,274,700</u>	<u>3,845,064</u>
Total balances carried forward	<u>\$ 6,968,958</u>	<u>\$ 3,845,064</u>
Balances lapsed	<u>\$ 2,792,696</u>	<u>\$ 5,073,117</u>
 Total	 <u>\$ 1,916,989,451</u>	 <u>\$ 1,863,426,873</u>

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Corrections (DOC) for the fiscal years ended September 30, 2007 and September 30, 2006. The financial transactions of DOC are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The financial schedules do not include the financial activities of the Correctional Industries Revolving Fund and Miscellaneous Trust Accounts Fund, which are audited as part of the SOMCAFR and do not receive any federal financial assistance.

The notes accompanying these financial schedules relate directly to DOC. The SOMCAFR provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; pension benefits and other postemployment benefits; and leases.

b. Measurement Focus, Basis of Accounting, and Presentation

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

The accompanying financial schedules include only the revenues and the sources and disposition of authorizations for DOC's General Fund accounts. Accordingly, these financial schedules do not purport to, and do

not, constitute a complete financial presentation of either DOC or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized or used.
- d. Restricted financing sources: Collections of restricted revenues and restricted transfers, net of restricted intrafund expenditure reimbursements, to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized or used.

- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. In fiscal year 2005-06, expenditures of \$83,934 were recorded in the Michigan Justice Training Fund for training DOC employees. In fiscal year 2006-07, the expenditure reimbursements totaled \$1,062,855. Expenditures of \$28,963 were recorded in the Michigan Justice Training Fund for training DOC employees; \$870,000 in the Department of Community Health to offset part of the cost of human immunodeficiency virus (HIV) drugs for inmates; and \$163,892 in the Michigan Department of Education to purchase supplies and materials for inmates in the vocational education program.

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

- g. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant restricted revenues - not authorized or used for DOC included \$4,274,700 and \$3,845,064 for fiscal years 2006-07 and 2005-06, respectively, from parolee and probationary supervision fees, civil infraction fees, and the State Criminal Alien Assistance Program (SCAAP). Section 791.225a of the *Michigan Compiled Laws* restricts 20% of parolee and probationary supervision fees for administrative and enhanced services costs. Enhanced services include, but are not limited to, the purchase of services for parolees, such as counseling, employment training, employment placement, or education; public transportation expenses related to training, counseling, or employment; enhancement of staff performance through specialized training and equipment purchase; and purchase of items for parolee employment. The civil infraction fees are used to reimburse counties for offenders who are lodged in the county jail in lieu of State imprisonment. The SCAAP funds are expected to be used for equipment purchases at the correctional facilities. The restricted revenues - not authorized or used represent the unexpended balance of this money.

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

Note 3 Contingencies

DOC is a party to various legal proceedings seeking damages, injunctive relief, or other relief. The ultimate dispositions and consequences of these proceedings are not presently determinable. However, in the opinion of the Attorney General of the State of Michigan and DOC, the lawsuits pending that may have a significant effect, if resolved unfavorably, on DOC's programs or finances included the following:

- a. *Amira Salem v Yukins, et al.*: The plaintiff filed a pro se complaint against 15 prison officials at the Robert Scott Correctional Facility in July 2004 claiming that they had violated her rights under the Eighth Amendment to the United States Constitution. On July 13, 2005, the Court dismissed the lawsuit without prejudice, based on the plaintiff's failure to totally exhaust administrative remedies. The lawsuit was reopened in July 2007 based on the plaintiff's appeal and the Supreme Court's revised decision in *Jones v Bock*, 127 S. Ct. 910 (2007), which held, in pertinent part, that when a complaint contains both exhausted and unexhausted claims, the district court should proceed with the exhausted claims while dismissing the unexhausted claims, rather than dismissing the complaint in its entirety. The plaintiff's amended complaint includes only the exhausted claims against four remaining defendants. Two of the remaining defendants are DOC employees and two are employees working at DOC under contract. The plaintiff alleges that there was deliberate indifference to her medical needs in March 2002, alleging that her sutures were not taken out in a timely manner, that medications for her serious medical conditions were not renewed in a timely manner, and that a follow-up mammogram was not scheduled as ordered. The plaintiff demands a jury trial and is seeking \$50 million.
- b. *Nathauleen Mason, et al. v Caruso, et al.*: In October 2005, 13 current and former female prisoners filed a class action lawsuit, alleging that they were subjected to sexual assault, sexual harassment, offensive touching, threats, and retaliation by male officers and staff. The named defendants are the Governor, the DOC director, current and former wardens, and

other current and former DOC staff. The plaintiffs also sought declaration that a March 10, 2000 amendment to the Elliott-Larsen Civil Rights Act, which excludes prisoners, is unconstitutional. On January 23, 2007, the District Court held that the amendment violates the prisoners' equal protection rights and is unconstitutional. DOC's appeal of that decision was dismissed in July 2007 without prejudice to the defendants' right to perfect an appeal upon entry of a final judgment, and DOC's motion for a stay was denied. The class certification was denied by the Court on August 31, 2007, as well as the plaintiffs' motion for reconsideration of that denial on October 23, 2007. The plaintiffs have filed a motion to amend the complaint to add 87 additional plaintiffs in response to which the defendants have filed State Defendants' Response to Motion to Amend Complaint and Join Additional Plaintiffs. Discovery continues while these motions are pending. There is no current scheduling order in place. The plaintiffs seek monetary damages in excess of \$75 million and certain injunctive relief pursuant to Title 42, section 1983 of the *United States Code*.

- c. *Tracy Neal, et al. v McGinnis, et al.*: This lawsuit involves female prisoners alleging sexual harassment, assault, retaliation, and overfamiliarity by male officers. It was filed in 1996. The lawsuit was certified as a class action and was consolidated with a second court-certified class action asserting nearly identical claims (*Anderson v MDOC*, Court of Claims No. 30-162-MZ). Currently, the identified class includes over 400 individuals. Many aspects of the lawsuit have been argued at the lower court, Court of Appeals, and Supreme Court levels. In addition to specific injunctive relief regarding DOC's policies, practice, acts, and omissions, the plaintiffs seek compensation to the class and individuals for severe emotional and psychological injuries; physical injuries and damages; loss of freedom; loss of education, employment, and rehabilitation opportunities; loss of privileges and income; and punitive and exemplary damages, as well as attorney fees and costs. A portion of the lawsuit was recently tried involving a group of 10 members of the identified class. The trial resulted in an award to the plaintiffs of \$29.8 million, including interest. DOC plans to appeal. It is expected that another trial will be scheduled, involving a different group of the class members, within the next several months. The amount of possible compensation cannot be estimated at this time.

- d. *Bonita Clark-Murphy v Warden McKee, et al.*: The plaintiff, as personal representative of the Estate of Jeffrey Clark, claims that the defendants ignored and failed to obtain medical treatment for Mr. Clark. He died in his cell on July 3, 2002, as a result of dehydration and/or the effects of the same. The plaintiff filed a new lawsuit naming additional defendants who were not served prior to the summons expiring. Both lawsuits are regarding the same issue. However, one suit named three defendants and the other lawsuit named 19 defendants.

After the decisions in the District Court and in the Sixth Circuit Court of Appeals, the matter went to trial on May 4, 2007. After a 13-day jury trial, the jury returned a total verdict of \$2.75 million. DOC is still waiting for a final judgment to be issued, as well as a decision regarding fees and costs. The plaintiff was seeking \$220 million.

SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF CORRECTIONS
 Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
 Fiscal Year Ended September 30, 2007

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
Central Administration					
Executive	\$ 64,957,200	\$ 115,000	\$	\$ 125,329	\$ 65,197,529
Administration and Programs	29,969,000	1,590,000		359,010	31,918,010
Field Operations Administration	143,201,800	2,600,000	3,448,573	11,395,133	160,645,506
Community Corrections	28,869,800	(150,000)	396,491	16,717,862	45,834,153
Consent Decrees	75,193,400	(41,629,200)			33,564,200
Health Care	99,332,100	(650,000)			98,682,100
Clinical Operations	127,426,000	750,000		1,008,174	129,184,174
Correctional Facilities Administration	64,624,800	(27,053,200)		2,980,992	40,552,592
Information Technology	15,591,900			653,511	16,245,411
Subtotal for Central Administration	<u>\$ 649,166,000</u>	<u>\$ (64,427,400)</u>	<u>\$ 3,845,064</u>	<u>\$ 33,240,011</u>	<u>\$ 621,823,675</u>
Facility Operations					
Alger Maximum Correctional Facility - Munising (1)	\$ 31,560,000	\$	\$	\$ 73,999	\$ 31,633,999
Baraga Maximum Correctional Facility - Baraga (1)	37,123,600			231,890	37,355,490
Bellamy Creek Correctional Facility - Ionia (1)	43,132,800	560,000		179,913	43,872,713
Earnest C. Brooks Correctional Facility - Muskegon (1)	43,657,800	3,387,200		237,877	47,282,877
Carson City Correctional Facility - Carson City	44,405,300	3,503,000		334,512	48,242,812
Chippewa Correctional Facility - Kincheloe	45,716,500	3,415,000		217,252	49,348,752
Cooper Street Correctional Facility - Jackson	24,158,100	(70,000)		309,492	24,397,592
G. Robert Cotton Correctional Facility - Jackson	39,398,500	(1,200,000)		193,388	38,391,888
Charles E. Egeler Correctional Facility - Jackson	51,608,600	19,398,000		2,223,454	73,230,054
Richard A. Handlon Correctional Facility - Ionia	24,509,900	1,807,000		129,300	26,446,200
Gus Harrison Correctional Facility - Adrian	46,005,600	1,407,000		303,220	47,715,820
Huron Valley Correctional Complex - Ypsilanti (1)	61,629,000	6,028,000		713,764	68,370,764
Ionia Maximum Correctional Facility - Ionia	28,711,800	692,000		34,797	29,438,597
Kinross Correctional Facility - Kincheloe	53,123,200	3,491,000		412,399	57,026,599
Lakeland Correctional Facility - Coldwater (1)	62,335,200	(53,000)		501,616	62,783,816
Macomb Correctional Facility - New Haven	29,318,900	(182,000)		174,681	29,311,581
Marquette Branch Prison - Marquette	34,492,200	3,586,200		68,828	38,147,228
Michigan Reformatory - Ionia		570,000			570,000
Mound Correctional Facility - Detroit	25,494,700	2,000,000		106,143	27,600,843
Muskegon Correctional Facility - Muskegon	23,898,800	290,000		133,685	24,322,485
Newberry Correctional Facility - Newberry	29,668,900			204,524	29,873,424
Oaks Correctional Facility - Eastlake	33,618,700	(1,576,000)		96,000	32,138,700
Ojibway Correctional Facility - Marenisco (1)	24,662,000			216,311	24,878,311
Parnall Correctional Facility - Jackson	24,682,800	60,000		137,239	24,880,039
Pine River Correctional Facility - St. Louis (1)	19,928,800	(700,000)		117,694	19,346,494
Pugsley Correctional Facility - Kingsley (1)	21,329,000			214,642	21,543,642
Riverside Correctional Facility - Ionia (1)	46,732,600	12,959,000		255,934	59,947,534
Ryan Correctional Facility - Detroit	29,494,200	1,600,000		109,033	31,203,233
Saginaw Correctional Facility - Freeland	32,140,400	(350,000)		149,839	31,940,239
Robert Scott Correctional Facility - Plymouth	28,749,900	3,595,000		152,245	32,497,145
Southern Michigan Correctional Facility - Jackson	35,687,200	(800,000)		148,473	35,035,673
St. Louis Correctional Facility - St. Louis (1)	53,522,100			256,162	53,778,262
Standish Maximum Correctional Facility - Standish	36,705,900	546,000		181,153	37,433,053
Thumb Correctional Facility - Lapeer	29,922,300	(120,000)		127,761	29,930,061
Jackson Area Support and Services	14,214,800	1,134,000			15,348,800
Special Alternative Incarceration Program - Cassidy Lake	11,371,400	(550,000)		142,514	10,963,914
Subtotal for Facility Operations	<u>\$ 1,222,711,500</u>	<u>\$ 64,427,400</u>	<u>\$ 0</u>	<u>\$ 9,089,731</u>	<u>\$ 1,296,228,631</u>
Intrafund Expenditure Reimbursements	\$	\$	\$	\$ (1,062,855)	\$ (1,062,855)
Total	<u>\$ 1,871,877,500</u>	<u>\$ 0</u>	<u>\$ 3,845,064</u>	<u>\$ 41,266,887</u>	<u>\$ 1,916,989,451</u>

(1) The Department of Corrections charged \$3,250,000 of expenditures from a court case involving Bellamy Creek Correctional Facility to 10 other correctional facilities. The 10 facilities and the amounts charged were: Alger Maximum Correctional Facility - \$250,000; Baraga Maximum Correctional Facility - \$200,000; Ojibway Correctional Facility - \$220,000; Pugsley Correctional Facility - \$270,000; Huron Valley Correctional Complex - \$600,000; Earnest C. Brooks Correctional Facility - \$190,000; Lakeland Correctional Facility - \$600,000; Pine River Correctional Facility - \$280,000; Riverside Correctional Facility - \$240,000; and St. Louis Correctional Facility - \$400,000.

Disposition of Authorizations

Expenditures and Transfers Out	Encumbrances	Restricted Revenues - Not Authorized or Used	Balances Lapsed	Total
\$ 65,131,521	\$ 11,539	\$	\$ 54,468	\$ 65,197,529
31,785,733	119,157		13,120	31,918,010
157,606,586	42,093	2,726,506	270,321	160,645,506
45,506,511		267,941	59,701	45,834,153
33,501,415			62,785	33,564,200
98,618,888	3,630		59,582	98,682,100
128,574,837	261,674		347,663	129,184,174
40,265,343	12,692		274,557	40,552,592
16,245,411				16,245,411
<u>\$ 617,236,246</u>	<u>\$ 450,785</u>	<u>\$ 2,994,446</u>	<u>\$ 1,142,198</u>	<u>\$ 621,823,675</u>
\$ 31,591,872	\$	\$	\$ 42,127	\$ 31,633,999
37,304,838	3,924		46,727	37,355,490
43,861,294			11,418	43,872,713
47,231,189	17,284		34,404	47,282,877
48,221,513	986		20,313	48,242,812
49,313,979	86		34,688	49,348,752
24,380,367	1,341		15,884	24,397,592
38,366,364	10,359		15,165	38,391,888
71,099,734	716,719	1,280,254	133,347	73,230,054
26,418,753			27,447	26,446,200
47,647,182	1,171		67,467	47,715,820
67,475,921	823,211		71,632	68,370,764
29,374,314			64,283	29,438,597
56,900,878	1,300		124,421	57,026,599
62,703,732	24,355		55,729	62,783,816
29,250,574	14,974		46,034	29,311,581
38,091,628			55,600	38,147,228
559,807			10,193	570,000
27,589,779	343		10,721	27,600,843
24,312,837			9,649	24,322,485
29,688,470	87,993		96,961	29,873,424
32,088,441	28,617		21,642	32,138,700
24,846,801	4,081		27,428	24,878,311
24,860,386	8,450		11,203	24,880,039
19,320,476			26,018	19,346,494
21,458,720	56,000		28,922	21,543,642
59,730,676	123,500		93,358	59,947,534
31,171,695	14,454		17,083	31,203,233
31,900,736			39,502	31,940,239
32,134,552	242,968		119,625	32,497,145
35,015,987	13,981		5,706	35,035,673
53,700,827	2,430		75,005	53,778,262
37,385,552	368		47,133	37,433,053
29,852,363	17,906		59,792	29,930,061
15,251,207	24,045		73,548	15,348,800
10,950,962	2,627		10,324	10,963,914
<u>\$ 1,291,054,406</u>	<u>\$ 2,243,473</u>	<u>\$ 1,280,254</u>	<u>\$ 1,650,499</u>	<u>\$ 1,296,228,631</u>
<u>\$ (1,062,855)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (1,062,855)</u>
<u>\$ 1,907,227,796</u>	<u>\$ 2,694,258</u>	<u>\$ 4,274,700</u>	<u>\$ 2,792,696</u>	<u>\$ 1,916,989,451</u>

DEPARTMENT OF CORRECTIONS
 Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
 Fiscal Year Ended September 30, 2006

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
Central Administration					
Executive	\$ 60,066,200	\$ (3,695,200)	\$ 146,556	\$ 83,934	\$ 56,601,490
Administration and Programs	31,495,400	1,320,000	2,838,083	1,226,002	36,879,486
Field Operations Administration	143,232,100	(158,400)	5,067,121	11,939,439	160,080,260
Community Corrections	28,783,700	(1,782,000)	1,106,946	16,502,542	44,611,188
Consent Decrees	106,034,800	(72,584,400)	306,496		33,756,896
Health Care	73,085,000	1,065,000	2,167		74,152,167
Clinical Operations	115,161,400	2,250,000	221,788	35,450	117,668,638
Correctional Facilities Administration	92,464,700	(41,021,800)	109,486	2,657,230	54,209,617
Information Technology	15,737,100			534,700	16,271,800
Subtotal for Central Administration	<u>\$ 666,060,400</u>	<u>\$ (114,606,800)</u>	<u>\$ 9,798,643</u>	<u>\$ 32,979,297</u>	<u>\$ 594,231,540</u>
Facility Operations					
Alger Maximum Correctional Facility - Munising	\$ 30,551,900	\$ 650,000	\$ 455	\$ 64,819	\$ 31,267,173
Baraga Maximum Correctional Facility - Baraga	35,926,900	1,250,000	71,568	166,900	37,415,368
Bellamy Creek Correctional Facility - Ionia	43,344,200		7,815	174,600	43,526,615
Earnest C. Brooks Correctional Facility - Muskegon	43,434,100	800,000	189,098	214,801	44,637,999
Carson City Correctional Facility - Carson City	45,340,400	114,500	232,103	275,017	45,962,020
Chippewa Correctional Facility - Kincheloe	44,290,400	200,000	285,561	209,507	44,985,469
Cooper Street Correctional Facility - Jackson	24,361,300	(700,000)	71,220	249,239	23,981,759
G. Robert Cotton Correctional Facility - Jackson	37,640,800		97,743	178,016	37,916,559
Charles E. Egeler Correctional Facility - Jackson	49,880,400	15,924,061	26,880	1,074,500	66,905,841
Richard A. Handlon Correctional Facility - Ionia	23,396,000	1,042,860	10,201	125,051	24,574,112
Gus Harrison Correctional Facility - Adrian	45,424,200	1,142,886	140,251	282,832	46,990,169
Huron Valley Correctional Complex - Ypsilanti	805,100	71,781,846	73,984	206,858	72,867,788
Ionia Maximum Correctional Facility - Ionia	28,027,000	400,000	7,949	35,789	28,470,738
Kinross Correctional Facility - Kincheloe	54,569,400	1,425,314	33,265	324,062	56,352,041
Lakeland Correctional Facility - Coldwater	61,446,600	(790,139)	217,662	377,573	61,251,696
Macomb Correctional Facility - New Haven	27,515,300	281,735	159,661	155,852	28,112,548
Marquette Branch Prison - Marquette	34,880,400	1,783,255	844,892	70,407	37,578,954
Michigan Reformatory - Ionia		558,525	387,715		946,240
Mound Correctional Facility - Detroit	24,941,700	1,522,500	239,443	103,922	26,807,565
Muskegon Correctional Facility - Muskegon	24,105,200	574,939	344,157	128,764	25,153,061
Newberry Correctional Facility - Newberry	29,122,700		4,606	147,935	29,275,241
Oaks Correctional Facility - Eastlake	32,507,400	(150,000)	703,698	94,000	33,155,098
Ojibway Correctional Facility - Marenisco	23,918,200		31,764	174,100	24,124,064
Parnall Correctional Facility - Jackson	23,634,100	(200,000)	374,294	137,082	23,945,476
Pine River Correctional Facility - St. Louis	20,006,500	(400,000)		94,163	19,700,663
Pugsley Correctional Facility - Kingsley	18,761,700	2,000,000	29,788	173,161	20,964,649
Riverside Correctional Facility - Ionia	47,092,200	10,020,431	468,348	246,601	57,827,580
Ryan Correctional Facility - Detroit	27,767,900	1,368,600		107,599	29,244,099
Saginaw Correctional Facility - Freeland	31,801,800	(250,000)		142,396	31,694,196
Robert Scott Correctional Facility - Plymouth	28,532,200	1,681,647	805,978	108,051	31,127,877
Southern Michigan Correctional Facility - Jackson	35,342,400		145,654	143,923	35,631,978
St. Louis Correctional Facility - St. Louis	52,615,900	(620,000)	508,984	243,197	52,748,082
Standish Maximum Correctional Facility - Standish	36,553,900	462,872	555,927	117,804	37,690,504
Thumb Correctional Facility - Lapeer	27,936,500	997,000	106,126	123,100	29,162,727
Western Wayne Correctional Facility - Plymouth			541,682		541,682
Jackson Area Support and Services	13,922,800	1,733,968	309,819		15,966,587
Special Alternative Incarceration Program - Cassidy Lake	10,640,600		22,176	112,275	10,775,051
Subtotal for Facility Operations	<u>\$ 1,140,038,100</u>	<u>\$ 114,606,800</u>	<u>\$ 8,050,470</u>	<u>\$ 6,583,897</u>	<u>\$ 1,269,279,267</u>
Intrafund Expenditure Reimbursements	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (83,934)</u>	<u>\$ (83,934)</u>
Total	<u>\$ 1,806,098,500</u>	<u>\$ 0</u>	<u>\$ 17,849,113</u>	<u>\$ 39,479,260</u>	<u>\$ 1,863,426,873</u>

Disposition of Authorizations

Expenditures and Transfers Out	Encumbrances	Restricted Revenues - Not Authorized or Used	Balances Lapsed	Total
\$ 56,503,162	\$	\$	\$ 98,328	\$ 56,601,490
36,570,714			308,771	36,879,486
155,759,960		3,448,573	871,727	160,080,260
44,213,188		396,491	1,509	44,611,188
33,450,357			306,538	33,756,896
74,149,996			2,171	74,152,167
117,610,432			58,206	117,668,638
54,188,202			21,415	54,209,617
16,271,800				16,271,800
<u>\$ 588,717,810</u>	<u>\$ 0</u>	<u>\$ 3,845,064</u>	<u>\$ 1,668,666</u>	<u>\$ 594,231,540</u>
\$ 31,266,964	\$	\$	\$ 209	\$ 31,267,173
37,415,328			40	37,415,368
43,521,878			4,737	43,526,615
44,624,705			13,294	44,637,999
45,958,793			3,226	45,962,020
44,985,469				44,985,469
23,914,057			67,702	23,981,759
37,833,681			82,878	37,916,559
66,892,372			13,470	66,905,841
24,565,077			9,035	24,574,112
46,879,633			110,536	46,990,169
72,824,114			43,674	72,867,788
28,463,165			7,573	28,470,738
56,327,755			24,286	56,352,041
61,127,285			124,411	61,251,696
28,014,565			97,983	28,112,548
37,556,939			22,015	37,578,954
609,891			336,349	946,240
26,807,408			157	26,807,565
24,864,326			288,735	25,153,061
29,271,283			3,958	29,275,241
32,636,158			518,940	33,155,098
24,103,396			20,668	24,124,064
23,808,108			137,368	23,945,476
19,700,584			79	19,700,663
20,935,923			28,726	20,964,649
57,819,761			7,819	57,827,580
29,244,099				29,244,099
31,694,145			50	31,694,196
30,388,934			738,943	31,127,877
35,578,567			53,411	35,631,978
52,663,395			84,687	52,748,082
37,544,648			145,856	37,690,504
29,099,871			62,856	29,162,727
350,427			191,255	541,682
15,824,068			142,520	15,966,587
10,758,045			17,006	10,775,051
<u>\$ 1,265,874,816</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,404,451</u>	<u>\$ 1,269,279,267</u>
<u>\$ (83,934)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (83,934)</u>
<u>\$ 1,854,508,693</u>	<u>\$ 0</u>	<u>\$ 3,845,064</u>	<u>\$ 5,073,117</u>	<u>\$ 1,863,426,873</u>

DEPARTMENT OF CORRECTIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2005 through September 30, 2007

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended for the Fiscal Year Ended September 30,		Total Expended for the Two-Year Period
			2006	2007	
<u>U.S. Department of Agriculture</u>					
Pass-Through Programs:					
Michigan Department of Education					
Child Nutrition Cluster:					
School Breakfast Program	10.553	330008008	\$ 139,885	\$ 211,205	\$ 351,090
National School Lunch Program	10.555	330008008	260,155	411,203	671,358
Total Child Nutrition Cluster			<u>\$ 400,040</u>	<u>\$ 622,408</u>	<u>\$ 1,022,448</u>
Total U.S. Department of Agriculture			<u>\$ 400,040</u>	<u>\$ 622,408</u>	<u>\$ 1,022,448</u>
<u>U.S. Department of Justice</u>					
Direct Programs:					
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		\$	\$ 15,066	\$ 15,066
State Criminal Alien Assistance Program	16.606		985,500	985,500	1,971,000
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735		185,473	171,186	356,659
Total Direct Programs			<u>\$ 1,170,973</u>	<u>\$ 1,171,752</u>	<u>\$ 2,342,725</u>
Pass-Through Programs:					
Michigan Department of Community Health					
Residential Substance Abuse Treatment for State Prisoners	16.593	90006-1-06-R	\$ 950,588	\$	\$ 950,588
Residential Substance Abuse Treatment for State Prisoners	16.593	90006-2-07-R		206,750	206,750
Total Residential Substance Abuse Treatment for State Prisoners			<u>\$ 950,588</u>	<u>\$ 206,750</u>	<u>\$ 1,157,338</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	72114-3-06-B	\$ 274,480	\$	\$ 274,480
Edward Byrne Memorial Justice Assistance Grant Program	16.738	72114-4-07-B		152,260	152,260
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>\$ 274,480</u>	<u>\$ 152,260</u>	<u>\$ 426,740</u>
Total Pass-Through Programs			<u>\$ 1,225,068</u>	<u>\$ 359,010</u>	<u>\$ 1,584,078</u>
Total U.S. Department of Justice			<u>\$ 2,396,041</u>	<u>\$ 1,530,762</u>	<u>\$ 3,926,803</u>
<u>U.S. Department of Education</u>					
Direct Program:					
Grants to States for Incarcerated Youth Offenders	84.331		\$ 738,927	\$ 904,369	\$ 1,643,296
Total Direct Programs			<u>\$ 738,927</u>	<u>\$ 904,369</u>	<u>\$ 1,643,296</u>
Pass-Through Programs:					
Michigan Department of Labor and Economic Growth					
Adult Education - State Grant Program	84.002	061120/6500025	\$ 35,000	\$	\$ 35,000
Adult Education - State Grant Program	84.002	061190/610116	390,553		390,553
Adult Education - State Grant Program	84.002	051190/510115	104,447		104,447
Adult Education - State Grant Program	84.002	061120/7500027		76,156	76,156
Adult Education - State Grant Program	84.002	071120/7500027		14,373	14,373
Adult Education - State Grant Program	84.002	061190/710117		17,043	17,043
Adult Education - State Grant Program	84.002	071190/710117		218,370	218,370
Total Adult Education - State Grant Program			<u>\$ 530,000</u>	<u>\$ 325,942</u>	<u>\$ 855,942</u>
Vocational Education - Basic Grants to States	84.048	063320/60102	\$ 171,500	\$	\$ 171,500
Vocational Education - Basic Grants to States	84.048	DLEG-07-IA-04		163,892	163,892
Total Vocational Education - Basic Grants to States			<u>\$ 171,500</u>	<u>\$ 163,892</u>	<u>\$ 335,392</u>
Total Pass-Through Programs - Michigan Department of Labor and Economic Growth			<u>\$ 701,500</u>	<u>\$ 489,834</u>	<u>\$ 1,191,334</u>

This schedule continued on next page.

DEPARTMENT OF CORRECTIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2005 through September 30, 2007

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended for the Fiscal Year Ended September 30,		Total Expended for the Two-Year Period
			2006	2007	
Michigan Department of Education					
Title I Program for Neglected and Delinquent Children	84.013	051660/0506	\$ 168,613	\$	\$ 168,613
Title I Program for Neglected and Delinquent Children	84.013	061660/0506	3,139		3,139
Title I Program for Neglected and Delinquent Children	84.013	061660/0607		321,295	321,295
Total Title I Program for Neglected and Delinquent Children			<u>\$ 171,752</u>	<u>\$ 321,295</u>	<u>\$ 493,047</u>
Special Education - Grants to States	84.027	060450/0506	\$ 57,047	\$	\$ 57,047
Special Education - Grants to States	84.027	060480/EOSD	16,021		16,021
Special Education - Grants to States	84.027	060490/TS	27,173		27,173
Special Education - Grants to States	84.027	070450/0607		57,047	57,047
Special Education - Grants to States	84.027	070480/EOSD		29,999	29,999
Special Education - Grants to States	84.027	070490/TS		30,000	30,000
Total Special Education - Grants to States			<u>\$ 100,241</u>	<u>\$ 117,046</u>	<u>\$ 217,287</u>
State Grants for Innovative Programs	84.298	050250/0405	\$ 189	\$	\$ 189
State Grants for Innovative Programs	84.298	060250/0607		201	201
State Grants for Innovative Programs	84.298	070250/0607		72	72
Total State Grants for Innovative Programs			<u>\$ 189</u>	<u>\$ 273</u>	<u>\$ 462</u>
Improving Teacher Quality State Grants	84.367	060520/0506	\$ 1,064	\$	\$ 1,064
Improving Teacher Quality State Grants	84.367	060520/0607		2,544	2,544
Improving Teacher Quality State Grants	84.367	070520/0607		1,838	1,838
Total Improving Teacher Quality State Grants			<u>\$ 1,064</u>	<u>\$ 4,382</u>	<u>\$ 5,446</u>
Total Pass-Through Programs - Michigan Department of Education			<u>\$ 273,246</u>	<u>\$ 442,996</u>	<u>\$ 716,242</u>
Total U.S. Department of Education			<u>\$ 1,713,673</u>	<u>\$ 1,837,199</u>	<u>\$ 3,550,872</u>
Total Expenditures of Federal Awards			<u>\$ 4,509,754</u>	<u>\$ 3,990,369</u>	<u>\$ 8,500,123</u>

(1) Basis of Presentation: This schedule presents the federal grant activity of the Department of Corrections (DOC) on the modified accrual basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules. 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. For example, DOC received an additional \$1,280,254 in excess of the amount expended for the State Criminal Alien Assistance Program. This amount was carried forward for use in subsequent fiscal years. Also, beginning in fiscal year 2006-07, DOC obtained funding for the Vocational Education - Basic Grants to States Program from expenditure credits. As a result, no federal revenue is recorded for the \$163,892 expended for the program. DOC also received federal revenue of \$350,197 and \$358,044 for fiscal years 2006-07 and 2005-06, respectively, from housing federal prisoners and for providing services to the U.S. Department of Health and Human Services. These amounts are not federal assistance so they are not included on this schedule.

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

INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



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

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

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

Dear Ms. Caruso:

We have audited the financial schedules of the Department of Corrections for the fiscal years ended September 30, 2007 and September 30, 2006, as identified in the table of contents, and have issued our report thereon dated May 30, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than

a remote likelihood that a misstatement of the entity's financial schedules that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Findings 1 and 2 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the third paragraph of this section is 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 other noncompliance, as described in the accompanying schedule of findings and questioned costs as Finding 2.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Department, 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

May 30, 2008



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

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

Dear Ms. Caruso:

Compliance

We have audited the compliance of the Department of Corrections with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2007. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department of Corrections complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its major federal programs for the two-year period ended September 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 3.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiencies described in the preceding paragraph to be material weaknesses.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Department, 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

May 30, 2008

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553 and 10.555	Child Nutrition Cluster
16.606	State Criminal Alien Assistance Program
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program
16.738	Edward Byrne Memorial Justice Assistance Grant Program

* See glossary at end of report for definition.

84.013 Title I Program for Neglected and Delinquent Children

84.048 Vocational Education - Basic Grants to States

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

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (4710801)

1. Contingent Liabilities

The Department of Corrections (DOC) recorded liabilities and expenditures for a court verdict that was not due and payable. As a result, DOC overstated liabilities and expenditures by \$3.25 million in fiscal year 2006-07.

Chapter 14, Section 600 of the State of Michigan Financial Management Guide provides that liabilities for litigation and other claims and judgments should be recorded as a fund liability to the extent that they are due and payable. The policy further indicates that the portion of liabilities not yet due for payment should be reported as a general long-term liability rather than a fund liability.

Our review of contingencies and expenditure transactions disclosed that DOC recorded liabilities and expenditures totaling \$3.25 million in fiscal year 2006-07 related to a verdict in a court case. However, the judge had not issued the final judgment; therefore, the expenditures were not yet due and payable and should not have been recorded.

RECOMMENDATION

We recommend that DOC discontinue recording liabilities and expenditures for court verdicts that are not due and payable.

* See glossary at end of report for definition.

FINDING (4710802)

2. Federal Program Cost Recovery

DOC's internal control did not ensure that it always charged its allowable indirect and direct costs against its federal grant programs. In addition, DOC's internal control did not ensure that it documented the portion of employees' time spent working on a federal grant. As a result, DOC used up to \$134,555 of State General Fund dollars rather than federal dollars to fund these costs.

Section 18.1460 of the *Michigan Compiled Laws* requires that departments charge indirect costs to federal programs and use the revenue to offset State expenditures for support services related to the indirect costs. The purpose of this requirement is to reimburse the State for miscellaneous indirect costs incurred in support of various federal programs. Also, Title 2, Part 225 of the *Code of Federal Regulations* (OMB Circular A-87*), establishes principles and standards for determining allowable costs that can be charged against federal awards, including documentation of employees' time spent working on federal grants, and allows State agencies to recover both indirect and direct costs.

DOC charged \$12,759 of indirect costs to one federal program in fiscal year 2006-07 and did not charge indirect costs to any federal programs in fiscal year 2005-06. DOC informed us that indirect costs were charged only to federal programs that had federal funds remaining at the end the fiscal year. By the time DOC determined that there were unused federal funds, it was frequently too late to bill for the indirect costs. DOC does not include indirect costs in the federal grant budget. As a result, DOC must ask for approval to charge the indirect costs once it is determined that it has unused federal funds. Consequently, DOC should include indirect costs in the federal program budgets and allocate the indirect costs to the various federal programs throughout the fiscal year. We estimate that DOC could have recovered approximately \$68,898 of additional indirect costs from its various federal grants during fiscal years 2005-06 and 2006-07.

Also, DOC had not charged direct costs for salaries of employees who worked with the federal Edward Byrne Memorial Justice Assistance Grant Program (CFDA 16.738). DOC had not maintained supporting timekeeping records for these employees and, therefore, could not charge up to \$65,657 of direct costs related to employees' time spent working on the federal program.

* See glossary at end of report for definition.

RECOMMENDATIONS

We recommend that DOC improve its internal control to ensure that it always charges its allowable indirect and direct costs against its federal grant programs.

We also recommend that DOC improve its internal control to ensure that it documents the portion of employees' time spent working on a federal grant.

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 (4710803)

3. Child Nutrition Cluster, CFDA 10.553 and 10.555

U.S. Department of Agriculture	Child Nutrition Cluster: CFDA 10.553: School Breakfast Program CFDA 10.555: National School Lunch Program
Award Number: 330008008 330008008 330008008	Award Period: 07/01/2005 - 06/30/2006 07/01/2006 - 06/30/2007 07/01/2007 - 06/30/2008
Pass-Through Agency: Michigan Department of Education	Questioned Costs: \$490

DOC's internal control did not ensure that the Child Nutrition Cluster complied with federal laws and regulations regarding eligibility*.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Child Nutrition Cluster awards.

DOC's internal control did not ensure that meal reimbursement claims for the Child Nutrition Cluster were limited to the number of meals served to eligible prisoners. We identified known questioned costs of \$490.

* See glossary at end of report for definition.

Title 7, Part 210, section 2 of the *Code of Federal Regulations* limits eligibility to prisoners under the age of 21 and enrolled in school. In addition, the Residential Child Care Institution Guidance Manual states that prisoners enrolled in the program are to be housed in a distinct part of the institution designed primarily for the care of prisoners enrolled in the program.

DOC informed us that the correctional facilities participating in the program were responsible for identifying eligible prisoners and totaling the number of breakfasts and lunches served to them each month. Each facility submitted a monthly claim for reimbursement for the number of meals served. In fiscal years 2005-06 and 2006-07, DOC received reimbursements for a total of 202,900 breakfast meals and 307,943 lunch meals.

We tested a sample of reimbursement claims and supporting documentation for 11,622 breakfast and lunch meals for which DOC received reimbursement:

- a. We identified 75 meals that were reimbursed that were served to prisoners who were not eligible because they were not enrolled in school, they were not 21 years of age or older, or they were not housed in a distinct part of the institution designed primarily for the care of prisoners enrolled in the program. These meals resulted in questioned costs in the amount of \$146.

DOC developed a report to provide the correctional facilities with a current listing of prisoners who are eligible for the program. However, the report was not used until March 2006. We noted that the primary cause of ineligible prisoners was facilities not using current eligibility or check sheet reports, resulting in the use of outdated eligibility information.

- b. We identified 183 meals that were claimed for reimbursement that were not supported by the daily count sheets. Our review of the daily count sheets and monthly reimbursement claim forms identified mathematical errors in the totaling of the number of meals served. These meals resulted in questioned costs in the amount of \$344.

RECOMMENDATION

We recommend that DOC improve its internal control to ensure that the Child Nutrition Cluster complies with federal laws and regulations regarding eligibility.

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

OTHER SCHEDULES

DEPARTMENT OF CORRECTIONS
Summary Schedule of Prior Audit Findings
As of May 30, 2008

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2003 through September 30, 2005

Finding Number: 470601

Finding Title: Federal Program Cost Recovery

Finding: The Department of Corrections (DOC) did not charge its federal grants for up to \$535,700 of allowable direct and indirect costs related to federal programs. In addition, DOC did not document the portion of employees' time that was spent working on certain federal grants.

Comments: DOC took steps to ensure that grants were fully utilized using allowable direct and indirect charges. DOC will take further steps to charge allowable direct and indirect charges to federal programs to ensure that grants are fully utilized.

DOC also took steps to document the portion of employees' time that was spent working on certain federal grants. DOC will take further steps to ensure that employees' time spent working on other federal grants is documented.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2003 through September 30, 2005
Finding Number: 470602
Finding Title: Child Nutrition Cluster, *CFDA* 10.553 and 10.555

Finding: DOC did not ensure that meal reimbursement claims for the School Breakfast Program and the National School Lunch Program were limited to the number of meals served to eligible prisoners.

Comments: DOC took steps to comply by providing a computerized listing of eligible prisoners to individuals who check off prisoners as they exit breakfast or lunch lines. DOC will take further steps to ensure that claims are limited to the number of meals served to eligible prisoners.

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2003 through September 30, 2005
Finding Number: 470603
Finding Title: State Criminal Alien Assistance Program (SCAAP), *CFDA* 16.606

Finding: DOC did not include fringe benefits and overtime as part of the correctional officers' salaries in the application for SCAAP. Also, DOC did not maintain documentation to support the amount of correctional officers' salaries reported on the SCAAP application.

Comments: DOC complied by contacting the U.S. Department of Justice to obtain clarification for the next grant year and was informed that fringe benefits could not be included in the next grant application. DOC also complied by ensuring that overtime of correctional officers was included in the next SCAAP application. In addition, DOC has maintained documentation to support the expenditure calculations reported on SCAAP applications.

DEPARTMENT OF CORRECTIONS

Corrective Action Plan

As of June 4, 2008

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 4710801

Finding Title: Contingent Liabilities

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

Corrective Action: DOC will not enter accounts payable for court judgments until a final judgment has been made and all parties involved reach an agreement and the dollar amount of the claim is final.

Anticipated Completion Date: June 4, 2008

Responsible Individual: Michael Draschil

Finding Number: 4710802

Finding Title: Federal Program Cost Recovery

Management Views: DOC agrees.

Corrective Action: DOC will work with program staff to ensure amounts for indirect costs are included in grant budgets.

Anticipated Completion Date: September 30, 2008

Responsible Individual: Michael Draschil, Julie DeRose, Chris Trudell

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 4710803
Finding Title: Child Nutrition Cluster, *CFDA* 10.553 and 10.555

Management Views: DOC agrees with the identified findings but notes the percentage of error is 2%. In 2006, the DOC Food Service Director developed a computer-generated daily report identifying eligible National School Lunch participants to assist participating facilities in verifying eligibility. Many of the eligibility errors occurred prior to the implementation of this report.

Corrective Action: DOC complied by reminding all National School Lunch participating facilities to use current daily eligibility or check sheet reports to verify eligibility. In addition, all participating facilities have been instructed to use the eligibility report daily to ensure the housing status of National School Lunch participants meets federal guidelines.

DOC also established procedures requiring participating facilities line food supervisors and food service directors or designees to review breakfast and lunch counts. This review will help to eliminate mathematical errors in the totaling of the number of meals served.

Anticipated Completion Date: March 2008

Responsible Individual: Gatha McClellan

GLOSSARY

Glossary of Acronyms and Terms

CFDA

Catalog of Federal Domestic Assistance.

control deficiency in internal control over federal program compliance

The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a type of compliance requirement of a federal program.

control deficiency in internal control over financial reporting

The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

DOC

Department of Corrections.

eligibility

Qualified in accordance with program requirements.

financial audit

An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.

internal control

A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to 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, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or statement amounts.
material weakness in internal control over federal program compliance	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.
material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MDOC	Michigan Department of Corrections.
OMB	U.S. Office of Management and Budget.
OMB Circular A-87	Guidance regarding "Cost Principles for State, Local, and Indian Tribal Governments," which has been incorporated into the <i>Code of Federal Regulations</i> as Title 2, Part 225 (i.e., federal regulation 2 <i>CFR</i> 225).
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.

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.

SCAAP State Criminal Alien Assistance Program.

significant deficiency in internal control over federal program compliance A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.

significant deficiency in internal control over financial reporting A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.

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.

unqualified opinion

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

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

