



# 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:

*<http://audgen.michigan.gov>*



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Financial Audit*  
*Including the Provisions of the Single Audit Act*

Report Number:  
 471-0100-10

*Department of Corrections*

*October 1, 2007 through September 30, 2009*

Released:  
 June 2010

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

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

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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**Federal Awards:**

**Auditor's Reports Issued on Compliance**

We audited 2 programs (including 1 ARRA related program) as major programs and reported known questioned costs of \$53,131. DOC expended a total of \$199.3 million in federal awards during the two-year period ended September 30, 2009. We issued 2 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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**Internal Control Over Major Programs**

We identified a significant deficiency in internal control over federal program compliance (Finding 1). We do not consider this significant deficiency to be a material weakness.

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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 1).

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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
84.397	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	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

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

June 15, 2010

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, 2007 through September 30, 2009.

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 finding and recommendation are contained in 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

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, 2009 and September 30, 2008, 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, 2009 and September 30, 2008 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2010 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

June 3, 2010

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

	2009	2008
REVENUES		
From federal agencies (Note 3)	\$ 194,330,904	\$ 4,905,688
From local agencies	398,473	429,700
From services:		
Resident stores	4,602,035	4,654,496
Public Works Program reimbursements	1,045,966	1,256,840
Other	190,376	165,094
Miscellaneous		
Telephone fees and commissions (Note 4)		8,011,854
Oversight fees	7,302,185	8,853,269
Civil infraction fees	6,262,826	6,780,627
Tether Program contributions	1,542,002	1,703,075
Other	5,399,954	1,683,159
Total revenues	\$ 221,074,721	\$ 38,443,802

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

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

	<u>2009</u>	<u>2008</u>
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 1,778,041,400	\$ 1,996,084,500
Budgetary transfers in (out)		
Balances carried forward	9,504,510	6,968,958
Restricted financing sources	218,887,376	37,870,451
Less: Intrafund expenditure reimbursements	<u>(249,159)</u>	<u>(209,893)</u>
 Total	 <u><u>\$ 2,006,184,127</u></u>	 <u><u>\$ 2,040,714,016</u></u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Gross expenditures and transfers out	\$ 1,998,553,561	\$ 2,020,088,041
Less: Intrafund expenditure reimbursements	<u>(249,159)</u>	<u>(209,893)</u>
Net expenditures and transfers out	<u>\$ 1,998,304,402</u>	<u>\$ 2,019,878,148</u>
Balances carried forward:		
Encumbrances	\$ 3,635,059	\$ 5,493,991
Restricted revenues - authorized	855,656	1,176,588
Restricted revenues - not authorized or used	<u>2,929,949</u>	<u>2,833,931</u>
Total balances carried forward	<u>\$ 7,420,664</u>	<u>\$ 9,504,510</u>
Balances lapsed	<u>\$ 459,061</u>	<u>\$ 11,331,357</u>
 Total	 <u><u>\$ 2,006,184,127</u></u>	 <u><u>\$ 2,040,714,016</u></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, 2009 and September 30, 2008. 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 did not receive any federal assistance.

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

#### b. Measurement Focus, Basis of Accounting, and Presentation

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

The accompanying financial schedules present only the revenues and the sources and disposition of authorizations for 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.

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 Technology, 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, restricted transfers, and restricted intrafund expenditure reimbursements used 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. The total reimbursements in fiscal year 2007-08 were \$209,893. Expenditures of \$47,913 were recorded in the Michigan Justice Training Fund (a subfund of the General Fund) for training DOC employees and \$161,980 in the Michigan Department of Education to purchase supplies and materials for inmates in the vocational education program. In fiscal year 2008-09, the expenditure reimbursements totaled \$249,159. The individual reimbursements were \$85,670 from the Michigan Justice Training Fund and \$163,489 from the Michigan Department of Education.
- f. Encumbrances: Authorizations carried forward to finance payments for goods and 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 - authorized: Revenues that, by statute or the Michigan Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization. Restricted revenues - authorized for DOC totaled \$855,656 and \$1,176,588 for fiscal years 2008-09 and 2007-08, respectively, from the State Criminal Alien Assistance Program (SCAAP). The SCAAP funds are used for equipment purchases at the correctional facilities.
- h. 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. However, DOC had not received legislative authorization to expend the revenues. Restricted revenues - not authorized or used for DOC totaled \$2,929,949 and \$2,833,931 for fiscal years 2008-09 and 2007-08, respectively, from parole and probationary supervision fees and civil infraction fees. Section 791.225a of the *Michigan Compiled Laws* restricts 20% of parole 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 restricted revenue - not authorized or used represents the unexpended balance of this money.

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

Note 3 Federal Revenue

DOC received authorization in fiscal year 2008-09 from Act 140, P.A. 2009, to receive federal funds in the amount of \$189,600,000 from the American Recovery and Reinvestment Act of 2009 (ARRA). Funds were used for salary and wage expenditures within qualifying appropriations for the period February 17, 2009 through September 30, 2009.

Note 4 Telephone Fees and Commissions

The elimination of telephone fees and commissions revenue in fiscal year 2008-09 is due to a change in contract effective August 1, 2008, which eliminated collect call fees and surcharges to prisoners.

Note 5 Commitments From Litigation

DOC is a party to various legal proceedings seeking damages and other relief, including injunctive or mandatory relief. DOC accrues fund liabilities at year-end related to settled cases from litigation when the amount becomes due and payable. In structured settlement cases, only the portion that has matured (i.e., is due and payable) but unpaid at September 30 will be recorded as an expenditure and liability by DOC. However, the unmatured portion will be reflected in the *SOMCAFR's* government-wide financial statements.

In August 2009, the Circuit Court for the County of Washtenaw ordered final approval of a structured settlement in the case of *Tracy Neal, et al. v McGinnis, et al.* This lawsuit involved female prisoners alleging sexual harassment, assault, retaliation, and overfamiliarity by male officers. The case was settled

for the sum of \$100,000,000. This sum shall be paid out in the following amounts:

October 15, 2009	\$10,000,000
October 15, 2010	\$10,000,000
October 15, 2011	\$15,000,000
October 15, 2012	\$20,000,000
October 15, 2013	\$20,000,000
October 15, 2014	\$25,000,000

SUPPLEMENTAL  
FINANCIAL SCHEDULES

**DEPARTMENT OF CORRECTIONS**  
**Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit**  
**Fiscal Year Ended September 30, 2009**

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
<b>Central Administration</b>					
Executive	\$ 2,641,700	\$ 240,000	\$ 332,903	\$	\$ 3,214,603
Planning and Community Support	105,199,300	(3,205,000)	7,873	7,013,753	109,015,926
Operations Support Administration	51,173,700	(4,216,000)	375,452	193,970	47,527,122
Field Operations Administration	101,135,100	1,066,000	2,866,518	82,161,486	187,229,104
Consent Decrees	40,412,700	(19,350,980)	396,650	16,800,000	38,258,370
Health Care	88,687,200	19,000,000	1,425		107,688,625
Clinical Operations	125,605,300	(19,000,000)	350,446	55,125,437	162,081,182
Correctional Facilities - Administration	48,194,700	(2,200,000)	119,551	7,311,908	53,426,158
Correctional Facilities - Prison Food Service	59,962,700	650,000	6,765	22,423,800	83,043,265
Correctional Facilities - Transportation	11,045,400	3,400,000	1,250	13,300,000	27,746,650
Information Technology	18,173,500			635,300	18,808,800
Subtotal for Central Administration	<u>\$ 652,231,300</u>	<u>\$(23,615,980)</u>	<u>\$ 4,458,832</u>	<u>\$ 204,965,654</u>	<u>\$ 838,039,806</u>
<b>Facility Operations</b>					
Alger Maximum Correctional Facility - Munising	\$ 30,918,300	\$ (550,000)	\$ 9,320	\$ 20,885	\$ 30,398,505
Baraga Maximum Correctional Facility - Baraga	35,726,600	(480,000)	22,872	66,881	35,336,353
Bellamy Creek Correctional Facility - Ionia	36,099,000	2,250,000	88	431	38,349,518
Earnest C. Brooks Correctional Facility - Muskegon	45,190,500	425,000	7,407	8,659	45,631,566
Carson City Correctional Facility Complex - Carson City	46,533,200	(210,000)	15,892	35,211	46,374,303
Chippewa Correctional Facility - Kincheloe	48,961,200	(960,000)	1,987	1,844	48,005,031
Cooper Street Correctional Facility - Jackson	27,481,500	(280,000)	135,205	170,035	27,506,740
G. Robert Cotton Correctional Facility - Jackson	38,148,000		5,533	19,543	38,173,076
Charles E. Egeler Correctional Facility - Jackson	37,570,800	2,398,700	1,803,695	668,168	42,441,364
Richard A. Handlon Correction Facility - Ionia	22,809,400	3,505,440		1,175	26,316,015
Gus Harrison Correctional Facility - Adrian	46,331,400	815,600	5,405	82,415	47,234,819
Huron Valley Correctional Complex - Ypsilanti	67,201,200	3,113,390	634,546	10,986	70,960,122
Ionia Maximum Correctional Facility - Ionia	29,065,400	(280,000)		1,288	28,786,688
Kinross Correctional Facility - Kincheloe	53,496,400	(2,535,000)	622,065	132,848	51,716,314
Lakeland Correctional Facility - Coldwater	50,651,900	1,884,140	97,425	85,176	52,718,641
Macomb Correctional Facility - New Haven	26,772,400	786,130	38,720	2,440	27,599,689
Marquette Branch Prison - Marquette	36,943,100	(686,300)	15,848	1,374	36,274,022
Michigan Reformatory - Ionia	28,217,900	10,235,000	287,725	31,246	38,771,871
Mound Correctional Facility - Detroit	25,805,800	3,380,000	4,459	2,180	29,192,439
Muskegon Correctional Facility - Muskegon	22,961,400	1,190,300	13,076	2,257	24,167,033
Newberry Correctional Facility - Newberry	25,888,800	(190,000)	89,975	545	25,789,320
Oaks Correctional Facility - Eastlake	33,304,600	(3,000,000)	27,871		30,332,471
Ojibway Correctional Facility - Marenisco	23,467,800	(1,320,000)	254	29,921	22,177,975
Parnall Correctional Facility - Jackson	25,894,500	500,000	522	3,799	26,398,821
Pine River Correctional Facility - St. Louis	20,067,200	100,000	3,620	3,083	20,173,903
Pugsley Correctional Facility - Kingsley	19,743,600	500,000	32,008	65,352	20,340,960
Riverside Correctional Facility - Ionia			199,806		199,806
Ryan Correctional Facility - Detroit	28,608,900	2,410,000		2,339	31,021,239
Saginaw Correctional Facility - Freeland	30,859,500	(485,000)		2,793	30,377,293
Robert Scott Correctional Facility - Plymouth	18,418,300	58,000	199,280	28,611	18,704,191
Southern Michigan Correctional Facility - Jackson			10,578		10,578
St. Louis Correctional Facility - St. Louis	50,785,000	(186,700)	4,874	8,351	50,611,525
Standish Maximum Correctional Facility - Standish	23,880,200	(925,000)	2,796	12,270,397	35,228,393
Thumb Correctional Facility - Lapeer	28,855,300	482,280	5,476	1,595	29,344,651
Ionia Area Support and Services	11,332,700	200,000			11,532,700
Jackson Area Support and Services	17,299,200	750,000	743,403		18,792,603
Northern Region Administration and Support	100				100
Special Alternative Incarceration Program - Cassidy Lake	10,519,000	720,000	3,948	159,893	11,402,841
Subtotal for Facility Operations	<u>\$ 1,125,810,100</u>	<u>\$ 23,615,980</u>	<u>\$ 5,045,678</u>	<u>\$ 13,921,722</u>	<u>\$ 1,168,393,480</u>
Intrafund Expenditure Reimbursements	\$ 0	\$ 0	\$ 0	\$ (249,159)	\$ (249,159)
<b>Total</b>	<u>\$ 1,778,041,400</u>	<u>\$ 0</u>	<u>\$ 9,504,510</u>	<u>\$ 218,638,217</u>	<u>\$ 2,006,184,127</u>

Disposition of Authorizations

Expenditures and Transfers Out	Encumbrances	Restricted Revenues Authorized	Restricted Revenues Not Auth/Used	Balances Lapsed	Total
\$ 3,212,308	\$ 146	\$	\$	\$ 2,148	\$ 3,214,603
108,773,407	13			242,505	109,015,926
45,849,363	1,626,990			50,769	47,527,122
184,287,076	10,222		2,929,949	1,857	187,229,104
38,253,639	4,485			246	38,258,370
107,686,925	300			1,400	107,688,625
161,926,030	121,659			33,493	162,081,182
53,388,290	3,726			34,143	53,426,158
83,037,078	1			6,187	83,043,265
27,746,135	246			270	27,746,650
18,808,800					18,808,800
<u>\$ 832,969,050</u>	<u>\$ 1,767,788</u>	<u>\$ 0</u>	<u>\$ 2,929,949</u>	<u>\$ 373,019</u>	<u>\$ 838,039,806</u>
\$ 30,398,299	\$	\$	\$	\$ 206	\$ 30,398,505
35,332,926				3,427	35,336,353
38,349,248				270	38,349,518
45,625,974	427			5,165	45,631,566
46,374,294	9			0	46,374,303
48,004,437				594	48,005,031
27,416,761	88,250			1,729	27,506,740
38,166,198	5,759			1,118	38,173,076
41,108,517	473,388	855,656		3,802	42,441,364
26,315,663	45			307	26,316,015
47,174,379	60,269			171	47,234,819
70,697,261	255,648			7,213	70,960,122
28,786,244	444			0	28,786,688
51,569,501	146,812			0	51,716,314
52,714,985	34			3,621	52,718,641
27,599,351	20			318	27,599,689
36,272,616				1,406	36,274,022
38,770,311				1,560	38,771,871
29,191,447				992	29,192,439
24,147,771	9,621			9,642	24,167,033
25,769,790	19,301			230	25,789,321
30,327,484				4,986	30,332,471
22,177,383				592	22,177,975
26,393,440	4,864			517	26,398,821
20,170,311				3,592	20,173,903
20,332,884	8,061			15	20,340,960
162,561	24,456			12,789	199,806
31,020,866	372			0	31,021,239
30,377,292				1	30,377,293
18,571,461	132,668			62	18,704,191
3,566				7,012	10,578
50,608,797				2,728	50,611,525
35,225,597				2,796	35,228,393
29,343,310				1,341	29,344,651
11,532,152				548	11,532,700
18,153,110	636,199			3,294	18,792,603
				100	100
11,398,322	623			3,897	11,402,841
<u>\$ 1,165,584,511</u>	<u>\$ 1,867,271</u>	<u>\$ 855,656</u>	<u>\$ 0</u>	<u>\$ 86,042</u>	<u>\$ 1,168,393,480</u>
<u>\$ (249,159)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (249,159)</u>
<u>\$ 1,998,304,402</u>	<u>\$ 3,635,059</u>	<u>\$ 855,656</u>	<u>\$ 2,929,949</u>	<u>\$ 459,061</u>	<u>\$ 2,006,184,127</u>

**DEPARTMENT OF CORRECTIONS**  
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit  
Fiscal Year Ended September 30, 2008

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
<b>Central Administration</b>					
Executive	\$ 3,563,500	\$ (150,000)	\$ 865	\$	\$ 3,414,365
Planning and Community Support	85,020,100	(3,400,000)	269,236	14,454,350	96,343,686
Operations Support Administration	63,981,800	1,690,000	128,536	155,713	65,956,049
Field Operations Administration	158,304,200	1,800,000	2,768,599	12,072,189	174,944,988
Consent Decrees	78,169,800	(41,677,800)			36,492,000
Health Care	87,131,000	7,510,000	3,630		94,644,630
Clinical Operations	146,703,900	(6,550,000)	261,674	786,267	141,201,841
Correctional Facilities - Administration	94,455,500	(45,119,300)	12,692	2,906,177	52,255,069
Correctional Facilities - Prison Food Service	83,456,300	2,400,000		568,700	86,425,000
Correctional Facilities - Transportation	25,441,700	1,300,000			26,741,700
Information Technology	16,935,200			141,600	17,076,800
Subtotal for Central Administration	\$ 843,163,000	\$ (82,197,100)	\$ 3,445,231	\$ 31,084,996	\$ 795,496,127
<b>Facility Operations</b>					
Alger Maximum Correctional Facility - Munising	\$ 31,625,100	\$ (40,000)	\$	\$ 88,171	\$ 31,673,271
Baraga Maximum Correctional Facility - Baraga	36,882,200	(170,000)	3,924	111,816	36,827,941
Bellamy Creek Correctional Facility - Ionia	41,592,500	100,000		187,900	41,880,400
Earnest C. Brooks Correctional Facility - Muskegon	46,775,700	(820,000)	17,284	247,408	46,220,392
Carson City Correctional Facility Complex - Carson City	48,129,200	(840,000)	986	251,397	47,541,583
Chippewa Correctional Facility - Kincheloe	50,571,100	(560,000)	86	224,028	50,235,214
Cooper Street Correctional Facility - Jackson	28,089,100	(150,000)	1,341	356,288	28,296,729
G. Robert Cotton Correctional Facility - Jackson	38,979,100	70,000	10,359	213,040	39,272,500
Charles E. Egeler Correctional Facility - Jackson	36,881,900	18,172,600	1,996,973	913,113	57,964,586
Richard A. Handlon Correctional Facility - Ionia	23,348,300	14,851,500		136,231	38,336,031
Gus Harrison Correctional Facility - Adrian	46,838,700	963,800	1,171	353,051	48,156,722
Huron Valley Correctional Complex - Ypsilanti	64,481,800	1,499,400	823,211	134,160	66,938,570
Ionia Maximum Correctional Facility - Ionia	30,348,900	(50,000)		38,686	30,337,586
Kinross Correctional Facility - Kincheloe	55,194,200	(777,800)	1,300	383,239	54,800,939
Lakeland Correctional Facility - Coldwater	58,546,700	861,700	24,355	407,915	59,840,670
Macomb Correctional Facility - New Haven	27,524,400	(97,000)	14,974	140,294	27,582,668
Marquette Branch Prison - Marquette	37,468,900	151,700		72,497	37,693,097
Michigan Reformatory - Ionia		40,476,300		239,675	40,715,975
Mound Correctional Facility - Detroit	26,567,700	2,400,000	343	111,651	29,079,693
Muskegon Correctional Facility - Muskegon	23,809,400	885,200		137,975	24,832,575
Newberry Correctional Facility - Newberry	26,389,600	(40,000)	87,993	102,606	26,540,199
Oaks Correctional Facility - Eastlake	33,961,000	(1,670,000)	28,617	101,000	32,420,617
Ojibway Correctional Facility - Marenisco	24,202,700	(450,000)	4,081	169,632	23,926,413
Parnall Correctional Facility - Jackson	26,695,100	550,000	8,450	147,647	27,401,197
Pine River Correctional Facility - St. Louis	20,762,500	(740,000)		116,828	20,139,328
Pugsley Correctional Facility - Kingsley	20,387,700	100,000	56,000	159,864	20,703,564
Riverside Correctional Facility - Ionia		4,500,000	123,500		4,623,500
Ryan Correctional Facility - Detroit	29,117,100	2,880,000	14,454	112,665	32,124,219
Saginaw Correctional Facility - Freeland	31,532,300	(860,000)		158,570	30,830,870
Robert Scott Correctional Facility - Plymouth	33,024,300	(69,700)	242,968	164,682	33,362,249
Southern Michigan Correctional Facility - Jackson	3,590,000		13,981	7,500	3,611,481
St. Louis Correctional Facility - St. Louis	52,278,700	(960,000)	2,430	249,099	51,570,228
Standish Maximum Correctional Facility - Standish	37,371,100	(260,000)	368	156,723	37,268,191
Thumb Correctional Facility - Lapeer	29,733,600	(108,800)	17,906	130,204	29,772,910
Ionia Area Support and Services	3,339,800				3,339,800
Jackson Area Support and Services	16,184,600	1,698,200	24,045		17,906,845
Special Alternative Incarceration Program - Cassidy Lake	10,696,500	700,000	2,627	259,900	11,659,027
Subtotal for Facility Operations	\$ 1,152,921,500	\$ 82,197,100	\$ 3,523,727	\$ 6,785,455	\$ 1,245,427,782
Intrafund Expenditure Reimbursements	\$ 0	\$ 0	\$ 0	\$ (209,893)	\$ (209,893)
<b>Total</b>	<b>\$ 1,996,084,500</b>	<b>\$ 0</b>	<b>\$ 6,968,958</b>	<b>\$ 37,660,558</b>	<b>\$ 2,040,714,016</b>

## Disposition of Authorizations

Expenditures and Transfers Out	Encumbrances	Disposition of Authorizations		Balances Lapsed	Total
		Restricted Revenues Authorized	Restricted Revenues Not Auth/Used		
\$ 3,021,113	\$ 332,903	\$	\$	\$ 60,349	\$ 3,414,365
92,172,985	6,093		1,780	4,162,828	96,343,686
64,896,811	375,452			683,785	65,956,049
172,033,439	34,367		2,832,151	45,031	174,944,988
36,075,653	396,650			19,697	36,492,000
94,636,484	1,425			6,721	94,644,630
140,605,998	350,446			245,397	141,201,841
51,676,494	119,551			459,025	52,255,069
86,416,753	6,765			1,482	86,425,000
26,412,795	1,250			327,654	26,741,700
17,024,295				52,505	17,076,800
<u>\$ 784,972,820</u>	<u>\$ 1,624,901</u>	<u>\$ 0</u>	<u>\$ 2,833,931</u>	<u>\$ 6,064,475</u>	<u>\$ 795,496,127</u>
\$ 31,447,965	\$ 9,320	\$	\$	\$ 215,986	\$ 31,673,271
36,423,228	22,872			381,841	36,827,941
41,878,781	88			1,531	41,880,400
46,062,943	7,407			150,042	46,220,392
47,028,043	15,892			497,648	47,541,583
49,777,815	1,987			455,413	50,235,214
28,148,732	135,205			12,792	28,296,729
39,256,694	5,533			10,273	39,272,500
56,063,672	627,107	1,176,588		97,219	57,964,586
38,328,720				7,312	38,336,031
48,097,110	5,405			54,207	48,156,722
66,211,551	634,546			92,474	66,938,570
29,838,077				499,509	30,337,586
54,124,618	622,065			54,256	54,800,939
59,724,269	97,425			18,976	59,840,670
27,494,552	38,720			49,396	27,582,668
37,171,274	15,848			505,975	37,693,097
40,424,813	287,725			3,437	40,715,975
29,049,229	4,459			26,005	29,079,693
24,818,552	13,076			947	24,832,575
26,444,549	89,975			5,675	26,540,199
32,071,786	27,871			320,960	32,420,617
23,311,888	254			614,271	23,926,413
27,386,895	522			13,780	27,401,197
19,868,844	3,620			266,864	20,139,328
20,526,453	32,008			145,103	20,703,564
4,414,986	199,806			8,708	4,623,500
32,110,975				13,244	32,124,219
30,697,040				133,830	30,830,870
33,144,706	199,280			18,264	33,362,249
3,579,726	10,578			21,176	3,611,481
51,258,685	4,874			306,669	51,570,228
37,121,760	2,796			143,636	37,268,191
29,716,704	5,476			50,730	29,772,910
3,333,555				6,245	3,339,800
17,104,289	743,403			59,153	17,906,845
11,651,744	3,948			3,335	11,659,027
<u>\$ 1,235,115,221</u>	<u>\$ 3,869,091</u>	<u>\$ 1,176,588</u>	<u>\$ 0</u>	<u>\$ 5,266,882</u>	<u>\$ 1,245,427,782</u>
<u>\$ (209,893)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (209,893)</u>
<u>\$ 2,019,878,148</u>	<u>\$ 5,493,991</u>	<u>\$ 1,176,588</u>	<u>\$ 2,833,931</u>	<u>\$ 11,331,357</u>	<u>\$ 2,040,714,016</u>

**DEPARTMENT OF CORRECTIONS**  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2007 through September 30, 2009

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
			2008	2009	
<b>U.S. Department of Agriculture</b>					
Pass-Through Programs:					
Michigan Department of Education					
Child Nutrition Cluster:					
School Breakfast Program	10.553	330008008	\$ 210,341	\$ 240,054	\$ 450,395
National School Lunch Program	10.555	330008008	374,665	397,095	771,760
Total Child Nutrition Cluster			<u>\$ 585,006</u>	<u>\$ 637,149</u>	<u>\$ 1,222,155</u>
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	091995-9225	\$	\$ 4,613	\$ 4,613
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	091995-9231		6,844	6,844
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	091995-2535		9,452	9,452
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	091995-7344		6,539	6,539
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	091995-9213		9,452	9,452
Total ARRA - Child Nutrition Discretionary Grants Limited Availability			<u>\$ 0</u>	<u>\$ 36,900</u>	<u>\$ 36,900</u>
<b>Total U.S. Department of Agriculture</b>			<u><b>\$ 585,006</b></u>	<u><b>\$ 674,049</b></u>	<u><b>\$ 1,259,055</b></u>
<b>U.S. Department of Justice</b>					
Direct Programs:					
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		\$ 305,897	\$ 373,093	\$ 678,990
State Criminal Alien Assistance Program	16.606		1,606,673	1,984,010	3,590,683
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735		209,451	120,991	330,442
Anti-Gang Initiative	16.744			107,708	107,708
Total Direct Programs			<u>\$ 2,122,021</u>	<u>\$ 2,585,802</u>	<u>\$ 4,707,823</u>
Pass-Through Program:					
Michigan Department of Community Health					
Residential Substance Abuse Treatment for State Prisoners	16.593	90006-3-08-R	\$ 266,906	\$	\$ 266,906
Residential Substance Abuse Treatment for State Prisoners	16.593	90006-4-09-R		243,864	243,864
Total Residential Substance Abuse Treatment for State Prisoners			<u>\$ 266,906</u>	<u>\$ 243,864</u>	<u>\$ 510,770</u>
Total Pass-Through Program			<u>\$ 266,906</u>	<u>\$ 243,864</u>	<u>\$ 510,770</u>
<b>Total U.S. Department of Justice</b>			<u><b>\$ 2,388,927</b></u>	<u><b>\$ 2,829,666</b></u>	<u><b>\$ 5,218,593</b></u>
<b>U.S. Department of Labor</b>					
Direct Program:					
Reintegration of Ex-Offenders	17.270		\$ 15,327	\$ 26,262	\$ 41,589
<b>Total U.S. Department of Labor</b>			<u><b>\$ 15,327</b></u>	<u><b>\$ 26,262</b></u>	<u><b>\$ 41,589</b></u>
<b>U.S. Department of Education</b>					
Direct Program:					
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331		\$ 887,758	\$ 653,547	\$ 1,541,305
Total Direct Program			<u>\$ 887,758</u>	<u>\$ 653,547</u>	<u>\$ 1,541,305</u>
Pass-Through Programs:					
Michigan Department of Labor and Economic Growth					
Adult Education - Basic Grants to States	84.002	081120/8500027	\$ 40,000	\$	\$ 40,000
Adult Education - Basic Grants to States	84.002	081190/810117	268,000		268,000
Adult Education - Basic Grants to States	84.002	091120/9500027		15,000	15,000
Adult Education - Basic Grants to States	84.002	091190/910117		155,087	155,087
Total Adult Education - Basic Grants to States			<u>\$ 308,000</u>	<u>\$ 170,087</u>	<u>\$ 478,087</u>

This schedule continued on next page.

**DEPARTMENT OF CORRECTIONS**  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2007 through September 30, 2009

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
			2008	2009	
Michigan Department of Education					
Title I Program for Neglected and Delinquent Children	84.013	081660/0708	\$ 338,303	\$	\$ 338,303
Title I Program for Neglected and Delinquent Children	84.013	091660/0809		303,273	303,273
Total Title I Program for Neglected and Delinquent Children			\$ 338,303	\$ 303,273	\$ 641,576
Special Education Cluster:					
Special Education - Grants to States	84.027	080450/0708	\$ 57,047	\$	\$ 57,047
Special Education - Grants to States	84.027	080480/EOSD	30,000		30,000
Special Education - Grants to States	84.027	080490/TS	15,000		15,000
Special Education - Grants to States	84.027	090450/0809		55,618	55,618
Special Education - Grants to States	84.027	090480/EOSD		26,680	26,680
Total Special Education Cluster			\$ 102,047	\$ 82,298	\$ 184,345
Career and Technical Education - Basic Grants to States	84.048	MDE-08-IA	\$ 170,383	\$	170,383
Career and Technical Education - Basic Grants to States	84.048	MDE		171,500	171,500
Total Career and Technical Education - Basic Grants to States			\$ 170,383	\$ 171,500	341,883
Improving Teacher Quality State Grants	84.367	090520/0809	\$	\$ 344	\$ 344
Total Improving Teacher Quality State Grants			\$ 0	\$ 344	\$ 344
State Grants for Innovative Programs	84.298	080520/0708	\$ 4,757	\$	\$ 4,757
Total State Grants for Innovative Programs			\$ 4,757	\$ 0	\$ 4,757
Michigan Department of Management and Budget					
State Fiscal Stabilization Fund Cluster:					
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	472	\$	\$ 189,600,000	\$ 189,600,000
Total State Fiscal Stabilization Fund Cluster			\$ 0	\$ 189,600,000	\$ 189,600,000
Total Pass-Through Programs			\$ 923,490	\$ 190,327,502	\$ 191,250,992
<b>Total U.S. Department of Education</b>			<b>\$ 1,811,248</b>	<b>\$ 190,981,049</b>	<b>\$ 192,792,297</b>
Total Expenditures of Federal Awards			<b>\$ 4,800,508</b>	<b>\$ 194,511,026</b>	<b>\$ 199,311,534</b>

(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 \$1,176,588 and \$855,656 for fiscal years 2007-08 and 2008-09, respectively, 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 Career and Technical Education - Basic Grants to States Program from expenditure credits. As a result, no federal revenue is recorded for the \$161,980 and \$163,489 for fiscal years 2007-08 and 2008-09, respectively, expended for the program. DOC also received federal revenue of \$334,600 and \$335,100 for fiscal years 2007-08 and 2008-09, 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, 2009 and September 30, 2008, as identified in the table of contents, and have issued our report thereon dated June 3, 2010. 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.

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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

#### 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*.

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

June 3, 2010



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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, 2009. 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 preceding 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, 2009. 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 1.

### 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 a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 1 to be a significant deficiency.

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 deficiency described in the preceding paragraph to be a material weakness.

The Department's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not audit the Department's response and, accordingly, we express no opinion on it.

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

June 3, 2010

# 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?	None reported
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
84.397	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act

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

Auditee qualified as a low-risk auditee\*? No

\* See glossary at end of report for definition.

## Section II: Findings Related to the Financial Schedules

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

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 (4711001)

1. 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: 07/01/2007 - 06/30/2008 07/01/2008 - 06/30/2009 07/01/2009 - 06/30/2010
Pass-Through Agency: Michigan Department of Education	Known Questioned Costs: \$53,131

The Department of Corrections' (DOC's) internal control over the Child Nutrition Cluster did not ensure compliance with federal laws and regulations regarding reporting.

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

Title 7, Part 210, section 2 of the *Code of Federal Regulations (CFR)* permits correctional institutions that serve as juvenile detention facilities to be recognized as Residential Child Care Institutions entitled to receive reimbursement for meals served to eligible prisoners under the School Breakfast Program and the National School Lunch Program.

\* See glossary at end of report for definition.

Federal expenditures for the Child Nutrition Cluster totaled \$1.2 million for the two-year period ended September 30, 2009. We reported known questioned costs of \$53,131.

DOC informed us that correctional facilities participating in the program were responsible for identifying eligible prisoners and for counting the number of breakfasts and lunches served. Each facility's food service director submitted signed monthly reimbursement claims for the number of meals served. During fiscal years 2007-08 and 2008-09, DOC received reimbursement for 274,234 breakfast meals and 300,682 lunch meals.

Our review of meal reimbursement claims and supporting documentation for 3 of the 11 correctional facilities that participated in the School Breakfast Program and the National School Lunch Program during the two-year period disclosed:

- a. One correctional facility did not perform counts of meals served to eligible prisoners for three months. Thus, 25,542 meals claimed for reimbursement were not supported by prisoner daily count sheets. These meals resulted in questioned costs totaling \$52,554.

In addition, prisoner daily count sheets and monthly meal reimbursement claim forms at 2 correctional facilities contained mathematical errors in the number of meals served. As a result, 175 meals claimed for reimbursement were not supported by the prisoner daily count sheets. These meals resulted in questioned costs totaling \$577.

Federal regulation 7 *CFR* 210.7 requires that meal reimbursement claims be based on lunch counts taken daily at the point of service. The counts must correctly identify the number of meals served to eligible prisoners. Also, correctional facilities are required to correctly record, consolidate, and report the counts on monthly meal reimbursement claims.

- b. Food service directors at the 3 correctional facilities did not sign 5 of 6 submitted monthly meal reimbursement claim forms.

Federal regulation 7 *CFR* 210.8 requires that monthly claims for reimbursement be signed by the facility's food service director.

- c. The 3 correctional facilities did not consistently use current eligibility data to prepare and support DOC's monthly meal reimbursement claims.

In March 2006, DOC developed the prisoner daily count sheets to provide the correctional facilities with a current listing of prisoners eligible for the programs. However, for 5 of the 6 weekly meal counts reviewed, these correctional facilities did not update the prisoner daily count sheets.

Facility daily updates of prisoner eligibility information helps ensure that meal reimbursement is claimed only for eligible prisoners.

### **RECOMMENDATION**

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

**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 June 3, 2010

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2005 through September 30, 2007  
**Finding Number:** 4710801  
**Finding Title:** Contingent Liabilities

**Finding:** 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.

**Agency Comments:** DOC has taken steps to ensure that accounts payable are not established for court judgments until a final judgment has been made and all parties involved have reached an agreement and the dollar amount of the claim is final.

**Audit Period:** October 1, 2005 through September 30, 2007  
**Finding Number:** 4710802  
**Finding Title:** Federal Program Cost Recovery

**Finding:** 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.

**Agency Comments:** DOC has taken steps to ensure that grants are fully utilized using allowable direct and indirect charges. DOC's federal education grants are the only grants approved and allowed to have indirect costs charged against DOC's federal grant programs. In fiscal years 2007-08 and 2008-09, DOC charged \$35,701 and \$24,764, respectively, in allowable indirect costs against its federal education grant programs. DOC's Bureau of Fiscal Management continues to hold meetings with all grants managers and their supervisors to ensure maximum use of federal grant funding.

### **PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

#### Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2005 through September 30, 2007

**Finding Number:** 4710803

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

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

**Agency Comments:** DOC has taken steps to ensure that verification of eligibility by participating facilities is completed daily using current daily eligibility or check sheet reports. The facilities use the eligibility report daily to ensure that the housing status of the participants meets federal guidelines.

DOC has also taken steps to ensure that established procedures are followed by line food supervisors and food service directors or designees to review breakfast and lunch counts.

DEPARTMENT OF CORRECTIONS

Corrective Action Plan

As of May 25, 2010

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

There were no findings related to the financial schedules for fiscal years 2008-09 and 2007-08.

**FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 4711001

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

**Management Views:** Regarding part a., the Department of Corrections (DOC) agrees but wishes to clarify that the issue involved documenting which of the eligible prisoners actually participated in the meals.

**Planned Corrective Action:** Regarding part a., DOC complied by instructing the facility to document on the prisoner daily count sheets which of the eligible prisoners actually participated in the meals. DOC also complied by instructing the facilities to verify the prisoner count recorded on the meal reimbursement claim forms for accuracy.

Regarding part b., DOC will comply by instructing food service directors to submit signed meal reimbursement claim forms using secure digital signatures.

Regarding part c., DOC complied by reminding all National School Lunch participating facilities to use current prisoner daily count sheets to ensure that participants meet federal guidelines.

**Anticipated Completion Date:** June 30, 2010

**Responsible Individual:** Brad Purves

# GLOSSARY

## Glossary of Acronyms and Terms

ARRA	American Recovery and Reinvestment Act of 2009.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
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.
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 presented fairly in all material respects 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 financial 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.

OMB

U.S. Office of Management and Budget.

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





